

STATE OF NEW YORK DEPARTMENT OF PUBLIC SERVICE

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Secretary

January 28, 2005

Honorable Magalie R. Salas, Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Room 1-A209
Washington, D.C. 20426

Re: Docket No. ER05-428-000 - New York Independent
System Operator, Inc.

Dear Secretary Salas:

For filing, please find the Notice of Intervention and Comments of the New York State Public Service Commission in the above-entitled proceedings. Should you have any questions, please feel free to contact me at (518) 473-8178.

Very truly yours,

David G. Drexler
Assistant Counsel

Attachment

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

New York Independent System) Docket No. ER05-428-000
Operator, Inc.)

**NOTICE OF INTERVENTION AND COMMENTS OF THE
PUBLIC SERVICE COMMISSION OF THE STATE OF NEW YORK**

INTRODUCTION

On January 7, 2005, the New York Independent System Operator, Inc. (NYISO) filed revised parameters (i.e., Demand Curves) for computing the payments to providers of installed capacity (ICAP) for the 12-month periods starting May 1, 2005, May 1, 2006 and May 1, 2007.

The New York State Public Service Commission (NYPSC) submits its Notice of Intervention and Comments pursuant to the Notice of Filing issued on January 14, 2005, and Rule 214 of the Federal Energy Regulatory Commission's (FERC or Commission) Rules of Practice and Procedure. Copies of all correspondence and pleadings should be addressed to:

Dawn Jablonski Ryman
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Public Service Commission
of the State of New York
Three Empire State Plaza
Albany, New York 12223-1350

Raj Addepalli, Manager of
Staff ISO Team
New York State Department
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Three Empire State Plaza
Albany, New York 12223-1350

DISCUSSION

The NYPSC supports the adoption of the ICAP Demand Curves filed by the NYISO for New York City (NYC), Long Island (LI), and the New York Control Area (NYCA). We acknowledge the significant work on the part of the NYISO and its consultant, Levitan & Associates, Inc. (Levitan), as well as the input of market participants in developing these Demand Curves. While the NYISO's filing includes revised parameters for NYC and LI, the Demand Curves for the NYCA were the most contentious among market participants. Accordingly, our comments focus on the NYCA Demand Curve levels.

The major components of the ICAP Demand Curve that impact the levels at which it is set include: 1) an estimate of the annual capital and fixed operation and maintenance (O&M) costs, including a return on investment, to construct a typical new peaking unit (i.e., a simple cycle gas turbine plant), and 2) an offset to reflect the projected energy and ancillary services revenues, net of fuel expense, that a new peaking unit could expect to earn in the applicable New York markets.

The NYCA Demand Curve filed by the NYISO appears reasonable, given that it is comparable to the independent estimates developed by the NYPSC. The NYISO determined that the fixed cost of installing a new peaking unit was \$87 per kW-year and the offset for energy and ancillary services was \$15 per kW-

year. Taking into account an additional \$5 per kW-year offset for excess winter capacity, the NYISO proposed an annual reference value (i.e., the value of capacity at the minimum ICAP requirement set at 118% of peak load) of \$67 per kW-year for the NYCA. The NYPSC calculated its own independent estimates of \$83.26 per kW-year in construction costs and \$12.50 per kW-year in energy and ancillary services revenues. Taking average temperature ratings into account,¹ these numbers translated to approximately \$62 per kW-year, which is reasonably comparable to the NYISO's \$67 per kW-year estimate.

The NYPSC's estimate regarding the cost of constructing a new peaking unit is based on the costs of an LM6000 combustion turbine facility that was placed in service by the Jamestown Board of Public Utilities (Jamestown) in 2002. This unit was selected due to the fact that it was the only peaking unit that was built in upstate New York within the last few years and had publicly available costs. Several modifications to Jamestown's costs were made to recognize the atypical nature of certain cost

¹ The NYPSC's estimates were based on the peaking unit's summer capacity (measured as its capacity when the air temperature is 90 degrees). In contrast, the NYISO estimates were based on the peaking unit's average capacity (measured as its capacity when the air temperature is 59 degrees). Gas turbines have a higher capacity at lower air temperatures, due to more efficient cooling. As a result, the NYPSC estimate of approximately \$71 per kW-year, based on summer capacity, translates to approximately \$62 per kW-year based on average capacity.

categories and expense levels,² and to arrive at a reasonable estimate for the cost of building a new simple cycle gas turbine peaking unit.

The method used by the NYPSC to compute offsets for energy and ancillary services revenues had three components.³ The first component was a measure of recent actual net energy revenues that would be earned by a peaking unit in upstate New York. The second component included an adder to represent the energy revenues that a generator would receive if there were scarce supplies, as compared to the recent period with excess supplies.⁴ The third component reflected revenues that a peaking unit would have earned over the last four years in the ancillary services market in upstate New York.⁵ These components yielded a total

² For example, costs related to a Heat Recovery Steam Generator (HRSG) were not included because peaking units do not ordinarily include a HRSG, costs were added for a Selective Catalytic Reduction system that would otherwise be required on a peaking unit, and total interconnection costs were reduced because Jamestown spent more on such costs than a typical peaking unit would.

³ The method uses four years of historical "actuals" (2000 to 2003) as the starting point for the calculation, and reflects the tightness of the Northeast U.S. market as a whole (i.e., NYISO, PJM, and ISO-NE).

⁴ A scarcity adder was included to reflect the net revenues that a new peaking unit would be likely to earn in a tight market, which is when new capacity is needed.

⁵ These revenues were based upon actual prices that were then converted into an estimate of net revenues, taking into account unit operating characteristics.

energy and ancillary services net revenue estimate of \$25 per kW-year. To ensure sufficient capacity for reliability, the NYPSC used a conservative offset for net revenues from energy and ancillary services by counting only 50% of its estimate of net revenues, or \$12.50 per kW-year.

In sum, the \$67 per kW-year NYCA Demand Curve reference value put forward by the NYISO is reasonably comparable to the NYPSC's own estimates of \$62 per kW-year.

CONCLUSION

For the above reasons, the Commission should approve the ICAP Demand Curves filed by the NYISO.

Respectfully submitted,

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General Counsel

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of the State of New York
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Dated: January 28, 2005
Albany, New York

CERTIFICATE OF SERVICE

I, Tammy Mentis, do hereby certify that I will serve on January 28, 2005 the foregoing Notice of Intervention and Comments of the Public Service Commission of the State of New York by depositing a copy thereof, first class postage prepaid, in the United States mail, properly addressed to each of the parties of record, indicated on the official service list compiled by the Secretary in this proceeding.

Date: January 28, 2005
Albany, New York

Tammy Mentis