



Department of Public Service

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April 18, 2017

Delivered via Email and US Postal Service

Mr. Thomas Falcone
Chief Executive Officer
Long Island Power Authority
333 Earle Ovington Blvd
Uniondale, NY 11553

Dear Mr. Falcone,

The Long Island Power Authority (LIPA) requested that PSEG Long Island (PSEG LI) participate in studies to be conducted by an independent consultant to assess the following:

- A. The appropriateness of PSEG Long Island's use of the NYSRC/NYISO locational capacity requirement for Long Island as the principal capacity planning criterion for its Integrated Resource Plan (IRP);¹
- B. The reasonableness of PSEG Long Island's 2014 recommendation that a decision on whether to proceed with the Caithness II project should be postponed until PSEG Long Island could reassess the need for the project, in light of the projected sufficiency of On-Island capacity resources as determined in accordance with the NYSRC/NYISO locational capacity requirement;
- C. Whether there is a need for LIPA to proceed with the Caithness II generating project at this time, based on an analysis of all relevant factors and information, including market developments, revised load growth forecasts and the pendency of New York's recently announced Clean Energy Standard.

¹ NYSRC/NYISO – New York State Reliability Council/New York Independent System Operator. NYSRC promulgates reliability standards regarding the planning and operation of the State's bulk electric system (i.e., major generators and the extra high voltage transmission circuits) that NYISO follows.

LIPA committed its staff to directly participate in the work of the Consultant and asked the Department of Public Service (DPS) to help select and oversee the work of the consultant and make recommendations to LIPA staff regarding the consultant's report. DPS Staff was involved in the selection of the consultant and LIPA selected the Brattle Group, an independent consulting firm specializing in energy matters. The Brattle Group reviewed relevant studies, and from those studies, developed its conclusions. Based on its assessment, the Brattle Group made the following conclusions:

1. Regarding Point A, NYSERC/NYISO criteria, it was appropriate to adopt the NYSRC/NYISO reliability planning standards in 2014, primarily because market and system conditions had changed to eliminate many of LIPA's concerns regarding resource adequacy risks.

The Brattle Group found that during the period from about 2000 to about 2010 when NYISO rules and market processes in New York were being developed, there was a reasonable need for a more conservative approach to reliability planning for LIPA, but those concerns that prevailed in the early 2000s were largely mitigated through 2014 by new market structures (capacity markets), transmission expansions that reduced LIPA's risk and improved diversity. Load growth declined, and more stable and less costly market conditions developed (lower natural gas and resulting wholesale power prices). Applying LIPA's more conservative planning criteria today as well as in 2014 would result in a significant over-supply of capacity, especially in an environment where the economic value of conventional, baseload fossil-fired power plants has and may continue to decline.

2. The Brattle Group found no compelling reason for LIPA to proceed with Caithness II.

The Brattle Group found that prior PSEG LI studies regarding the need for Caithness II had reached the correct conclusion. It found that during the period from 2000 through 2010 LIPA applied more conservative reliability criteria than other New York regions. PSEG LI's studies determined that based on the reliability standards and resource needs on Long Island, there was not a need for Caithness II. It therefore recommended that contracting considerations with respect to Caithness II and other generating plants be deferred until a full economic assessment was presented in the Integrated Resource Plan expected in 2017. The Brattle Group noted that the study has been completed and has determined that no need for additional capacity will exist until at least 2030 and that no economic savings will result from the construction of Caithness II or possible repowering of the Barrett or Port Jefferson generating plants. The Brattle Group found that the studies reached the correct conclusions.

The Brattle Group found that none of the projects are needed for reliability or economic benefits and that the plant costs will exceed their benefits for at least the next decade.

The Brattle Group saw little likelihood of these, or other projects with similar generating capacity, becoming rapidly or strongly needed or economical given the most likely market changes in the coming years. The Brattle Group determined further that the renewable energy, carbon reduction and demand management goals of New York's Clean Energy Standard would likely reduce the need for these generating plants. Overall, the Brattle Group concluded that with no current need and uncertain long term conditions, the prudent course of action is to continue to assess the need and timing for these long term generating resources.

The DPS reviewed the Brattle Report and concludes that adoption of the NYSRC/NYISO planning criteria in 2014 and the analysis with respect to the need for Caithness II are reasonable. The required levels of generation capability needed to satisfy reliability criteria for New York state are established by NYSRC/NYISO, and that capability is procured or arranged for by the all New York utilities and other Load Serving Entities. The required levels include specific local requirements that exist in NYC, Lower Hudson Valley and Long Island. In its Report, the Brattle Group based its conclusions with regard to Caithness II on the application of these criteria.

With respect to repowering of the E.F. Barrett and Port Jefferson Plants, DPS notes that in accordance with amendments to the LIPA Reform Act, comprehensive studies of the potential repowering of those plants will be performed and provided to LIPA and DPS and repowering is, therefore, not addressed by DPS here.

Sincerely,

A handwritten signature in black ink, appearing to read "Gregg Sayre".

Gregg Sayre
Interim CEO

Cc: Jon Mostel, LIPA, General Counsel and Secretary
Guy R. Mazza, DPS, Director Long Island