

**NEW YORK ENERGY HIGHWAY**

**REQUEST FOR INFORMATION (RFI)**

**RESPONSE BY TRANSCANADA CORPORATION**

**May 30, 2012**

**Submitted by:  
Tom Patterson, P. Eng.  
TransCanada  
Manager, Power Business Development  
Royal Bank Plaza – South Tower  
200 Bay St. – 24<sup>th</sup> Floor  
Toronto, Ontario, Canada M5J 2J1  
(416) 869-2182  
tom\_patterson@transcanada.com**

## New York Energy Highway RFI Response

### Minimum Response Requirements

#### 1. Respondent Information

- The respondent is TransCanada Corporation and its affiliates (“TransCanada” or the “Company”). TransCanada is a large North American energy infrastructure company with 4300 employees and operations in 34 states in the US and 7 provinces in Canada. The company has three main business lines including power generation, natural gas transmission, and oil transmission. TransCanada’s core assets are summarized below.
  - i. 19 power plants with installed capacity of 10,800 MW;
  - ii. 57,000 km of wholly owned natural gas pipelines and 11,500 km of partially owned natural gas pipelines;
  - iii. 380 BCF of natural gas storage;
  - iv. 1.4 million barrel per day oil pipeline system.
- TransCanada’s financial results for the year ending 2011 are highlighted below.
  - i. \$4.8 billion EBITDA
  - ii. \$1.5 billion net income
  - iii. \$54 billion enterprise value
  - iv. A- credit rating (S&P)
- As indicated above, power generation is a core business for TransCanada. The company has a presence in New York, New England, Western US, Western Canada, Ontario, and Quebec. Its power portfolio is diverse including a mix of natural gas fired generation, nuclear, coal based PPAs, hydro generation and wind power. TransCanada is a significant participant in the New York marketplace through its investment in the approximately 2,400 MW intermediate and peaking Ravenswood facility.
- For additional information regarding TransCanada’s businesses and its financial results, please visit our website at [www.transcanada.com](http://www.transcanada.com).

#### 2. Project Description

- TransCanada is proposing two re-powering options that provide a unique opportunity to take advantage of Ravenswood’s critical position in the New York electrical system. Situated in the heart of Zone J, a modernized Ravenswood would enhance long term system reliability, flexibility and environmental performance. Re-powering at the Ravenswood site would also eliminate new land disturbance and minimize transmission losses from out of zone generation. Modernizing this essential piece of New York’s energy infrastructure would provide long term reliability, efficiency and economic benefits to New Yorkers.
- The Ravenswood site is a critical piece of electrical infrastructure located in Long Island City, Queens, NY along the East River in NYISO Zone J. The site is strategically situated with two electrical connections to Con Edison’s electrical system – one through the 138 kV Vernon substation and a second

## **New York Energy Highway RFI Response**

through the 345 kV Rainey substation. The facility is fuelled primarily by natural gas supplied from Con Edison's natural gas distribution system. Peak gas supply to the site is 23,000 decatherms/h which is sourced from a Con Edison 30" main that connects Manhattan and Queens. The site has dual fuel capability consisting of No. 6 oil firing capability for the conventional steam units and Kerosene for some of the simple cycle units and the combined cycle gas turbine unit.

