

STATE OF NEW YORK

PUBLIC SERVICE COMMISSION

CASE 06-M-1017 – Proceeding on Motion of the Commission as to the Policies, Practices and Procedures For Utility Commodity Supply Service to Residential and Small Commercial and Industrial Customers.

COMMENTS OF THE

LONG ISLAND POWER AUTHORITY

I. Background

The Long Island Power Authority (“LIPA”), hereby submits its comments in response to certain of the questions raised for comment by the New York Public Service Commission (“PSC”) in its April 19, 2007 order in the above-referenced proceeding (“April 19 Order”). The PSC has raised important questions about the appropriate means by which to ensure that the electricity requirements of New York State consumers are satisfied through the sufficient and environmentally sustainable mix of generation resources, from both conventional and renewable resources, conservation, energy efficiency and demand side resources. While LIPA notes that it is not within the jurisdiction of the PSC, LIPA supports the PSC’s inquiry. LIPA also notes that it has promoted all of the resources described above since it assumed responsibility for meeting the majority of the load on Long Island in 1998.

LIPA's rates, terms and conditions of service are established by its Board of Trustees under the LIPA Act¹. Accordingly, LIPA will refrain from comment on those questions directed to regulated investor-owned utilities.

II. Responses to Questions Posed

- 1. Should there be a statewide integrated resource planning process to examine long term electricity resource needs? To what extent or in what manner would a statewide integrated resource planning process build on or parallel existing reliability planning processes? What time frame should be examined in such a process and what issues should be considered? What is the role of the utilities and other interested parties in the process? How should the process differ from any previous integrated resource planning processes? What processes should be adopted, if any, to ensure that resource portfolios at the utility and statewide level, satisfy overall planning objectives and public policy considerations? How should immediate concerns and long range considerations be addressed?**

LIPA supports both statewide and regional planning and has been working with the NYISO and other stakeholders to develop a working reliability and economic planning process through the NYISO. If the PSC were to develop a separate planning process, LIPA would encourage the PSC to work to make it consistent with and not duplicative of the NYISO process. In particular, LIPA encourages the PSC to incorporate and utilize significant information for Long Island that is available from LIPA's Energy Plan.

- 2. Should major regulated electric utilities be required or encouraged to enter into long-term contracts, with existing generators, proposed generators, and other entities, that facilitate the construction of new generation, the development of additional energy efficiency, the development of additional renewable generation resources, the re-powering of existing generation, or the relief of transmission congestion? Should such contracts be entered into for the purposes of improving fuel diversity, mitigating market power, or furthering environmental policies?**

¹ N.Y. Pub. Auth. Law, Title 1-A, § 1020 et seq.

LIPA provides no response. However, question 2 has been reproduced above because much of it is incorporated by reference in Question 3 below.

3. Should Load Serving Entities other than utilities, including the New York Power Authority and the Long Island Power Authority, be required or encouraged to enter into long-term contracts as described above? What role, if any, might entities other than Load Serving Entities play in such resource procurement?

Since 1998, LIPA has had the vast majority of its electric generating resources on Long-Island under long-term contract. . Given the transmission limitations onto Long Island at the time of its purchase of the T&D assets of LILCO in 1998, it was important for LIPA as the predominant Load Serving Entity on Long Island to have generating capacity under long-term contract for local market power mitigation purposes. In addition, as part of LIPA's Energy Plan and competitive resource procurement process, LIPA has more recently entered into a number of bilateral, long term contracts to support and promote the development of a stable and reliable energy and transmission supply for the benefit of its customers. With respect to generation resources, LIPA's long term contracts have facilitated the development of new, efficient electric generation resources including renewables. Furthermore, LIPA negotiated long term firm transmission capacity purchase agreements with Cross Sound Cable Company, LLC and Neptune Regional Transmission System, LLC, resulting in the development of 990 MW of new HVDC transmission capability to the New England and PJM markets, providing LIPA the ability to obtain new sources of capacity and energy from those markets while alleviating transmission congestion on Long Island.

Since LIPA plans for and competitively procures through long-term bilateral contracts sufficient resources to meet its needs on Long Island, LIPA is acutely aware of

the benefits and challenges of competitively procuring resources through long-term bilateral contracts. LIPA actively procures generation, demand management, and transmission resources through bilateral contracts. Accordingly, LIPA has taken and continues to take every opportunity to utilize long term contracts for the benefit of its customers

Although Long Island's resource portfolio is predominately under bilateral contracts to LIPA, LIPA has not encouraged the promotion of an energy supply situation dominated by long term bilateral contracts for the portion of its resource portfolio that can be procured in New York's Rest of State capacity region. With the exception of some upstate generation either owned or under contract that it acquired from LILCO or modest economic short-term purchases, LIPA relies on the NYISO capacity market auctions for the remainder of its New York Control Area ("NYCA") Requirement..

