

decision-making process.² In their answers, the Load Parties misapprehend and mischaracterize statements made by Dr. Kelli Joseph in her affidavit that is part of IPPNY's limited protest and comments that were filed on December 9, 2016 in support of the NYISO's proposals that TETCO M3 and Iroquois Zone 2 be designated as the natural gas hubs to determine the net energy and ancillary services ("EAS") revenues for the proxy peaking units in Zone C and Zone G, respectively. IPPNY's answer corrects the record and will assist the Commission in reaching its decision.³ Accordingly, the Commission should accept IPPNY's answer.

Throughout this proceeding, the Load Parties have argued that the determination of net EAS revenues for gas-fired peaking units should be based on the net cost of a peaking unit in Zones C and G using a "geographically proximate gas index."⁴ In an effort to counter Dr. Joseph's testimony, they argue in their answers that the gas prices reflected in the SNL Financial natural gas index represent the weighted average price of all gas traded across a broad geographic area and, therefore, such prices are reflective of the price a peaking unit would pay for delivered gas.⁵ The Load Parties' argument continues to be flawed, however, because it wholly fails to take into account the full gas costs faced by the proxy unit.

A fundamental assumption underlying the Demand Curve Reset net EAS revenue calculation is that the peaking unit does *not* rely on firm transportation to deliver gas. To the

² See, e.g., *Mirant Energy Trading, et al. v. PJM Interconnection, LLC*, 122 FERC ¶ 61,007 at P 33 (2008); *BP West Coast Products LLC, et al. v. SFPP, L.P., et al.*, 121 FERC ¶ 61,239 at P 34 (2007); *PJM Interconnection, L.L.C.*, 110 FERC ¶ 61,254 at P 13 (2005); *Pinnacle West Energy Corp. v. Nevada Power Co., et al.*, 105 FERC ¶ 61,053 at P 34 (2003); *PJM Interconnection, L.L.C.*, 104 FERC ¶ 61,309 at P 18 (2003).

³ IPPNY's silence with respect to other arguments that were made in answers filed in this docket should not be construed as IPPNY's acquiescence to such arguments.

⁴ December 22 Answer at 3.

⁵ *Id.* at 4.

contrary, the proxy unit must instead rely on gas marketers to both purchase and arrange delivery of gas to the peaking unit. Further, if the gas hub is not accurately reflecting congestion on the pipeline—which we have already demonstrated is likely the case for the Millennium East gas hub pricing—the index is not an accurate representation of the price of delivered gas available to the proxy peaking unit. To yield reasonable estimates of net EAS revenues and therefore a reasonable estimate of the proxy plan net cost of new entry, it is critical that the net EAS model correctly assume the gas price that the proxy unit would pay.

Dr. Joseph explained in her affidavit that the NYISO’s model to calculate net EAS revenues for the peaking unit does not assume that the peaking unit holds a firm transportation contract to ship gas from a specific receipt point, such as Dominion North or Millennium East, to the proxy unit’s delivery point.⁶ Instead, the peaking unit is assumed to purchase a bundled product, through gas marketers, that includes both the gas commodity and transportation capacity.⁷ The NYISO’s approach is valid because, as numerous studies related to gas electric coordination have pointed out over the past several years, the vast majority of generators in the competitive electric markets do not hold firm transportation contracts in their own names for gas delivered to their plants.⁸ Generators in competitive markets, especially peaking units, instead

⁶ Docket No. ER17-386-000, *supra*, Limited Protest and Comments of IPPNY (Dec. 9, 2016) (“IPPNY Comments”), Exhibit II ¶ 19.

⁷ *Id.*

⁸ See, e.g., *Gas Electric System Interface Study Existing Natural Gas-Electric System Interfaces*, E. Interconnection Planning Collaborative (Apr. 4, 2014), at ES-12, <http://nebula.wsimg.com/d28ed8902535b1f517d7a826c79f4421?AccessKeyId=E28DFA42F06A3AC21303&disposition=0&alloworigin=1> (“EIPC Report”); *2013 Special Reliability Assessment: Accommodating an Increased Dependence on Natural Gas for Electric Power*, N. Am. Elec. Reliability Corp. (May 2013), at 12, http://www.nerc.com/pa/RAPA/ra/Reliability%20Assessments%20DL/NERC_PhaseII_FINAL.pdf.

rely on gas marketers for delivered gas supply. This means that most generators are relying on gas shipped using secondary capacity release or interruptible shipping contracts.

The price that generators pay for this delivered gas includes two parts: (1) the price of the gas commodity, and (2) the price of transporting gas. Generators typically buy a bundled product that includes *both* the commodity cost and the delivery cost. Depending on how a generator arranges for the bundled supply, these charges can vary daily, monthly, seasonally, or even annually. In fact, the delivery cost includes charges for daily swings, imbalance charges, and often reflects a negotiated price.⁹ Thus, if the price of the gas (commodity) at a particular hub does not accurately capture the price of gas at various delivery points beyond that hub, the gas hub is not reflecting prices that generators paid for delivered gas.¹⁰ The Load Parties' singular focus on the commodity price at a particular receipt point ignores the way that generators, particularly peaking units, must actually purchase gas.

