

# Multiple Intervenors

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August 5, 2004

## VIA E-MAIL

Mr. John Charlton  
New York Independent System Operator  
3890 Carmen Road  
Schenectady, NY 12303

Re: Draft Levitan Report

Dear John:

In response to the schedule adopted with respect to the draft "Independent Study to Established Parameters of the ICAP Demand Curves for the New York Independent System Operator," issued by Levitan & Associates, Inc. ("LAI") and dated July, 2004 ("Draft Report"), Multiple Intervenors hereby submits its comments on the Draft Report. For the reasons set forth below, the Draft Report is flawed in a way that seriously overestimates the cost of a new gas peaker in the Rest of State ("ROS") zone. In addition, the Draft Report makes no attempt to reconcile its results with widely disparate results relied upon at the NYISO and in New England. Accordingly, the Draft Report should be adjusted to remedy the flaws set forth below or, in the alternative, discarded.

### **The Draft Report Errs In the Choice of Technology For the ROS Zone**

The Draft Report assumes that the cost technology choice of a new peaking unit in the state is the GE LM6000 Sprint aero derivative gas turbine units. These units are more costly to build than the GE 7FA units that were also analyzed and, as the Report notes, because of their higher efficiency these would be the appropriate units of choice for Zones J and K. In fact, both NYPA and LIPA chose these units when they needed to install capacity recently. However, the LM6000 is not an appropriate unit for the ROS zone.

The Draft Report's recognition of the interrelationship between unit efficiency, capital cost and market revenues requires rejection of its choice of the LM6000 unit for the ROS analysis. According to the Report, the LM6000 unit produces energy at 10% less cost than the 7FA unit. This efficiency comes at a cost, however, as the unit costs 17% more in capital costs. Because the LM6000 imposes an increased capital cost for the sake of efficiency, it should not be the choice of technology here. The purpose of the ICAP demand curve is to measure the value of the capacity. Thus, the unit that provides that capacity at the least cost should be the one chosen. In fact, the Draft Report proves the point. Page 43 of the Report summarizes the all-in cost for each technology choice, net of revenues from the energy and ancillary services market. For the ROS LM6000 unit, the levelized net cost is \$124 per kW per year while the net cost for the 7FA unit is \$106 per kW per year or 15% less than the LM6000 unit. Because the

7FA unit provides cheaper capacity, it should be used as the starting point for the ROS Demand Curve.

**The Capital Cost Estimate in the Draft Report  
Is Overstated And Cannot Be Reconciled**

The capital cost of a new peaking unit reported in the Draft Report is approximately double the estimate used by the ISO New England in its most recent ICAP case. The Draft Report developed a capital cost of the GE 7FA unit at \$831 per kW while the asset valuation firm, e-Acumen, that performed the study for ISO New England estimated the price to be \$413/kW. While some of the difference can be attributable to the fact that the e-Acumen study was expressed in 2001 dollars while the Draft Report was done in 2004 dollars, this difference is only a small part of the 50% cost differential. And, despite the fact that the e-Acumen study formed the starting point for the existing NYISO Demand Curve values, the Draft Report did not attempt to reconcile its results with the e-Acumen results.

The difference between the Draft Report capital cost estimates and those from the e-Acumen study is due to the different approach taken in each study. The Draft Report states that the estimated total capital cost of a new peaking plant was developed with the assistance of the engineering firm of DMJM+Harris. DMJM+Harris provided construction management services to LIPA and NYPA in their power plant construction activity. The Draft Report states that LAI and DMJM+Harris obtained vendor quotes for the equipment and estimated the other costs based on experience and sample plant data.

The e-Acumen study took a completely different approach that centered around the fact that generation asset owners must obtain an Independent Market Consultant Report to secure financing from the financial community. e-Acumen noted that the Independent Market Consultant Report's primary objective is to provide the financial community with an independent view of the market and an estimate of the forecasted revenue streams for the generation assets of interest. Each of these reports provides a "generic" new entrant cost for peaking resources for use in the estimation of long run market prices. e-Acumen studied four project financings in developing its value for the installed cost of generation.

On its face, the e-Acumen study appears to be a reasonable approach for estimating the construction cost of new entrants. In fact, it has been incorporated into the existing NYISO and proposed New England Demand Curves. Given the vast difference between the results of the e-Acumen and the Draft Report, at a minimum, the Draft Report should have explained the discrepancy and demonstrated why the Draft Report's approach is preferable. It did not do this and, accordingly, should not be accorded great weight.<sup>1</sup>

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<sup>1</sup> Similarly, the Draft Report virtually ignores the costs associated with the Jamestown, NY generation addition, which is the most recent, real-life LM6000 addition in ROS.

**The Draft Report Fully Dismisses Energy  
and Ancillary Services Revenues**

The Draft Report forecasts net revenues using a market simulation model to estimate the revenues to be received from the energy market and the results of the operation of the ancillary services market to develop the revenue stream from the reserve markets. It would be preferable to use the results of actual operations of the New York market to estimate energy and ancillary services revenues. Looking to actual results from the market to develop an estimate of expected operation is far superior to simulation modeling. Indeed, in its March 31, 2004 Report on the Demand Curve, the ISO New England used the net revenues for a gas turbine plant over the period May, 1999, through January, 2004, to estimate energy and ancillary services offsets. These actual results from the market reduced the ICAP demand curve by 31.5%. In addition, as PSC Staff has pointed out, Dr. Patton previously has estimated energy and ancillary services revenues of \$20.50/kW/year, or almost a 20% offset to the capital cost. In contrast, the Draft Report assumes an approximate 0% reduction for the 7FA unit and a negligible reduction for the LM6000 unit. Again, the Draft Report makes no attempt to reconcile these vast disparities. Accordingly, it should not be relied upon to set the ROS Demand Curve.

**Conclusion**

For the reasons set forth herein, the Draft Report either should be amended or not utilized in setting the ROS Demand Curve.

Very truly yours,

COUCH WHITE, LLP

s/Robert M. Loughney

Robert M. Loughney

RML/slg

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