

March 15, 2002

Paul D. DeCotis
Records Access Officer
New York State Energy Planning Board
c/o NYSERDA
286 Washington Avenue Extension
Albany, NY 12203-6399

Re: Comments on Draft NYS Energy Plan

Dear Mr. DeCotis:

The enclosed comments on the Draft New York State Energy Plan are submitted on behalf of the New York State Reliability Council ("NYSRC").

The NYSRC would like to commend the New York State Energy Board for its efforts in developing the Draft New York State Energy Plan ("Draft Plan") and assisting in the development of coordinated state energy policies. As described below, the responsibilities of the NYSRC relate to the maintenance of the reliability of the New York State power system. While we appreciate that state policy often requires the balancing of various interests, we believe that the maintenance of the reliability of the state's bulk power system must be given the highest priority in the development of state policy. We note that in several places the Draft Report affirms the importance of maintaining the reliability of the state's power system and of continuing more specific or more stringent state and local reliability standards when necessary to maintain reliability. The NYSRC strongly supports these findings.

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The NYSRC also wishes to express its support for a continued role for the New York State Energy Planning Board in assisting in statewide energy planning and for the reauthorization of Article 6 of the Energy Law, which is scheduled to expire on January 1, 2003.

The NYSRC appreciates the opportunity to submit comments in the Draft Plan and looks forward to continuing to work with the Energy Planning Board and its staff on issues related to the NYSRC's areas of responsibility.

Sincerely,

A handwritten signature in cursive script that reads "William H. Clagett".

William H. Clagett
Chairman
New York State Reliability Council

Enclosure
al74883

**COMMENTS ON THE DRAFT NYS ENERGY PLAN
SUBMITTED ON BEHALF OF THE
NEW YORK STATE RELIABILITY COUNCIL**

Background

The NYSRC was approved by the Federal Energy Regulatory Commission in June of 1998 as part of the restructuring of the electricity industry in New York State. Under this restructuring, the utility members of the New York Power Pool ("NYPP") turned over to the newly created New York Independent System Operator, Inc. ("ISO") operational control of the bulk power transmission facilities in New York State. The restructuring established competitive wholesale electricity markets in New York State. Under concurrent state policies, retail access to competitive electricity suppliers was provided to end use consumers, and the investor owned utilities were encouraged to divest most of their generating assets.

The mission of the NYSRC is to promote and preserve the reliability of electric service in the New York Control Area by developing, maintaining and updating Reliability Rules. The ISO is obligated to comply with all Reliability Rules, including Local Reliability Rules. The ISO also is obligated to maintain the safety and short-term reliability of the New York State Power System and administer the ISO tariffs in accordance with the Reliability Rules. The NYSRC's mission also includes monitoring compliance with the Reliability Rules by working in consultation with the ISO, including when necessary, seeking compliance through the dispute resolution procedure contained in the ISO/NYSRC Agreement.

The Reliability Rules adopted by the NYSRC are based on the reliability standards established or imposed by Northeast Power Coordinating Council ("NPCC"), North American Electric Reliability Council ("NERC"), Federal Energy Regulatory Commission ("FERC"), New York State Department of Public Service ("New York PSC") and the Nuclear Regulatory Commission ("NRC") and any other government agency with jurisdiction over the reliability of the New York State power system. While the Reliability Rules must be consistent with NERC and NPCC standards, they include more stringent and more detailed criteria and Local Reliability Rules in order to address the special reliability needs of the New York Control Area, particularly the special needs of New York City and Long Island. The Reliability Rules initially adopted by the NYSRC were the existing rules of the NYPP.

General Comments

The NYSRC recognizes that the Draft Plan supports investments in the State's transmission and distribution systems needed to ensure continued reliability. However, the Draft Plan also advances a number of findings in the electricity and natural gas areas that may be difficult to achieve. Those findings that impact the reliability of the NYS power system include:

- The assumption that all of the State's nuclear power plants will receive license extensions from the NRC so that these plants can continue to operate for years beyond the end of their current operating license.

- A projection that the natural gas and electric bulk transmission systems will receive the needed infusion of capital that will be required to keep up with the growth in the State's energy economy that would surely be engendered by the surge in demand from the real reductions in price that have been forecast in the Draft Plan.

The NYSRC suggests that a thorough review of the concerns raised in these comments should be undertaken prior to release of the final Plan. Among our concerns are the following:

- The bankruptcy of Enron has cast a dark shadow over the development of new merchant generating plants nationwide. Cancellation announcements by companies including Calpine, PP&L and Sithe are being made on a daily basis. According to data from McGraw-Hill publishing at year-end 2001, 84,976 MW of new capacity had been cancelled in the United States, representing about 18% of all new capacity proposed to be built. In New York State, 510 MW of peaking capability proposed by Sithe Energies has been cancelled. The Draft Plan needs to critically assess the likelihood that the massive capital investment in new generation in the State will really come to pass, and what the impact will be if these facilities are not built.
- Electric reserve margins will also continue to be of concern if the hoped for build-out in new gas fired merchant generating plants is not realized. In that event, the day-to-day reliability of the electric supply system could be at risk.