LIPA is concerned that without substantial study and evaluation, a new focus on long term contracts as the predominant source of energy supply from diverse sources may adversely affect the development of the market structure established in New York State. Through the NYISO's Comprehensive Reliability Planning process, the NYISO has the ability to trigger regulated backstop solutions (as well as competing alternative regulated solutions) before reliability is compromised. The NYISO and its stakeholders are proceeding with enhancing the NYISO's economic planning process. While bilateral contracts have worked well on Long Island where LIPA is the predominant LSE, in other regions of the state, introducing significant new supply through long-term contracts could have a significant chilling effect on the current NYISO market mechanisms and prevent future investment. The ongoing litigation over the New York City capacity market

highlights the issues that can be created when an LSE introduces significant bilateral supply when market response is otherwise relied upon. LIPA has concern is that unintended consequences may occur by introducing or mandating a single policy and such action could create unintended consequences particularly for the intended beneficiaries – consumers – who may end up paying more for a well intentioned but unbalanced attempt to impact the market.

5. **What barriers, if any, exist that discourage long-term contracts for development of new electricity resources? What other barriers exist, if any, for the development of new electricity resources? Should incentives beyond what exist today be created to encourage entry into long-term contracts generally, or to foster the development of any particular type of resource? How could those incentives be structured consistent with the goal of acquiring the most cost-effective resources?**

Siting legislation is needed in New York as a means to prevent barriers to the development of new resources. Such resources could be developed on a merchant basis or supported by a long-term bilateral contract with an LSE.

10. **Can long-term contracts (energy and/or capacity) be harmonized with existing NYISO rules for energy and capacity markets, and with potential NYISO forward capacity markets? If so, how can they best be harmonized? What changes to NYISO market rules, if any, would be necessary or appropriate for the purpose of accommodating long-term contracts? Should NYISO market rules recognize or ameliorate the impact, if any, of long-term contracting on the NYISO capacity prices paid existing generators, or, if amelioration is appropriate, should it be accomplished through non-NYISO mechanisms?**

Long-term contracts (energy and/or capacity) can be harmonized with existing NYISO rules for energy and capacity markets, and with potential NYISO forward capacity markets only if the NYISO permits LSE's to self supply capacity under long term contracts for purposes of its markets and the NYISO imposes a capacity deliverability requirement for new capacity. The most effective method by which to

harmonize long term contracts for energy and/or capacity with the existing NYISO rules and a potential forward capacity market is for the NYISO to fully recognize the ability of LSEs that choose to enter into bilateral contracts to satisfy their capacity and energy obligations through self supply. Efficient self-supply rules would allow the LSE holding the long-term contract to seamlessly choose whether it wants to bilaterally account for that resource toward its own needs or offer the resource for a price into the appropriate NYISO market.

Forward capacity markets have been proposed to ensure that new generation can be developed in time to meet future needs. While forward capacity markets may provide some assistance in this area, they could also create inefficiencies and erect barriers for LSEs that want to bilaterally procure resources for their own needs. LIPA is concerned that LSEs such as LIPA that procure resources through their own competitive procurement process will likely face additional hurdles to self-supply. For instance, bilateral resources would likely be required to meet rigid timing and qualification requirements in order to be accounted for in a NYISO procurement mechanism.

Additionally, in order to ensure that future capacity that is supported by a long-term bilateral contract provides the expected benefits to the consumers that pay for those contracts LIPA urges the PSC to encourage the NYISO to implement a capacity deliverability requirement. There is concern that without a requirement that new capacity be deliverable to the capacity region that it serves, (e.g. ROS, New York City, or Long Island) consumers that pay for the costs of a long-term capacity contract will not get the full benefits from that resource. Projects have been proposed in the past for regions such as eastern Long Island, Staten Island, and other regions within upstate New York that

have raised concerns that with the NYISO's current minimum interconnect process that resources could be granted the ability to provide capacity but not have the ability to deliver that resources associated energy under certain peak load conditions. The absence of a deliverability requirement is a critical missing link in the current NYISO capacity market design that if not rectified, could prevent New York consumers from fully benefiting from their investment in bilateral contracts.

III. Conclusion

Wherefore, the Long Island Power Authority respectfully requests the Commission consider the foregoing comments.

Respectfully submitted,
Long Island Power Authority

By: _____
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