

KeySpan Comments on David Patton's Historic Energy Revenue
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To reinforce KeySpan's comments that were made at the 9/13/2004 ICAP Working Group Meeting, KeySpan is providing these written comments to the NYISO in response to Dr. David Patton's estimates of historic annual energy revenues for Zone J.

*The Vernon Greenwood estimates should not be used because David noted that the bus has only existed since approximately August 2001, and 345 kV numbers were substituted for the earlier periods.

* The numbers for the 345 kV system should be considered to be more representative of historic revenues, because the location of a project in a 138 kV or other subzone cannot be assumed to be the best location. In addition, as supply is added in a "lumpy" fashion to the subzones, the LMBP differential will be eliminated and the price will converge to the 345 kV pocket price. Equilibrium is expected to occur around the forecasted generic 345 kV pocket price.

* Although the historic analysis may be correct, it is not indicative of what a developer or investor could expect or would project in the future. Of the four years included in the analysis (2000-2003), three experienced extreme system conditions, not long run average conditions. Years 2000 and 2001 were capacity deficient for the majority of the period (the NYPA LM6000 units came on line around August 1, 2001). The year 2002 was a high demand period, with many more near-peak hours than average. In addition, David indicated the numbers when viewed on an annual basis show a steady downward trend. Hopefully David will make these annual numbers available. This downward trend is expected and due to resource additions and average weather that occurred later in the study period. Moreover, supply additions made in 2004 and known future changes in the supply mix are not reflected in the historic estimates and would cause additional downward pressure on the revenues. These circumstances can be better analyzed in the corrected modeling as noted in earlier KeySpan comments.

* Even David Patton indicated that the intent of his historic estimates was not to displace the LAI forecast modeling, but simply to provide additional information to the NYISO and Market Participants. If there was any intent to use his estimates directly, the above considerations, and others that put downward pressure on the revenues, would have to be factored into the estimates.

* Although David Patton took the position that the historic estimates should be considered as maximum estimates of revenue, KeySpan thinks that even that view does not account for actual conditions going forward on a long term basis. Significant discounts to these estimates would be required before they were reasonable for use going forward even as maximums because of the resource deficiencies and extreme weather conditions that existed during the study period. At most, the 345 kV revenues from 2003, which is the most recent data, an

average load year, and includes some of the newly added supply, should be reviewed and considered in light of other changes that have occurred (the addition of Ravenswood Unit 40), and will occur (the addition of additional supply in Zone J) going forward.