



Market Topography: Regional Perspectives The Landscape in New York

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State of the State's

- ▶ Restructured markets have had tangible results
 - ▶ Wholesale electricity prices have increased slightly since last year
 - ▶ July 2013 average year-to-date monthly cost of \$65.01/MWh is an increase from \$44.26/MWh in July 2012
 - ▶ Success in emission reductions
 - ▶ Carbon dioxide (CO₂) by 37 percent
 - ▶ Sulfur dioxide (SO₂) by more than 94 percent
 - ▶ Nitrogen oxides (NO_x) by over 80 percent
 - ▶ Excess capacity exists, but market is tightening due to resources leaving the market. In fact, excess capacity statewide is around 2,000 MW.
 - ▶ Availability is at an all-time high, especially during July 2013 Heat wave
 - ▶ Excellent performance by generators, “high level of asset availability and performance” - NYISO
 - ▶ Demand response programs working
 - ▶ Successful inter-regional coordination



High Costs\$ in New York

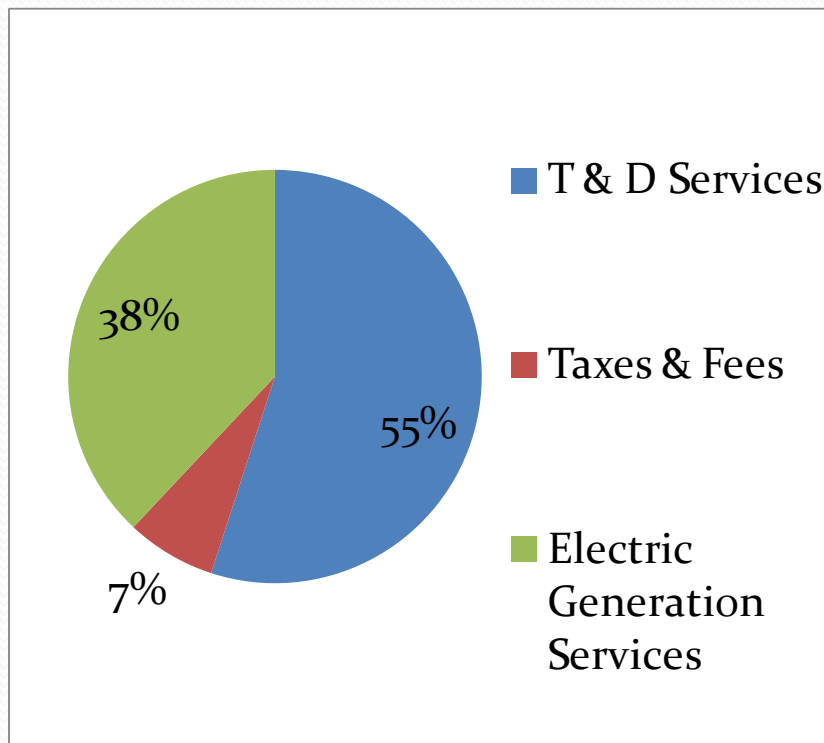
- ▶ Despite the benefits of the wholesale markets, NYS has among nation's highest retail electricity costs.
- ▶ **What's in your electric bill?**
 - ▶ IPPNY has reviewed sample electric bills from Con Edison and National Grid to determine the percentages of the different charges.
 - ▶ Up to 70% of a residential consumer's bill is comprised of delivery costs, taxes and public policy fees.
 - ▶ Additional taxes and fees are built into the supply and delivery service costs.
 - ▶ The cost for electric supply, provided by our members, makes up only 30-40% of the bill



