BEFORE THE
PUBLIC SERVICE COMMISSION
STATE OF NEW YORK

Application of Champlain Hudson Power Express, Inc. and CHPE Properties, Inc. for a Certificate of Environmental Compatibility and Public Need Pursuant to Article VII of the Public Service Law for the Construction, Operation and Maintenance of a High-Voltage Direct Current Circuit from the Canadian Border to New York City.	)	Case No. 10-T-0139

APPLICANTS' SUPPLEMENTAL BRIEF

Champlain Hudson Power Express, Inc. ("CHPEI") and CHPE Properties, Inc. ("CHPE Properties" and, collectively with CHPEI, the "Applicants") submit this Supplemental Brief pursuant to the Ruling on Motion to Incorporate or Notice issued by Your Honors in this proceeding on October 10, 2012 (the "October 10 Ruling").

INTRODUCTION AND BACKGROUND

In the October 10 Ruling, Your Honors granted the joint motion of Applicants, the Staff of the Department of Public Service designated to represent the public interest in this proceeding ("DPS Staff") and the City of New York, New York to incorporate the Final Reliability Needs Assessment ("Final RNA") issued by the New York Independent System Operator, Inc. ("NYISO") on September 18, 2012 into the record in this proceeding (the "Joint Motion"). In addition, Your Honors also provided the parties with the opportunity to submit Supplemental

Briefs and Supplemental Reply Briefs to respond to or provide their evaluation of the Final RNA.[1]

In its Final RNA, NYISO concluded that additional generating capacity will be needed to meet applicable reliability requirements in 2020. Specifically, NYISO stated that:

> Resource Adequacy: The 2012 Reliability Needs Assessment for the New York State Bulk Power System indicates that the Bulk Power Transmission Facilities as modeled violates the 0.1 days per year reliability criterion starting in 2020 and extending through 2022. The Reliability Needs identified for resource adequacy in 2020 through 2022 can be satisfied through the addition of resources in the form of generic compensatory MWs in [New York City and surrounding areas].[2]

For the reasons set out in greater detail below, Applicants respectfully submit that this conclusion – and the factual findings NYISO made in reaching this conclusion: (1) strongly support the testimony of Ms Julia Frayer that the Facility will provide consumers with approximately $6.5 billion in Capacity Price Savings over the period from 2017 to 2026; and (2) undermine the portions of the rebuttal testimony of IPPNY witness Mr. Mark Younger responding to Ms Frayer's testimony concerning the existence and amount of those Capacity Price Savings.[3]

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[1] Your Honors also ruled that because IPPNY had already presented its position with respect to the relevance of NYISO's Final RNA in its Opposition to the Joint Motion, IPPNY would not be allowed to file a Supplemental Brief, but would be allowed to file a Supplemental Reply Brief. October 10 Ruling, slip op. at 3 n.3. Accordingly, Applicants will respond to the contentions raised by IPPNY in its Opposition to the Joint Motion in their Supplemental Reply Brief.

[2] NYISO Final 2012 RNA at 7.

[3] These Capacity Price Savings are in addition to the $3.4 billion in Energy Price Savings over the period from 2017 to 2026 and the substantial and undisputed emissions reductions also resulting from the Facility. TR at 277, lines 8 to 11 (Frayer Direct). In addition, as Ms Frayer explained in her direct testimony, these Energy and Capacity Price Savings will provide the economic impetus for the creation of 1200 indirect and induced new jobs and will increase New York's Gross Domestic Product by $150 million per year. TR at 312, lines 1 to 3 (Frayer Direct).

ANALYSIS

I. THE NYISO FINAL RNA PROVIDES STRONG SUPPORT FOR MS FRAYER'S ESTIMATE OF THE CAPACITY PRICE SAVINGS RESULTING FROM APPROVAL OF THE FACILITY

In her direct testimony in this proceeding, Ms Frayer explained that her projections of the Capacity Price Savings associated with the Facility were developed using London Economics' PoolMOD program, which she used to study not only the impacts of the Facility on future energy and capacity prices, but also the effects of those prices on decisions by incumbent generators to retire facilities that are no longer profitable and decisions by developers to construct new facilities when such actions become profitable:

> I apply economically rational new entry and exit decisions. On the basis of economic rationality, plants choose to exit the market if their revenues cannot cover the minimum going forward fixed costs three years in a row, consistent with economically rational business behavior. Given the low projected gas prices, the significant wind capacity with virtually zero marginal cost entering in the UPNY, the projected low capacity prices, and the stringent EPA environmental rules, a large amount of economic retirements is projected. Over the modeling horizon, I have modeled over 1,800 MW of economic retirements in the UPNY zone and C-LHV zone, consisting primarily of coal generating capacity, and over 1,000 MW in LI zone. [4]