- The facility is comprised of the following generating assets (MW values are approximate):
  - i. Unit 10 – 380 MW
  - ii. Unit 20 – 380 MW
  - iii. Unit 30 – 990 MW
  - iv. Unit 40 – 250 MW
  - v. Peaking Gas Turbines – 400 MW(Note: the above referenced capacity figures are ICAP and based on DMNC values for 2011.)
- All of the existing capacity is “deliverable” in to Zone J and is eligible to participate in the NYISO capacity market.
- In addition to power generation facilities, Con Edison owns and operates a steam generating facility on the Ravenswood site for the purposes of providing steam to its retail customers. The steam production facility, known as the ‘A-House’, uses No. 6 oil and a limited amount of natural gas with a peak steam generating capacity of approximately 750 kpph. Average annual steam volume delivered from the facility is approximately 900,000 klbs. Subject to reaching a commercial agreement based on further discussion with Con Edison, the potential rejuvenation of steam generating capacity at the Ravenswood site creates a unique opportunity to improve the environmental footprint for the Ravenswood site as a whole.
- The two options being proposed by TransCanada are described below and summarized in the following table:
  - i. Option 1 - the retirement of 265 MW of gas turbine capacity and the installation of new capacity totalling 265 MW using modern, efficient and proven low emission producing technology.
  - ii. Option 2 - the retirement of 377 MW of gas turbine capacity and the installation of new power generation totalling 426 MW using modern, efficient and low emission producing technology. The repowered facility would be comprised of 265 MW in a simple cycle cogeneration configuration capable of delivering up to 750 kpph of steam and 159 MW of peaking gas turbines. In addition, the ‘A-House’ would be retired and redundant steam production facilities or fresh air firing capability on the proposed heat recovery steam generators will be provided to maintain a reliable supply to Con Edison during periods of time when the new power generation equipment is not operational.

## New York Energy Highway RFI Response

	Option 1 – Re-powered Peaking Capacity	Option 2 – Re-powered Peaking w/ Cogeneration
Type of Project	Generation	Generation
Size of Project	265 MW	426 MW
Retired Generation	265 MW	377 MW
Assumed Dispatch	1200-1700 hrs	1200-1700 hrs
NYISO Zone	J	J
Proposed Location	Queen’s County	Queen’s County
Fuel Source	Natural Gas/Kerosene	Natural Gas/Kerosene
Anticipated COD	Q1 2017	Q2 2018

- In order to facilitate the implementation of the above options, the decommissioning of existing capacity and the installation of new power generation could be phased in order to minimize the potential impacts to the functioning capacity market.
- The preferred technology for the two options is the LM6000 PG Sprint, LMS 100 or similar technology.
  - i. Water injected for NOx control and increased performance
  - ii. SCR for additional emission control
  - iii. Dual fuel capability complete with automatic fuel switching at full load to ensure continuity in power delivery
  - iv. Proven track record – over 1000 LM6000 gas turbines have been shipped and have over 21 million hours of operation
  - v. Start time is 10 minutes from no load to 100% load

### 3. Project Justification

- TransCanada is proposing two re-powering options at its Ravenswood site that fulfill many of the objectives of the New York Energy Highway initiative, including:
  - i. Assuring the long term reliability of the electricity system,
  - ii. Facilitating the development of renewable generation,
  - iii. Reduce constraints with the downstate area,
  - iv. Create jobs and opportunities for New Yorkers,
  - v. Contribute to an environmentally sustainable future for New York State,
  - vi. Utilize advanced generation technologies that benefit system performance and operations,
  - vii. Maximize value to New York State ratepayers

## New York Energy Highway RFI Response

- TransCanada's proposals provide the opportunity to reinvigorate and modernize a critical piece of New York City's electric infrastructure that provides environmental benefits and electrical system reliability and operational benefits.
- Redevelopment on an existing power generation site requires no new land be disturbed and would promote the efficiency of the New York system by maximizing Ravenswood's existing two interconnections to the Con Edison system. This in turn, provides additional reliability to the system with new and more efficient generation equipment.
- The new generation equipment would be approximately 33% or more efficient than the existing equipment which was installed in the late 1960s. The combination of increased fuel efficiency and modern emission control equipment will mean lower emissions on an intensity basis (lb/MWh). Furthermore, a key advantage of the new project(s) is that they would provide enhanced flexibility to the system to respond to changes in load and other generation, including renewable generation.
- With the addition of more efficient and competitive new resources (based on total cost both variable and fixed), it is expected that higher cost resources will be displaced thus providing long term benefits to rate payers. Using lower cost resources ensures ratepayers are not saddled with excessive fixed cost obligations.
- In addition to all of the above, the re-powering proposals will lead to the creation or sustainment of construction jobs in the region. Option 1 will require approximately 540,000 man hours of labour during the construction phase of the project with 400 workers at its peak. Option 2, with its additional complexity, scope and extended schedule to construct, will require approximately 2,000,000 man hours of labour during construction with 600 workers at its peak.

