

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Remedying Undue Discrimination)	Docket No. RM01-12-000
through Open Access Transmission Service)	
and Standard Electricity Market Design)	
New York Independent System Operator)	Docket No. RT01-95-000

TECHNICAL CONFERENCE IN NEW YORK CITY

PANEL I- TRANSMISSION PLANNING AND INCENTIVES
FOR INFRASTRUCTURE DEVELOPMENT

(October 20, 2003)

Outline of Comments of Matthew J. Picardi
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On behalf of
The Other Suppliers Sector

I. Introduction

Good afternoon. I am Matthew Picardi with Coral Power. I represent the views of the Other Suppliers Sector on this panel. The Other Suppliers include companies that market and trade electricity at the wholesale level as well as retail suppliers of electricity. We are the ones that offer price protection to consumers and participate in the markets on a daily basis.

Preparing for this panel, I recalled my experience working on Article VII transmission siting proceedings in New York and the efforts that the New York utilities undertook in the mid to late 1980s to make enhancements to the transmission system. The issues we discuss today are the same that existed then, when we had a vertically integrated industry structure. Basically, how to allocate the costs of enhancements to the electrical system that provide benefits to many different utilities or utility areas in New York.

II. Message and Background

- A. The main concern of the Other Suppliers is that we will introduce a planning process that will frustrate merchant activity that has arisen, or could arise, as a response to market signals that our LBMP system in New York has encouraged. This merchant activity can take the form of merchant generation, merchant

transmission or demand response proposals. We see many proposals in New York. In any centralized planning system, they must be given a fair opportunity and time to react to the signals that would encourage “economic” investment or investment that would reduce congestion.

B. Current Planning Process

1. No process for transmission planning, only a process for interconnections of generators.
2. No process that clarifies Transmission Owners’ role for the purpose of expanding transmission system capacity.
3. No process for allocation of costs for new transmission facilities, except interconnections.
4. Merchant transmission proposals and projects have developed. These efforts are driven by the prospect of receiving Unforced Capacity Deliverability Rights (“UDRs”), capacity sales into load pockets and Transmission Congestion Contracts (“TCCs”) within NYISO. *See e.g.* Cross Sound Cable, the Neptune Projects, PSEG Cross Hudson Cable and Empire Connection Project, to name a few.

C. NYISO Effort In Planning Area

1. NYISO formed Electric System Planning Working Group (“ESPWG”) to develop a comprehensive stakeholder driven planning process. The process looks at reliability issues and the business impacts and will provide information on congestion. The Other Suppliers support this process as it allows more access to information and an opportunity for their commercial interests and concerns to be factored into the process.
2. Access to information on potential changes to the system and how they could impact our positions or activity in the market is key. It reduces the surprises and allows us to have confidence in the markets.

D. Considerations for Planning in New York

1. Continue the stakeholder driven process.
2. FERC says it must be a “regional planning process.” But how do we define our region for planning purposes given our experience with the Cross Sound Cable and Lake Erie Loop Flows and TLRs that can be initiated in Ontario Canada and affect congestion in New York? Drawing a circle around New York does not seem to make sense.

In order to fix the problem our planning process must find a way to coordinate with New England, PJM, the IMO and HQ. For projects that have inter-state implications, “regional state committees” must work together. Today, as the state commissions still hold all of the transmission siting cards.

Also, FERC has proposed that the cost of transmission expansion be recovered through a regional pricing policy. The Northeast ISOs are highly interconnected. If they each develop their own transmission planning rules that are inconsistent or incompatible, they create more seams. Inconsistent rules may create diverse incentives and discourage efficient solutions.

3. Areas that a transmission plan for New York should address:
 - a) RTO authority to require transmission owner construction of expansion projects.
 - b) Allocation of costs of upgrades – clear standard when parties cannot agree on allocations for transmission investment needed for reliability purposes.
 - c) Criteria for reliability-based assessments must be clear so competitive suppliers are not surprised and can anticipate commercial impacts of transmission enhancements. A mechanism for making reliability-based decisions must be developed in the planning process. The assumption is that they will follow NERC, NPCC, NYISO, New York State Reliability Council and NYPSC standards.

- E. RTO mandated or regulated investment in transmission to reduce congestion should be avoided and competitive alternatives that have been proposed but not developed must be examined. New York has seen some merchant response with transmission and generation projects. Before we decide to change the regulatory paradigm on which the markets were founded, we need to understand why proposals do not make it to completion. Certain siting issues or difficulty in accessing capital markets in the post Enron environment and regulatory uncertainty have slowed the pace of investment. It may be that new market-based mechanisms will need to be developed so that those merchant developers can adequately realize the value of their investments.

III. Conclusions

- (1) don't discard merchant solutions until we understand why they may not be responding as fast as we think they should, (2) make sure that all market participants have access to

information that is developed and used in the planning process so that they can account for potential transmission investment, no matter the form it takes when managing their positions and businesses, (3) make sure that the rules that would cause reliability-based upgrades are clear so that market participants can anticipate and adapt, and (4) FERC needs to make sure that there is regional coordination in the development and implementation of transmission plans.