

## **FOR CONSIDERATION**

March 30, 2022

**TO:** The Board of Trustees

**FROM:** Thomas Falcone

**SUBJECT:** Authorization to Execute Capacity Purchase Agreements with Dighton Power, LLC, Manchester Street, LLC and Calpine Energy Services, L.P.

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### **Requested Action**

The Board of Trustees are requested to approve a resolution authorizing the Chief Executive Officer or his designee to execute Capacity Purchase Agreements (“CPA”) with Dighton Power, LLC (“Dighton”), Manchester Street, LLC (“Manchester”) and Calpine Energy Services, L.P. (“Calpine”), and to take such other actions as may be reasonably necessary to implement arrangements for LIPA to purchase a total of 345 MW of installed capacity supplied from five natural gas-fired combined-cycle power plants located in Connecticut, Rhode Island, Maine, New Hampshire and Massachusetts.

### **Background**

LIPA has a long-term contract for 330 MW of firm transmission rights on the Cross Sound Cable (“CSC”), a high-voltage direct current undersea transmission cable that interconnects the LIPA transmission system at Shoreham, NY with the ISO-New England transmission system at New Haven, CT. The New York Independent System Operator (“NYISO”) allows holders of such firm transmission rights to use generating capacity purchased outside of New York to meet NYISO’s in-State and locational (e.g., Long Island) capacity requirements. Previously, LIPA had used capacity purchased from Bear Swamp Power Company LLC to meet its capacity requirements under an arrangement that expired in 2021.

In December 2021, PSEG Long Island issued an RFP for up to 345 MW of installed capacity in ISO-New England that could be used to meet LIPA’s capacity requirements for the 2023-24 and 2024-25 capability years<sup>1</sup>. The RFP allowed LIPA to assemble a portfolio of generating plants from one or more respondents to meet the maximum capacity of 345 MW. Proposals were received on January 19, 2022 from two RFP respondents, Starwood Energy Group (“Starwood”) and Calpine. Starwood offered a combined total of up to 345 MW from combined-cycle generating facilities located in Massachusetts (Dighton) and Rhode Island (Manchester). Calpine offered up to 155 MW of installed capacity from three combined-cycle generating facilities located in Massachusetts, New Hampshire, and Maine. The PSEG Long Island selection committee evaluated the proposals and determined that a combination of the two proposals would best meet LIPA’s needs.

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<sup>1</sup> On account of transmission losses and forced outages, 345 MW of ISO-New England capacity can provide the equivalent of 330 MW of Long Island capacity. Capability years run from May 1 through the following April 30.

The pricing offered in both proposals is favorable compared to LIPA's forecast of market capacity prices and both respondents agreed to comply with NYISO rules for selling off-Island capacity into the New York market. For the 2023-24 capability year, LIPA staff recommends a purchase of 155 MW from Calpine, which is the maximum amount it offered; plus a purchase of 190 MW from Starwood subsidiaries Dighton Power, LLC and Manchester Street, LLC, in order to meet the 345 MW goal, while assuring some diversity of suppliers and sources.<sup>2</sup> The total contract values for the Calpine and Starwood contracts are \$6 million and \$8 million, respectively.

Proposed contract terms would require each supplier to meet stringent availability targets or be subject to reduction in payments from LIPA. Moreover, the suppliers would be responsible for indemnifying LIPA for any penalties assessed by NYISO for failure to perform their obligations, which include supplying energy during system emergencies upon NYISO's direction. That feature of the arrangement will increase the reliability of imports over the CSC.

Another valuable feature of this arrangement is the continued reservation of firm interconnection rights for CSC, which enables LIPA to continue to make off-Island capacity purchases during the term of the CSC contract. Absent the proposed purchases, those interconnection rights would expire in 2024 under current NYISO rules and restoring such rights could expose LIPA to significant future transmission system upgrade costs. Preserving these rights benefits LIPA ratepayers by maintaining access to a competitive pool of generating capacity in ISO-NE.

For the 2024-25 capability year, LIPA staff recommends a new procurement whose goal would be to attract broader interest among potential suppliers in New England.

### **Recommendation**

For the foregoing reasons, I recommend that the Trustees authorize the Chief Executive Officer or his designee to take all actions, including, without limitation, execution of capacity purchase agreements with Dighton, Manchester, and Calpine and all other related agreements to enable the Authority's purchase of installed capacity as described above.

### **Attachment**

**Exhibit "A"** Resolution

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<sup>2</sup> Calpine is able to transact on behalf of its three facilities, while Starwood requires individual contracts for its two facilities (162.9 MW and 27.1 MW from Dighton and Manchester, respectively).

**AUTHORIZATION TO ENTER INTO INDIVIDUAL CAPACITY PURCHASE AGREEMENTS WITH DIGHTON POWER, LLC, MANCHESTER STREET, LLC, AND CALPINE ENERGY SERVICES, L.P. FOR THE PURCHASE OF INSTALLED CAPACITY**

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**WHEREAS**, pursuant to the December 14, 2021 Request for Proposals for Off Island Capacity (New England Control Area) administered by PSEG Long Island, LIPA staff selected proposals by the Starwood Energy Group (on behalf of its subsidiaries Dighton Power, LLC and Manchester Street, LLC), and Calpine Energy Services, L.P. to provide a combined total of 345 MW of installed capacity; and

**WHEREAS**, LIPA seeks to enter into Capacity Purchase Agreements (“CPA”) with Dighton Power, LLC, Manchester Street, LLC, and Calpine Energy Services, L.P. under which those entities will provide a combined total of 345 MW of installed capacity delivered to the New Haven interconnection point of the Cross Sound Cable for the 2023 to 2024 NYISO Capability Year.

**NOW, THEREFORE, BE IT RESOLVED**, that the Chief Executive Officer and his designee be and hereby are authorized to execute and effect CPAs and other related agreements and arrangements, consistent with the terms of the accompanying memorandum, and to perform such further acts and deeds as may be necessary, convenient or appropriate, in the judgment of the Chief Executive Officer or his designee, to implement LIPA’s purchase of installed capacity from Dighton Power, LLC, Manchester Street, LLC, and Calpine Energy Services, L.P.

Dated: March 30, 2022