#### 4. Financial

- TransCanada's proposal for re-powering is not subject to project financing. TransCanada would finance this project using any one of the following available resources including: funds from operation, cash on hand, debt issuance, draws under committed credit facilities or equity placement.

#### 5. Permit/Approval Process

- The following is a list of Federal, State and local permits and approvals needed to develop and operate the project.
  - i. Public Service Law Article X Certificate (NYSPSC) (Pending)
  - ii. Title V Permit Modification (6 NYCRR 201-6) (NYSDEC)
  - iii. Prevention of Significant Deterioration (PSD) and Nonattainment New Source Review (6 NYCRR 231) (NYSDEC)

## New York Energy Highway RFI Response

- iv. Acid Rain Permit (also known as Title IV) (6NYCRR 201-6) (NYSDEC)
  - v. SPDES Permit Modification (6 NYCRR 750) (NYSDEC)
  - vi. SPDES General Permit for Stormwater Discharge from Construction Activity (including SWPPP) (GP-10-01) Notice of Intent (NYSDEC)
  - vii. CO<sub>2</sub> Budget Permit (6 NYCRR 242-3) (NYSDEC)
  - viii. Clean Air Interstate Rule (CAIR) NO<sub>x</sub> Annual Trading Permit (6 NYCRR 244-3) and CAIR SO<sub>2</sub> Trading Permit (6 NYCRR 245-3) (NYSDEC)
  - ix. Updated Spill Prevention Control and Countermeasure (SPCC) Plan (40 CFR 112 and 6 NYCRR 612-614) (NYSDEC)
  - x. Bulk Petroleum Storage Tank Permit (FDNY) and Petroleum Bulk Storage Permit (NYSDEC)<sup>1</sup>
  - xi. New York State Chemical Bulk Storage (NH<sub>3</sub> tank) Registration (6 NYCRR Parts 595-599) (NYSDEC)
  - xii. Increase water use connection/approval (NYCDEP)
  - xiii. Waterfront Revitalization Program (WRP) Consistency Review (NYSDEC, NYSPSC)
  - xiv. Public Service Law Section 68 Certificate of Public Convenience and Necessity (NYSPSC)
  - xv. Public Service Law Section 69 Approval – Financing (NYSPSC)
  - xvi. Lightened Regulation Approval (NYSPSC)
  - xvii. Fire Department Storage Permit (aqueous ammonia <20% concentration) (FDNY)
  - xviii. Modification of Coast Guard Response Plan (United States Coast Guard [USCG])
  - xix. Notice of Proposed Construction (Federal Aviation Administration [FAA])
  - xx. DEP Certificate of Operation. 15 RCNY Chapter 2 and NYC Administrative Code, Title 24 Air Pollution Control.
- TransCanada has not commenced discussions with regulators regarding the permitting for this project but has extensive experience in dealing with the various agencies on its other projects and in maintaining its existing permits.

---

<sup>1</sup> The Bulk Petroleum Storage Tank Permit and Petroleum Bulk Storage Permit may not be required if the Project does not require installation of a new Bulk Petroleum Storage Tank.

**New York Energy Highway RFI Response**

6. Other Considerations

- See Appendix A for a discussion of market implications of this public policy initiative. Appendix A discusses the challenge of simultaneously meeting the goals of the EHI and respecting economic principles and rules in the NYISO competitive market.

**Additional Information**

7. Property
  - TransCanada owns the property outright that is being proposed for the various redevelopment options.
8. Interconnection
  - See Project Description above.
9. Technical
  - Anticipated Life
    - i. 30 years
  - 2 – 5 year OEM warranties
10. Construction
  - Local benefits
    - i. See job creation estimates above.
  - Potential contractual arrangements
    - i. TransCanada will assess market conditions prior to proceeding with the redevelopment of the Ravenswood site and based on that assessment would enter into either an engineer, procure and construct contract (“EPC”) or would directly manage multiple contracts for the execution of the work.
  - Labour availability
    - i. Labour availability has not been studied at this point time and would depend on market conditions at the time of construction.
11. Operational
  - Projected availability and/or energy production
    - i. Not available at this time.
  - Safety and emergency considerations
    - i. To be addressed in permitting process
12. Socio-Economic
  - Local economy benefits
    - i. Other local economy benefits, beyond benefits attributable to direct construction labour, will be assessed in subsequent regulatory processes.
  - Impacts on real estate and property values
    - i. To be assessed in subsequent regulatory processes.