Sample Residential Electric Bills*

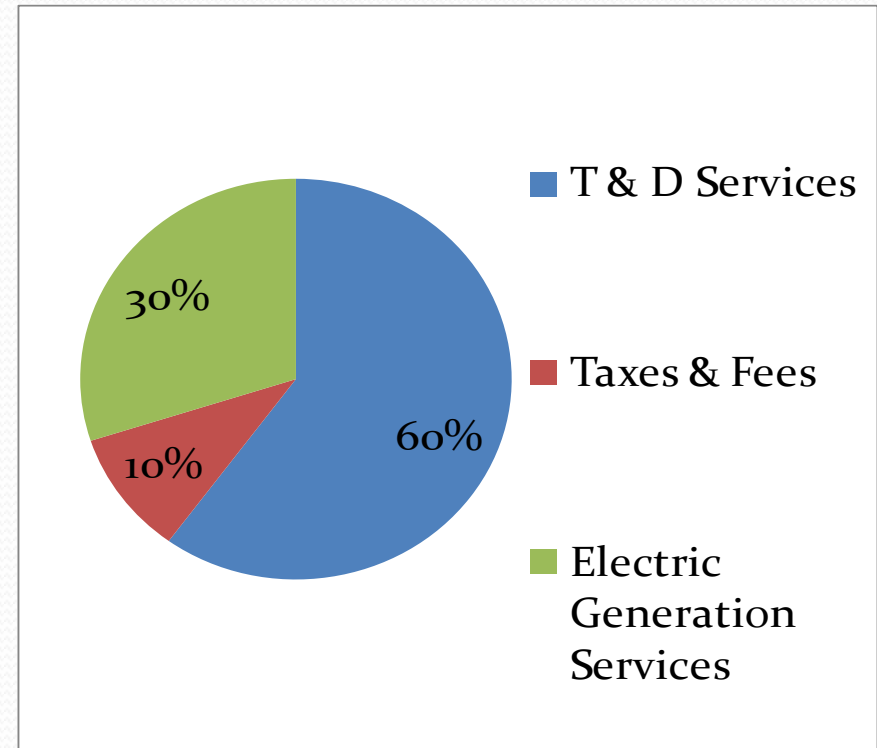
National Grid

Based on 600 kWh/month usage



Con Edison

Based on 250 kWh/month usage



*Based on Average 2012 monthly costs for a typical residential consumer.



Competitive Market Uncertainty

- NYISO reports show that the State's resources can provide reliable power through at least 2020; then, new resources will be necessary.
- Biggest threat to ensuring reliability is **regulatory uncertainty**.
- Merchant investment unwilling to compete with state-backed entities (unlevel playing field) or in an ever-changing regulatory environment.
- In these conditions, new entry either won't show, or will be high-cost to reflect investment risk.



Uneconomic Entry

- NYISO has rules to protect against capacity market price suppression.
- Rules offer some protection, but certain entities, such as foreign governments, may be willing to endure an economic loss for a period in order to unload its excess power.
 - NYS recently granted certificate to one such project.
- Additionally, NYISO is currently considering allowing for additional exemptions for these rules.
 - Repowering and competitive entry.
 - Proposals may have some public policy merit, but they add even more complexity to understanding/applying mitigation rules; uncertainty to investors.



Energy Highway

- ▶ Governor Cuomo's 2012 proposal for public-private partnership for New York State's electric power system.
- ▶ Major Components:
 - ▶ Indian Point Contingency Plan
 - ▶ AC Transmission Upgrades
 - ▶ Repowering for Reliability
- ▶ Each component *may* have some level of validity concerning public policy, but what message do they send to private investment?



Demand Curve Reset

- NYISO is going through reset process as done every three years .
- Purpose of DC is to send signals for investment when needed.
- Essential for reset to be done independently and w/out bias.



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Demand Curve Reset

- While IPPNY was active in ensuring many of the big-picture issues were settled during the previous process, big questions linger in this reset:
 - Proxy unit for ROS: Can Frame unit realistically be sited/built without control technology?
 - Investment risk is a key factor during this reset.
 - Can market realistically remain as short as NYISO is assuming?
 - Will NYS gov' t intervene in market well before minimum requirement is approached (history says yes)?
 - If these risks aren' t accounted for, investment won' t show up.



FERC Order-1000

- ▶ Public Policy Component:
- ▶ A shift from traditional NYISO planning, which has focused on reliability and economics.
- ▶ IPPNY has advocated for:
 - ▶ A transparent and open process that weighs all aspects of a project (costs, benefits, impacts on markets/ratepayers) and appropriately considers alternatives.
 - ▶ A true “beneficiaries pays” cost allocation to ensure parties that do not benefit from a project also do not end up paying for it.
 - ▶ Even so, public policy driven investment is unpredictable and can dramatically change the landscape.



Positive Changes in NYISO's Markets

Energy Market:

- Scarcity pricing now in effect; more accurate price signals during high-load days.
- Increasing bids in real-time; provides generators with better risk management.
- Coordinated Transaction Scheduling: Approved between NY/NE; working on NY/PJM. Will improve efficiency of dispatch between territories.

Capacity Market:

- Lower Hudson Valley Capacity Zone; should help remedy inappropriately low investment signals.
- Helpful FERC decision last year concerning application of In-City mitigation; provided a level of clarity concerning complex rules.



Looking Forward

- Outcome of Energy Highway
 - Many blueprint action items scheduled to advance this Fall/next Spring.
- Demand Curves will be filed this Fall; put in place next Summer capability period.
- NCZ will take effect for the first time.
- NYISO's new public policy planning component as part of FERC order 1000 will begin next year.

Questions/Comments?



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