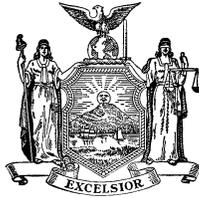


STATE OF NEW YORK DEPARTMENT OF PUBLIC SERVICE  
THREE EMPIRE STATE PLAZA, ALBANY, NY 12223-1350  
Internet Address: <http://www.dps.state.ny.us>



**PUBLIC SERVICE COMMISSION**

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*General Counsel*

**JANET HAND DEIXLER**  
*Secretary*

April 18, 2003

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

Re: Docket No. ER03-647-000  
New York Independent System Operator, Inc.

Dear Secretary Salas:

For filing, please find the Motion To File Corrected Affidavit of the New York State Public Service Commission and the corrected affidavit of Mr. Harvey Arnett. The affidavit was submitted April 11, 2003 in our Notice of Intervention and Comments in the above-entitled proceeding. Should you have any questions, please feel free to contact me at (518) 473-8178.

Very truly yours,

Saul A. Rigberg  
Assistant Counsel

Attachments

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

New York Independent System     )  
Operator, Inc.                     )Docket No. ER03-647-000  
  )  
  )

**MOTION TO FILE CORRECTED AFFIDAVIT  
OF THE NEW YORK PUBLIC SERVICE COMMISSION**

As part of the filing of the New York Public Service Commission (NYPSC) submitted on April 11, 2003 in this docket, we submitted the affidavit of Mr. Harvey Arnett as Attachment II. Upon subsequent review of the affidavit we discovered a calculation error; we also realized that due to an inadvertent editing mistake, the paragraphing was not in logical sequence. Pursuant to Rule 212, the NYPSC hereby submits this Motion To File Corrected Affidavit. In light of the early stage of this proceeding, granting this Motion would neither delay the procedural schedule nor prejudice any party.

Respectfully submitted,

Saul A. Rigberg  
Assistant Counsel  
Public Service Commission  
of the State of New York  
3 Empire State Plaza  
Albany, New York 12223-1350

Dated: April 18, 2003  
Albany, New York

CERTIFICATE OF SERVICE

I, Karen Houle, do hereby certify that I will serve on April 18, 2003, the foregoing Motion and corrected affidavit 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.

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Karen Houle

Date: April 18, 2003  
Albany, New York

UNITED STATES OF AMERICA  
BEFORE THE  
FEDERAL ENERGY REGULATORY COMMISSION

New York System Independent ) Docket No. ER03-647-000  
Operator, Inc. )  
)

Revised Affidavit of Harvey Arnett

New York Public Service Commission  
April 16, 2003

## **I. QUALIFICATIONS AND PURPOSE**

1. My name is Harvey Arnett. My present position is Chief, Rates and Retail Choice, Office of Electricity and Environment, New York State Department of Public Service. My office is located at 1 Penn Plaza, New York, New York 10119.
2. I have been employed by the Department of Public Service since 1970, working primarily on electric rate matters since 1976. My experience covers utility operations, revenue requirements, fully allocated cost of service studies, revenue allocations, rate designs, regulatory incentive mechanisms, QF contracts under PURPA, standby rates and other issues regarding distributed generation and power industry restructurings. I have testified before the New York Commission more than 30 times. I am a member of a staff team responsible for analyzing and commenting upon the pricing rules of the New York Independent System Operator (NYISO), which operates the New York bulk transmission system.
3. I have a Bachelor of Engineering from The Cooper Union for the Advancement of Science and Art.
4. I prepared an earlier version of this affidavit in conjunction with the NYPSC's April 11, 2003 filing. That affidavit, as well as this one, discusses the short-term costs associated with the Demand Curve and compares my analysis of those costs with that of Dr. David Patton, the NYISO's Independent Market Monitor. The purpose of this revised affidavit is to correct a calculation error as well as to reorder the paragraphs and revise some sentences and section headings to improve the clarity of my presentation. My basic conclusions are unchanged.

## **II. ANALYSIS OF COST IMPACTS**

5. I have reviewed the cost impacts provided in the affidavit of Dr. Patton (NYISO March 31 filing, Attachment IV) as well as the spreadsheets he used to develop them. Earlier in the process of reviewing the Demand Curve, I prepared impact estimates under a variety of scenarios. These earlier estimates were independent of those done by Dr. Patton for the NYISO and have differed somewhat from Dr. Patton's for a number of reasons.

6. In preparing estimates of increased payments to generators, I have adopted Dr. Patton's assumptions that are similar to mine. I also note that because Dr. Patton provides a range of outcomes, minor differences in our assumptions do not have a significant effect on the results of our analyses. I have, however, made some adjustments to his analysis, which I describe below.