## **New York Energy Highway RFI Response**

- Public safety concerns
  - i. There are no anticipated public safety concerns with the proposed technology due to the mature nature of the technology and its deployment on an existing industrial site.
- Tourism impacts
  - i. To be assessed in permitting process, however, no impacts are expected.
- Aesthetic issues
  - i. To be assessed in permitting process, however, no impacts are expected.
- Impacts to real estate values
  - i. To be assessed in permitting process, however, no impacts are expected.
- Environmental Justice considerations
  - i. TransCanada purchased the Ravenswood facility in 2009 from Keyspan/National Grid. The plant was sited and built in Long Island City, Queens in the 1960s in a mixed use neighbourhood of industrial, commercial and residential uses. Since TransCanada's purchase of the facility, extensive outreach on environmental justice issues has occurred and has included public health, environmental, and cultural components to introduce the new ownership into the existing neighbourhood and its residents, stakeholders and opinion leaders. The scenarios proposed by TransCanada, we fully expect, will have positive environmental justice impacts by way of additional investment in and focus on the community, more efficient and modern operations, improved environmental impact in terms of water usage and air emissions, and associated visual and site improvements upon completion of construction. The area of Long Island City surrounding the plant has experienced additional growth and investment in the past few years demonstrating public interest and confidence in the general area and its strategic proximity as a gateway to Manhattan.
  - ii. TransCanada's investment at Ravenswood will contribute to the neighbourhood and its communities in the following five ways:
    1. TransCanada provides financial support for not-for-profit projects or programs that meet our funding guidelines through Community Investment.
    2. Through our Gifts In-Kind program, TransCanada assists not-for-profit organizations with furniture, vehicle and computer needs.
    3. TransCanada partners with its employees to support a variety of community agencies through our United Way contributions, a partnership that has been recognized with the Friends of the United Way award and the Thanks a Million national award.
    4. TransCanada supports charitable organizations important to its employees and retirees through the Matching Gifts program.
    5. TransCanada supports employee volunteerism.

## New York Energy Highway RFI Response

### 13. Financial

- Funding sources
  - i. See above
- Name of Project Sponsor
  - i. TransCanada Corporation or its affiliates.
- Potential sources of revenue
  - i. TransCanada would expect a credit worthy counterparty to enter into a long term contract for production from the facility to provide additional revenue over and above market based revenues to support the intended investment. At this time, TransCanada's forward view of revenues from the current energy, capacity and ancillary markets are not sufficiently robust to support the investment risk associated with new infrastructure. TransCanada is open to contractual structures for an asset of this type. As an example, TransCanada is open to a financial contract for differences settled against imputed market based revenues including capacity and energy.
- Pricing
  - i. Due to the preliminary stage at which these developments are at, TransCanada is not in a position to provide pricing at this time. However, should an RFP or other process for new repowered capacity be launched, the Company would be pleased to provide firm pricing under confidential terms through an official procurement process.
- Anticipated incentives, such as applicable tax incentives
  - i. It is assumed that the options proposed would qualify for the NYC property tax abatement program.
- Options to reduce pricing and pricing uncertainty
  - i. Not applicable

### 14. Environmental

- Environmental benefit to region and GHG Impacts
  - i. The proposed re-powering options will provide significant environmental benefits due to the use of modern, low emission technology. The following tables summarize the environmental benefits on an intensity basis<sup>2</sup>.

