

**ADDITIONAL COMMENTS OF NEW YORK STATE ELECTRIC & GAS
AND ROCHESTER GAS & ELECTRIC REGARDING THE DEVELOPMENT
OF ICAP DEMAND CURVES**

September 15, 2004

New York State Electric & Gas and Rochester Gas & Electric hereby submit for your consideration the following additional comments regarding the development of demand curves for installed capacity (ICAP).

Winter and Summer DMNC Adjustment

In the Recommendations of the Transmission Owners Sector, LIPA, and NYPA that were submitted on September 3, 2004, it was stated that “the procedures that the NYISO used to account for the difference in winter and summer DMNC ratings assumed that all resources that sell capacity into New York markets in the summer also do so in the winter, thereby depressing winter ICAP prices.” It was further stated “While the NYISO needs to take into account the difference between summer and winter DMNC ratings and its effect on the prices that ICAP providers can expect to realize in each season, the procedure used to perform this conversion should be modified to reflect the anticipated difference between summer and winter prices more accurately.”

A review of the Spot Market Auction results for the months of June 2003 through April 2004 demonstrates that not all the resources that sell capacity in the summer market are also selling capacity in the winter market. The 5 summer months of 2003 in which the demand curve was in effect had an average excess of 2,486.6 MW of Unforced Capacity and the 6 winter months of 2003-04 had an average excess of 2,943 MW of Unforced Capacity. This is an increase of 456.5 MW, or approximately 1.2% over the average procurement of 37,790.1 MW of Unforced Capacity during these 5 months for summer 2003.

We have taken the ISO’s spreadsheet entitled “Preliminary ICAP Demand Curves for 2005-2007”, which is now posted in Excel format on the NYISO website, and we have made one adjustment to the “Ratio of Winter to Summer DMNCs” to see what effect it might have on the “ICAP Monthly Reference Price”. We replaced the 39,503,764 kW, which is the winter capability value from the 2004 Gold Book, in the numerator with a new value of 38,568,137 kW. This new value is 1.2% greater than the 38,110,808 kW, which is the summer capability value from the 2004 Gold Book, that is in the denominator. By making this one change we noticed that the “ICAP Monthly Reference Price” dropped from \$6.78/kW-month, to \$5.98/kW-month.

The “Preliminary ICAP Demand Curves for 2005-2007” has a numerator that is currently 3.65% greater than the denominator and that equates to an additional 1,393 MW of Installed Capacity being provided to the winter market when compared to the summer market. As a result of using this amount of an increase, the amount by which winter prices are depressed has been overstated and the demand curve has been elevated higher than necessary.

There may be other reasonable assumptions that can be used in performing the calculations, but it is clear that to the extent that not all capacity is being sold in the winter that is sold in the summer, the ratio should be adjusted to reflect a more reasonable value. We have only analyzed this for the NYCA, but this same procedure might also apply to the New York City and Long Island Localities.