**A. Non-Shortage Conditions**

7. After review of the impacts provided on page 16 of Dr. Patton's affidavit in a table entitled "Summary of Estimated Demand Curve Impacts Non-Shortage Conditions" and associated spreadsheets, I have made five modifications. The first modification to Dr. Patton's assumptions increases the amount of capacity that would be eligible for payments at the deficiency price (similar to the adjustment made in the deficiency conditions analysis described below). Second, I analyzed the amount of ROS capacity that is used as self-supply or sold under bilateral contracts. My analysis indicated the amount sold at the ROS Demand Curve would likely be significantly higher than the amount Dr. Patton used. Third, I have reduced the amount of ROS capacity that New York City LSEs would need to purchase under of the Demand Curve spot auction. This reduction recognizes the amount of ROS capacity that Con Edison and the New York Power Authority control. Fourth, I have recognized that under certain conditions, the Demand Curve would result in a lowering of costs within a season compared to the status quo. Finally, I corrected the NYC calculation that had failed to convert the MW of divested generation to kW.
8. The results, which are shown below, decrease Dr. Patton's New York City (NYC) estimated impact by about 40 percent and widen the range of outcomes. These adjustments also increase the Rest-of-State (ROS) impact by about 10 percent and also widen the range of outcomes.

## Non-Shortage Conditions

### NYC

**Summary**

	Estimate	Min	Max
<b>Costs (\$)</b>	\$ 43,412,715	\$ (17,862,679)	\$ 129,589,333
<b>Rate Cost (\$/MWh)</b>	\$ 1.01	\$ (0.42)	\$ 3.01

### Rest of State

**Summary**

	Estimate	Min	Max
<b>Costs (\$)</b>	\$ 93,851,626	\$ (8,178,130)	\$ 187,997,566
<b>Rate Cost (\$/MWh)</b>	\$ 0.99	\$ (0.09)	\$ 1.98

9. The above table measures cost impacts relative to what the same purchases would cost using historic clearing prices. We have also prepared estimates of cost impacts where we estimated prices that would result from the current market design. This is a far more difficult exercise as the existing methodology is very sensitive to the balance of supply and demand. If there continues to be a moderate surplus, we could expect prices would not change from current levels. However, these historic prices may fail to attract new generation to keep up with load growth; moreover, some existing plants may shut down because they are not financially viable or because of safety or environmental concerns. In that case, supplies may become barely adequate (as they are now in New York City) and prices under the existing methodology would increase drastically. My analysis shows that under that scenario the existing methodology is a far more expensive option than the Demand Curve.
10. Assuming all of the increased payments to generators are flowed through to end-use consumers, the impacts shown on the above table equate to a 1-1.5 percent increase in total electric bills over historic levels. Many customers, however, will not see increases due to commodity price protections that may be provided by their energy supplier, or other aspects of the rate plan that governs their utility. For a customer that has no price protection, I estimate the Demand Curve could increase total electric bills by no more than three percent.

## **B. Shortage Conditions**

11. In paragraphs 31-33 of his affidavit, Dr. Patton discusses savings resulting from avoidance of the current deficiency structure. In the table entitled "Cost Savings from Demand Curve Under Deficiency Conditions for New York City," Dr. Patton estimates that the cost savings recognizing IPP bilaterals are \$57 million or \$1.32 per MWH. Dr. Patton has, however, understated the amount of capacity that will likely be eligible to receive the deficiency price in 2003. As a result, he has underestimated the potential impact that would result if the current market rules (which would result in a deficiency price twice as high as that proposed under the Demand Curve) would be in effect. Using my higher estimate of such capacity, I have projected that under the scenario that there was a Demand Curve in place, and there were deficiency conditions, cost savings would be approximately \$105 million or \$2.43 per MWH. I have not, however, addressed the estimates in the table labeled "Without IPP Bilaterals." These bilaterals do exist, and are expected to exist into the future, so this portion of Dr. Patton's table is not useful in developing impact estimates.
12. I have also examined the impacts if the ROS were also deficient, which Dr. Patton did not present. The result of this analysis is that the additional payments under the existing methodology compared to those under the Demand Curve is in the order of several hundreds of millions of dollars.

## **III. CONCLUSION**

13. To the extent there is any short-term increase in capacity prices due to the Demand Curve, I conclude that this proposed new market design can be viewed as a reasonable insurance payment to avoid a much larger short-term increase that would occur under shortage conditions under the existing approach.
14. This concludes my affidavit.

ATTESTATION

I am the witness identified in the foregoing affidavit. I have read the affidavit and am familiar with its contents. The facts set forth herein are true to the best of my knowledge, information, and belief.

/s/ Harvey Arnett\_\_\_\_\_  
Harvey Arnett

April 16, 2003

Subscribed and sworn to before me  
this 16th day of April, 2003

/s/ Jan Goorsky\_\_\_\_\_  
Notary Public

My Commission expires: April 30, 2007