---

<sup>2</sup> The emission estimates are presented on an energy neutral basis, which means that in the event energy delivered from the new facility is in excess of the retired facility, incremental emission reductions were calculated based on a market emission profiles for the incremental energy delivered by the new generation that displaces other existing Zone J generation (i.e. 90% steam generation derived power facilities and 10% older combined cycle). Retired emissions are based on the highest two years observed over the past 5 years. Added emissions are based on expected emission performance figures provided by original equipment manufacturers.

## New York Energy Highway RFI Response

- Option #1 – Re-powered Peaking Capacity
  - i. On an intensity basis, emissions from the new facility are lower than the existing facility as well as the blended emission intensity from displaced in-City generation.

Emission Type	Added (lbs/MWh)	Retired Onsite (lbs/MWh)	Market Displacement (lbs/MWh)	Net Change in Emission Intensity (lbs/MWh)
NO <sub>x</sub>	0.085	7.66	0.89	-1.18
CO	0.053	1.27	0.81	-0.78
CO <sub>2</sub>	1,230.90	1,819.7	1,467.11	-255.51
SO <sub>2</sub>	0.003	0.01	0.76	-0.72
PM <sub>2.5</sub>	0.134	0.24	0.22	-0.09
VOC	0.016	0.03	0.05	-0.03

- Option # 2 – Re-powered Peaking with Cogeneration
  - i. On an intensity basis, emissions from the new facility are lower than the existing facility as well as the blended emission intensity from displaced in-City generation<sup>3</sup>.

Emission Type	Added (lbs/MWh)	Retired Onsite (lbs/MWh)	Market Displacement (lbs/MWh)	Net Change in Emission Intensity (lbs/MWh)
NO <sub>x</sub>	0.138	23.86	0.89	-1.77
CO	0.163	5.92	0.81	-0.87
CO <sub>2</sub>	1,382.7	12,285	1,467.11	-564.95
SO <sub>2</sub>	0.004	16.47	0.76	-1.45
PM <sub>2.5</sub>	0.144	2.41	0.22	-0.17
VOC	0.022	0.372	0.05	-0.04

- Natural environment impacts
  - i. To be addressed in permitting process.
- Impacts during construction
  - i. To be addressed in permitting process.
- Proposed mitigation measures
  - i. To be addressed in permitting process.

<sup>3</sup> The intensity figures presented include emissions produced from new natural gas fired boilers or co-fired HRSGs as well as emissions retired due to the decommissioning of the 'A-House'.

## **New York Energy Highway RFI Response**

15. Project Contract/RFP Status

- The Projects have not been proposed under a previous RFP process.

16. Public Outreach and Stakeholder Engagement

- TransCanada has initiated contact and provided briefings and notification to its key public and stakeholder members with respect to the general nature of the New York Energy Highway RFI process and its intention to file public comments by the May 30 deadline with respect to its Ravenswood facility. Additional consultation is planned throughout the NYEH process to ensure stakeholders remain informed as to the status of any future developments.
- The Company conducted an external audit, inventory and mapping of key stakeholders within the last year. The Company also prepare annual public outreach plans which are frequently updated to capture issues and interests of value to the immediate and broader New York community impacted by the plant's site and operation. Initiatives in the areas of public health, civic investment, arts and culture, housing, recreation and environmental, and community events are ongoing and also will be synchronized to link with New York Energy Highway deadlines and implementation activities as and if appropriate.
- A Community Action Team of employees within the Ravenswood facility is active with respect to involvement in the surrounding community and events, open houses, screenings, performances and other activities supported by the plant. The team is expected to contribute and participate in public outreach to identify, avoid, minimize, or mitigate disproportionately high and adverse human health and environmental effects from any scenario implemented, including social and economic effects, on minority populations and low-income populations.

**Appendix A****INTRODUCTION**

The New York Energy Highway Initiative (“EHI”) is a significant step by the Governor to establish a long term energy plan in New York State and to cultivate investments in energy infrastructure. It is another policy initiative among a growing list of energy planning processes and prior solicitations for supply outside of market processes.<sup>4</sup> With this latest initiative, it is extremely encouraging that representations have been made that it will be conducted in a manner that adheres to New York Independent System Operator, Inc. (“NYISO”) market rules and procedures.<sup>5</sup> Based on those representations, TransCanada expects that infrastructure investments will have to meet the economic principles and standards of the NYISO competitive market.<sup>6</sup> TransCanada is supportive of such an approach, as reflected in these comments.

