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To: FERC SMD Technical Conference Participants
From: Glenn D. Haake
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Re: Outline/Notes for IPPNY Participation on Transmission Planning and Incentives for Infrastructure Development Panel

Set forth below are the notes/outline on which my comments on behalf of the New York State generation sector were based:

1. Introduction: Good afternoon, my name is Glenn Haake. I am the General Counsel of the Independent Power Producers of New York, Inc. (IPPNY) and I would like to thank the members of the Federal Energy Regulatory Commission (FERC) and the NYISO Board of Directors for affording me the opportunity to present the views of the New York state generation sector members on transmission planning and incentives for infrastructure.
2. In organizing our remarks today, we start with a commitment to two basic principles that we believe underlie the FERC's SMD philosophy and which should guide the development of any electric system planning process:
 - A. The interplay of competitive market forces will yield the most efficient allocation and investment decisions, and
 - B. Planning rules should be developed with the objective of creating a level playing field on which all resource types (generation, transmission and demand side resources) may compete to solve necessary reliability issues, without preferences being accorded to any particular resource group.
3. In this sense, "Transmission Planning" as the title for this panel is, in our view, a bit of a misnomer, and it potentially carries with it a tacit predisposition in favor of transmission to address reliability issues. In NY, with this sensitivity in mind, we consciously entitled our market participant/NYISO working group devoted to long range comprehensive planning the Electric System Planning Working Group (ESPWG).
4. The NYISO-administered market and planning process should be structured in a manner that ensures market price signals provide the incentives for the market to respond to appropriate economic upgrades.
5. ISOs should not be in the business of directing economic upgrades.

6. The theory that underlies SMD is based on the principle that location based marginal pricing will send the signals that will spur appropriate levels of economic upgrades.
7. Allowing ISOs to undertake what is essentially a “command and control” function is a fall-back to a regulated, integrated resource planning paradigm and is antithetical to the “competitive market forces” philosophy that has been at the center of the FERC’s efforts to develop competitive regional marketplaces via SMD
8. Such a role for the ISOs will undermine the ability of suppliers to rely on competitive market signals as an accurate predictor of the value of their proposed projects and thereby render future development even more risky and uncertain than it already is.
9. Developers of, and lenders to, independent projects will be hesitant to place substantial sums at risk developing and constructing new generation facilities if a central planning process may direct an economic upgrade that may vitiate the financial viability of their project, particularly if this new project has the benefit of a risk-free, regulated guaranteed rate-of-return.
10. Moreover, experience in NY shows there is no dearth of proposals for new economic transmission upgrades. We have seen several thousand MW of merchant transmission proposed in NY (Eg., Pegasus, Conjunction Empire Connection, PSEG Power’s Bergen line, Cross Sound Cable, Neptune, etc.).
11. Thus, at least in NY, there is no showing that the market has failed to respond by proposing projects that address persistent congestion.
12. Therefore, the focus of the NYISO planning process should be to identify needed reliability upgrades.
13. In the event the market does not respond to needed reliability upgrades, the NYISO should have the authority to issue an RFP to address the reliability need:
 - A. Generation, transmission and demand side resources should be permitted to respond to the identified need, with no one resource having a pre-ordained advantage in the structure of the planning process.
 - B. Criteria should be established concerning qualifications that must be met by proposed resources.
 - C. Regulated TOs should not have a “right of first refusal.”
 - D. Criteria should be developed that will be used to evaluate among competing proposals.
 - E. Procedures must be developed to address the possibility that a reliability upgrade project is cancelled or delayed, addressing operational and price impacts.
14. If the market fails to respond to needed reliability upgrades (including to any RFPs issued in connection therewith), the ISO’s first response should be to determine whether the existing market rules are flawed in such a manner that they are failing to send appropriate market signals; if they are, the market rules should be revised to send appropriate signals.
15. Only if the market fails to respond to needed reliability upgrades and the market rules are found not to be flawed should the TOs be given the opportunity to undertake the upgrade outside of a competitive procurement process.
16. Incentives for infrastructure development should be considered, but only if:
 - A. They can be structured in such a manner that they don’t skew the choice among proposals in favor of a particular type of resource, and
 - B. They are available to all resources, not solely the regulated TOs.
17. Congestion

- A. The planning studies should identify the components of historical congestion.
 - B. In measuring congestion, it is important to distinguish between persistent congestion and that associated with unusual occurrences such as transmission and generation outages.
 - C. It is only persistent causes of congestion that represent conditions that may warrant new upgrades.
 - D. The measure of congestion cost that is relevant to planning considerations is the change in statewide production cost occasioned by a particular upgrade or constraint.
 - E. Changes in the congestion component of LBMP resulting from changed system conditions may merely result in a transfer of costs from those on the erstwhile constrained to those on the unconstrained side of the transmission constraint and therefore do not represent real savings to consumers at large.
18. Conclusion: Thank you once again for this opportunity to address with you our views on these very important issues.