Likewise, because the peaking unit must rely on marketers who provide a bundled product to generators, the amount of congestion on the pipeline greatly impacts the price that the unit actually pays for delivered gas. Pipelines are designed to flow exactly the amount of gas that their firm transportation contract holders hold. Local gas distribution companies ("LDCs") hold these firm transportation contracts, which they can "release" to the secondary market, subject to recall, for other shippers to use.¹¹ Shipping gas requires a nomination on a pipeline

⁹ See EIPC Report at ES-18.

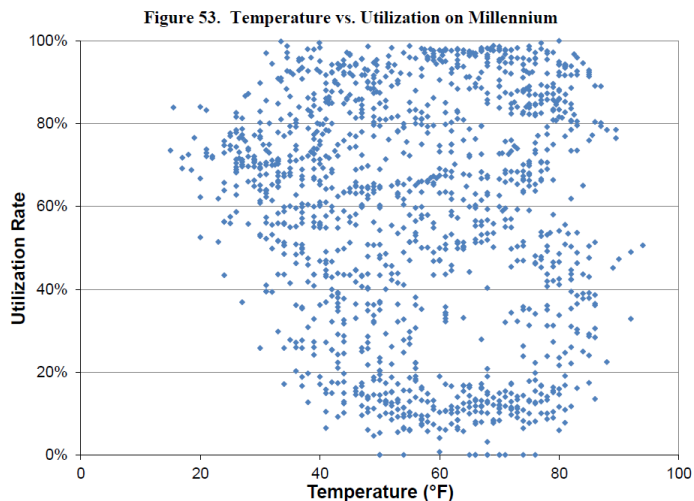
¹⁰ Indeed, this is the issue that the Analysis Group pointed to when raising concerns about using the Millennium East gas hub in the first place, stating, "because gas indices capture pricing over broad geographic areas, indices may not capture variation in pricing....particularly in more constrained areas." Analysis Group. Study to Establish New York Electricity Market ICAP Demand Curve Parameters at 77.

¹¹ See *id.* at ES-12.

from a specific receipt point to a specific delivery point. Gas transportation capacity released to the secondary markets can follow the exact receipt and delivery points associated with the original transportation contract or can be segmented. If the released transportation contract is segmented, the gas supply could be shipped through either a different receipt point, different delivery point, or both. On days when the pipeline is fully utilized, gas nominated to flow outside of the original path (*i.e.*, flowing from either a different receipt point, delivery point, or both) is more likely to be restricted, which will increase the cost of delivered gas to the proxy unit, if transportation capacity is available at all, since marketers will likely provide delivered gas through other pipelines.

According to an assessment on pipeline congestion in the New York Control Area completed by Levitan & Associates for the NYISO, Millennium is a pipeline that experiences significant congestion—*i.e.*, Millennium is a highly utilized pipeline.¹² On days when the pipeline is most constrained, shipping flexibility is limited, and pipelines may not allow some types of transportation contracts. For example, on high utilization days, pipelines will often only ship gas using a secondary release contract that follows the exact path (known as secondary in-the-path) of the original primary receipt and delivery points. In the Northeast, several pipelines are highly utilized year-round. On Millennium, as seen in the graph below, there is no correlation between temperature and utilization, indicating that the pipeline is highly utilized (*i.e.*, constrained) year-round. The Loads also have wholly failed to take this factor into account.

¹² *NYCA Pipeline Congestion and Infrastructure Adequacy Assessment*, Levitan & Assocs. (Sept. 2013), at 72, http://www.nyiso.com/public/webdocs/markets_operations/committees/bic_egcwg/meeting_materials/2013-10-23/Levitan%20Pipeline%20Congestion%20and%20Adequacy%20Report%20Sep13%20-%20Final%20CEII%20Redacted.pdf.



As Dr. Joseph explained in her affidavit, the Analysis Group relied on four different criteria when selecting the appropriate gas hub for each Zone, including ensuring that locational based marginal prices (“LBMPs”) were sufficiently correlated to the prices reported at a particular gas index *and* that the choice of the gas index was valid, given relevant delivery locations.¹³ The charts developed by the Analysis Group and adopted by the NYISO clearly show that, historically, prices at the Dominion North hub do not correlate with LBMPs in Zone C and the prices at Millennium East do not correlate with LBMPs in Zone G, especially during the winter months, indicating that the marginal unit is not relying on gas shipped from these pipelines. In fact, these hubs generally had the worse correlation of all hubs considered. This

¹³ IPPNY Comments, Exhibit II ¶ 7.

makes sense, given that generators typically do not hold firm transportation contracts to ship gas from directly from these receipt points to specific delivery points in Zones C and G.

For a gas hub price to be reasonable it needs to represent the prices that the generator would pay for delivery at the generator's location. Hubs, such as those chosen by the Analysis Group and supported by the NYISO, that track the LBMP market are better representatives of what a generator would actually pay for gas deliveries at its location.

Thus, the Commission should reject the Load Parties' arguments and accept the four natural gas pricing hubs recommended by the Analysis Group and NYISO Staff after a full review of these issues and proposed by the NYISO in its Filing without modification.

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Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that the foregoing answer of Independent Power Producers of New York, Inc. has been served upon each person designated on the official service list compiled by the Secretary in this proceeding in accordance with the requirements of Rule 2010 of the Commission's Rules of Practice and Procedure.

Dated at Albany, New York, this 10th day of January, 2017.

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