However, there will be challenges to meeting the goals of the EHI and at the same time respecting economic principles and rules in the NYISO competitive market due to current market conditions. Specifically, depressed and volatile pricing forecasts make it difficult for investments to meet the economic thresholds in the NYISO Services Tariff. Given the nature of the current capacity pricing regime in New York, any new investments in generating capacity, particularly larger such projects, are likely to have a

---

<sup>4</sup> Although this does not represent the entire list, the following are some examples of such initiatives; NYS Transmission Owners STARS Initiative, NYISO Reliability Needs Assessment, NYISO Economic Planning (CARIS), NYPSC Renewable Portfolio Standards and associated NYSERDA RFPs for resources, NYPSC Energy Efficiency Portfolio Standards as well as Con Edison and NYPA RFPs for New Resources (excluding existing resources).

<sup>5</sup> The role of this or any initiative should be to encourage competitive cost efficient solutions as opposed to providing out-of-market subsidies.

<sup>6</sup> It is expected that infrastructure investments will be offered in the NYISO market at their Net CONE and that market prices will reflect the Net CONE of energy investments. If an investment is uneconomic it will not clear the market.

## New York Energy Highway RFI Response

significant negative impact on market prices. While perhaps attractive as such projects seem to meet the goal of consumer protection and low prices, if these outcomes are the result of prices being suppressed below competitive levels by inducing supply with incentives provided outside the market, then difficulties arise. For one, this outcome results in tiered pricing, *i.e.*, one set of prices for those who get a side payment awarded to the induced supply and another depressed market price for others – all for the same reliability product that the consumer requires. If such tiered pricing occurs, compensation for existing investments that do not receive out-of-market payments (*i.e.*, investments that rely solely on the NYISO competitive markets) will have to be addressed in a manner that provides them an opportunity to earn adequate revenues inclusive of a fair return.

### PLANNING

Planning is an important part of achieving a reliable, cost effective and environmentally acceptable energy system, three apparent goals of the EHI. However, “planning” that selects one solution as opposed to others based on non-economic criteria will advantage some and disadvantage others. In particular, a selection process that is dominated by policy goals versus economic efficiency goals would be fundamentally incompatible with competitive markets, *i.e.* incompatible with the present framework relied upon by much of New York’s energy infrastructure. However, planning processes that are open, transparent and non-discriminatory such that competition among existing and new investments will result in economically efficient decisions that comply with existing NYISO Services Tariff requirements and competitive principles should be able to co-exist within a competitive market structure. The materials provided as part of the

## New York Energy Highway RFI Response

April 19, 2012 conference for respondents and interested parties for the EHI, as well as statements made at the conference, noted that compliance with the NYISO Services Tariff as well as its competitive market principles would occur, and TransCanada is encouraged by those statements. However, there will be challenges for EHI projects to comply with the NYISO Services Tariff considering the current state of the competitive market. Specifically, significant existing excess supply has resulted in very low current and forecasted market prices that are well below the Net CONE of new investments. If, instead, decisions are made that result in bifurcated markets or tiered pricing for the same product or service, it would be detrimental to the existing competitive market structure, its single product single price design, and the existing resources that rely on such competitive pricing.

### EXISTING COMPETITIVE MARKETS

Since the advent of the competitive energy markets in the 1990s in New York State, planning was conducted in the context of designing energy products and markets that provide competitive price signals for investors to respond to as opposed to making investment decisions as part of a centralized planning process. Energy products that are required to reliably meet system demands were designed, and a single price market structure established, to signal the need for additional or more cost effective resources and investments. Investment *decisions* were no longer made by central planners. The competitive market design was intended to signal investors to make such investment decisions and therefore shift risk to competitive investors in the process.

