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Capacity Market Technical Conference

Federal Energy Regulatory Commission

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Background

- Partner with Couch White, LLP
- Couch White Represents Large Commercial, Institutional, and Industrial Consumers in New York and Connecticut
  - Multiple Intervenors in New York – an Association of 52 Large Energy Users
  - Connecticut Industrial Energy Consumers in Connecticut – an Association of 8 Large Energy Users

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Capacity Pricing Has Been A Recurring Problem in New York

- In 2003, the Demand Curve Was Adopted
  - Very Contentious Debate; Closest Vote Ever At NYISO Management Committee
- The Demand Curve Depends on An Administratively-Determined Capacity Price
  - Independent Consultant Calculates the Price of a Theoretical New Peaker
  - Stakeholders Have Significant Input on the Calculation
  - Three Demand Curves Are Developed

Demand Curve Re-Set Process

- Demand Curves Are Re-Set Once Every Three Years
- Demand Curve Process is Highly Contentious; Many Assumptions About Demands, Construction Costs and Prices
- Demand Curves Are Presented to the NYISO Board, Which Has the Ability to Adjust the Values Based on Stakeholder Comments
- Demand Curves Are Filed With FERC, Which Reviews Them
- There is No Review of Actual Costs By Any Regulatory Body

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Recent Demand Curve Decision

- On January 29, 2008, FERC Approved, Without Modification, the New NYISO Demand Curves, Effective May 1, 2008
- Rest of State ("ROS") Proxy Net Peaker Cost Set at $83.00/kW/yr.
  - Current ROS Demand Curve Based on a $74.09/kW/yr. Net Peaker Cost

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Forward Capacity Market in New York

- FCM Issues Under Examination in NYISO ICAP WG
- No Timeline for Completion; Discussion Still at Preliminary Stages
- New York Consumers Are Watching FCM Auction Results in PJM and ISO-NE With Great Apprehension

Energy and Ancillary Services Prices Remain High

- Statewide Average Price Was $80.29/MWH in 2007
  - More Than $90.00/MWH in January – March, 2008
- Prices Increase Steadily from West to East
  - Capital Region (Albany) Spikes – Zone Averages 20-25% Higher Than Western Region (Buffalo)
- Natural Gas Clears the Market A Great Deal of the Time
  - Hydro, Coal and Nuclear Plant Owners Are Big Winners
  - However, Fuel Not Sole Indicator of Price Increases

Market Reevaluation

- Multiple Intervenors and CIEC Support Efforts Requesting that FERC Reevaluate Market Design Principles
- Energy Market Prices Do Not Reflect Marginal Costs
  - Non-Gas Generators Reap Tremendous Economic Benefits
- Capacity Markets Are Not Spurring Investment
  - Only Major New Plant Proposals Driven By Long-Term Contracts with Load Serving Entities

End-User Concerns

- End Users Are Concerned with the Economic Disparity Caused By High Rates in Deregulated Markets
  - New York and Connecticut Rank 1st and 2nd for Highest Rates in Continental U.S.
  - The Gap Between Rates in Restructured States Such as New York and Connecticut and Regulated States Keeps Growing; Disparity Not Just Fuel Related
  - Competition for Manufactured Goods Will Force Jobs Out of Higher-Priced States to Lower-Priced States and Countries

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End User Concerns

- End Users Also Are Concerned With Reliability
- The Demand Curves in New York Are Not Spawning New Generation Proposals
  - Given Short-Term Nature, They May Never Result in New Generation
  - Only Long-Term Contracts Seem to Provide Needed Certainty for Investors
  - Result: The Demand Curves Are Just Another Revenue Stream for Existing Generators

Alternative Market Design Proposals

- Multiple Intervenors and CIEC Supported the Portland Cement Alternative Market Design
- Procurement Process Should Identify and Dispatch Units that Result in the Lowest Total (Capacity and Energy) Costs for Consumers
  - Willing to Work Out Details
  - FERC Should Take Lead Role

Demand Resources

- Demand Resources Are Critical to Efficient Markets and Should Not Be Disadvantaged By Market Changes
- Demand Resources Should Be Allowed to Compete in Capacity, Energy and Ancillary Services Markets on an Equal Footing With Generators

Wrap-Up

- **Questions?**

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