In his rebuttal testimony, Mr. Younger claimed that the projections of future generating capacity retirements resulting from Ms Frayer's analysis were unduly optimistic and, as a result, her estimates of the capacity benefits flowing from the Facility were overstated and should be rejected by the Commission. Specifically, Mr. Younger testified that:

> It is unreasonable to assume the gas turbine retirements, and the relevant Long Island retirements, without also assuming the attendant repowering of the facilities and the addition of these new MWs back into the market. Ignoring the net effect of these repowerings overstates the capacity prices which, in turn,

[4] Hearing Exhibit 144 at 12, lines 8 to 11.

> overstates the amount of the Project capacity that would clear the market pursuant to the Project's offer floor. Thus, given that her analysis overstates the amount of Project capacity that will be sold, her capacity savings "benefits" are clearly overstated.[5]

In addition, Mr. Younger contended that Ms Frayer's analysis of the Capacity Price Savings that would result from the Facility should also be rejected because high levels of excess generating capacity would make the capacity supplied by the Facility uneconomic and, hence, subject to mitigation under NYISO's market rules:

> **Q. Given that the Project cannot secure an exemption under either test, what does this mean?**
>
> A. Under the Buyer-Side Market Power Rules, the Project must bid all of its capacity at or above a pre-determined Offer Floor. Its capacity will only be sold if the market clearing price is at or above the Project's Offer Floor. Given the current capacity levels in New York City, additional resources under construction and the Project's costs, the Project's capacity is not likely to clear the market for an extended period of time.[6]

Both of these criticisms of Ms Frayer's estimate of the Capacity Price Savings associated with the Facility are therefore based on Mr. Younger's contentions that substantial excess installed capacity will exist in New York City and surrounding areas when the Facility comes on line in 2017 and that such excess capacity will persist for at least the next ten years.[7] Unlike Ms Frayer, Mr. Younger presented no quantitative analysis showing how changes in market prices could be expected to lead to either retirements of existing generators or the construction of new generating facilities. Instead, Mr. Younger simply assumed that all existing generators would continue to operate throughout the period from 2017 to 2026. The only evidence cited by Mr. Younger to support this static assumption was NYISO's 2010 RNA, which did find that existing

[5] TR at 552 lines 2 to 8 (Younger Rebuttal).

[6] TR at 517 lines 10 to 16 (Younger Rebuttal).

[7] TR at 447, lines 15 to 17 ("As addressed above, based on current peak load forecasts, resources and Locational Capacity Requirements, NYC does not need additional capacity until 2026 all else equal.") (Younger Direct).

generating facilities would be more than adequate to meet consumer demands in New York City and surrounding areas through 2020.[8]

In its Final 2012 RNA, however, NYISO concluded that, as a result of projected generator retirements and increased load growth occurring since its 2010 RNA was performed, additional capacity is now likely to be needed to meet applicable reliability standards in New York City by 2020. NYISO provided the following explanation for the reasons for this change from the conclusions reached in its 2010 RNA:

> There are several reasons this year's RNA found Reliability Needs related to resource adequacy by 2020 while the 2010 RNA did not:
>
> 1. Generation Capacity – Generation modeled for 2020 is about 1,000 MW less;
>
> 2. Load Forecast – The baseline load forecast for 2020 is slightly (200 MW) higher; and
>
> 3. Special Case Resources (SCRs) – projections for 2020 are about 100 MW less.[9]

Thus, NYISO's 2012 RNA vindicates Ms. Frayer's analysis finding that a number of generating facilities currently serving New York City and surrounding areas are likely to retire between now and 2020 and, as a result, that the Facility can be expected to provide consumers in those areas with substantial Capacity Price Savings. This is particularly true in light of NYISO's obvious lack of any motivation to distort its projections of potential future capacity needs. For these reasons, and because Mr. Younger has offered no support for his contention that all existing generating facilities serving New York City and surrounding areas will continue to operate throughout the period from 2017 to 2026 other than NYISO's now out-of-date 2010 RNA, the Commission must find: (1) that the additional installed capacity provided by the

[8] TR at 436, line 6 to 437, line 2 (Younger Direct).

[9] NYISO Final 2012 RNA at 7.

Facility can be expected to result in substantial Capacity Price Savings as Ms Frayer has predicted; and (2) that NYISO's Buyer-Side Mitigation rules are unlikely to stand as an obstacle to the sale of the installed capacity provided by the Facility.

Respectfully submitted,

/s/ George M. Pond

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