However, unduly discriminatory decision processes that do not respect the competitive market design can chill signals to potential investors as it puts existing

## **New York Energy Highway RFI Response**

investments that have come before and that are still relied upon for reliability -- at risk. This can result in unintended negative consequences for the public as reliability is eroded rather than enhanced with new supply initiatives. Success of the EHI may depend on finding creative solutions to provide existing infrastructure that will lack access to above and out-of-market subsidies a genuine opportunity to earn a fair return on the infrastructure investments they provide for New Yorkers.

It is worth noting that undue discrimination is one of the outcomes FERC Order 888 and the resulting competitive markets were intended to put an end to – *i.e.*, incumbent vertically integrated utilities favoring their own chosen investment decisions based upon their economic self-interest over a more economic and competing investment proposal by a third party. In this case, the evaluation criteria of the EHI may be different, but the end result may be no less discriminatory, and thus incompatible with FERC Order 888 and the non-discrimination policies contained therein.

To remedy this fundamental matter of incompatibility, revisions to the competitive market design will have to keep pace with changed planning processes and decision making in order to prevent the disorganized exit of existing investments and the chilling effect on potential future investors. Revisions to market design consistent with the principles discussed above would provide a means to remain true to the concept of a competitive market, maintain the opportunity for existing infrastructure to earn a fair return consistent with the regulatory framework under which investment was made in that infrastructure, and achieve the goals of the EHI. TransCanada believes these market revisions can be achieved through a fair, open and transparent dialogue.

## New York Energy Highway RFI Response

### CENTRALIZED PLANNING vs. THE COMPETITIVE MARKET

As noted earlier, the original competitive markets were intended to provide competitive market price signals for the various energy products and that price would fluctuate based on actual cost and need. Need would be established by a centralized engineering analysis. Users of the energy products would be required to procure what was necessary for reliability. The price of these products would be based on the intersection of the cost of the product and the demand. There would be a single price for the product and all suppliers would receive that same price.

The New York EHI, and other centralized planning activities being concurrently conducted by the NYISO, threaten a paradigm shift from the original concepts behind the development of competitive markets. The planning processes are drifting back toward vertically integrated and/or centralized *decisions* and tiered case-by-case pricing structures. In other words, the central planning process being proposed is more akin to the centralized planning processes of the past where, reliability, economics, environmental and other public policy issues were considered by a centralized group, and the best solution was *determined* by the centralized planners as opposed to the market. Price was determined on a case-by-case basis, not by a single price competitive clearing market.

In the context of competitive markets, such centralized decisions can result in artificial price suppression as a result of large resource additions that are not driven by economics, but rather driven by “policy.” The consequence of this price suppression could be deleterious to the societal need and goal of a high degree of electric

## **New York Energy Highway RFI Response**

infrastructure reliability that is currently provided by resources and investments that rely on competitive market prices.

The EHI proponents have stated that anything arising out of the EHI will comply with NYISO market rules. As such, TransCanada expects market clearing prices will represent the cost of the new resources and that the actual cost of any new resource that goes forward or is selected as part of this process would be reflected – directly and without discount or price suppression -- in the competitive market. In other words, the competitive market price should not be below the cost of the new resources as a result of this process and that the projects that move forward would be in compliance with NYISO market rules and “clear” in the competitive markets.

### **CONCLUSION**

The existing competitive market design and investments made in reliance on that pricing model must be addressed as New York shifts back to the centralized planning and decision-making paradigm that is embodied within EHI. Unless prices in the market are allowed to rise to a level equal to the cost of planned resources procured within EHI, then a comprehensive and fair review of the capacity procurement processes that exist in the current competitive market will be needed as well as a fair and non-discriminatory change to the market compensation mechanisms for existing resources, all as discussed herein.

It is TransCanada’s view that the goals of the EHI (in particular the goal of achieving an environmentally acceptable energy system) can be accomplished if the principles discussed herein are followed. As discussed, that will require a fair, open and transparent dialogue that recognizes the significant contribution existing infrastructure

**New York Energy Highway RFI Response**

makes to reliability, and to the need to fairly compensate existing infrastructure required for reliability consistent with the market structure under which it was constructed.