- As the Draft Plan notes, "The attainment of emission goals is very dependent upon new gas-fired combined cycle units being added to the New York electricity system and trading among regional electric systems. Further, results are strongly dependent on adequate supplies of natural gas to fuel these new units as well as existing units that increase their use of natural gas as an emission compliance strategy." (Draft Plan page 3-101) The supply issues associated with this increase in natural gas use will be discussed later, but it should be noted here that these emission reductions cannot be achieved without a very significant increase in the use of natural gas.
- Another concern is the ability of the natural gas transmission infrastructure to support the massive increases in demand for natural gas both in New York and the Northeast. The Draft Plan is silent on where this gas transmission system capacity will come from, who will build it, when and where the new pipelines be built, and who will pay for these billions of dollars of new infrastructure.
- The Draft Plan also fails to directly assess the electric and gas system reliability issues associated with the proposed massive increase in reliance on natural gas. New Yorkers will be completely dependent on two thousand mile long gas pipelines for their energy and economic security. The Draft Plan does not assess this risk except to refer to the NYISO/NYSERDA Gas Study. The security issues associated with this

concern are very significant, but the Draft Plan does not address these issues.

- The Draft Plan also notes that part of the decrease in retail natural gas prices will be attributable to "anticipated reductions in transmission and distribution system costs". This assumption appears to be inconsistent with the need to invest the hundreds of millions of dollars in gas transmission and distribution infrastructure needed to bring the massive new quantities of natural gas called for by the Draft Plan into New York and the Northeast.
- The Draft Plan fails to detail the process by which it expects much needed New York State electric transmission system infrastructure improvements to be made. The hope that the FERC and a Northeast RTO will somehow take care of the issue is one that all New Yorker's share, but the resolution of how, where, when, and who pays for the remedies for this major problem is not addressed in the Draft Plan.

Specific Comments

1. The Draft Plan lists the first Energy Policy Objective on Page 1-12 as follows:
 - "1. Supporting the continued safe, secure, and reliable operation of the State's energy and transportation systems infrastructure."

The NYSRC strongly supports the first Energy Policy Objective as described in the Draft Plan.

2. On page 1-24, the Draft Plan states:

The State's transmission system is generally adequate to provide reliable electricity service; however, there are limitations in the use of the transmission system in moving power between regions of the State for economic reasons.

The NYSRC suggests that this portion of the Draft Plan be revised to read as follows:

The State's transmission system is generally adequate to provide reliable electricity service, **provided that the system is operated in accordance with reliability rules established by NERC, NPCC and the NYSRC**; however, there are **reliability** limitations in the use of the transmission system **for the economic transfer of** power between regions of the State.

3. On page 1-31, the Draft Plan states:

Any system developed for merging the NYISO into a larger RTO must be designed to incorporate local reliability requirements and ensure that short-term economic pressures do not shortchange the reliable operation of New York's integrated electric system.

The NYSRC suggests that this portion of the Draft Plan be revised to read as follows:

Any system developed for merging the NYISO into a larger RTO must be designed to incorporate **appropriate state and** local reliability requirements and ensure that short-term economic

pressures do not shortchange the reliable operation of New York's integrated electric system.

4. On page 2-13, the Draft Plan describes actions the U.S. Congress can take to assist New York State in its industry restructuring efforts, including;

establishment of national mandatory reliability rules for the bulk power system (while allowing states to continue to set more rigorous standards when it is in the public interest).

The NYSRC would like to express its strong support for the need to ensure that the implementation of mandatory national reliability standards does not inhibit states and entities such as the NYSRC from establishing appropriate state and local reliability standards. The NYSRC also suggests that this portion of the Draft Plan be revised to read as follows:

establishment of national mandatory reliability rules for the bulk power system (while allowing states and **sub-regional reliability organizations such as the NYSRC** to continue to set **more specific or more rigorous state and local reliability** standards when it is in the public interest).

The NYSRC suggests a similar revision on page 2-14 of the Draft Plan in the last item listed under "Findings and Conclusions".

5. On page 3-83, the Draft Plan states:

The parties also agreed to create an Independent System Operator (ISO) to supersede the then-existing New York Power Pool. The ISO would be a not-for-profit organization with responsibility for administering the State's wholesale energy markets and operating the State's high-voltage electric transmission system. The Federal Regulatory Commission (FERC) eventually adopted these proposals, with modifications, and on November 18, 1999, the New York Independent System Operator (NYISO) began operations.

The NYSRC suggests that this portion of the Draft Plan be revised to read as follows:

The parties also agreed to create an Independent System Operator (ISO) to supersede the then-existing New York Power Pool. The ISO is a not-for-profit organization with responsibility for administering the State's wholesale energy markets and operating the State's high-voltage electric transmission system, **in accordance with reliability standards adopted by the NYSRC.** The Federal Regulatory Commission (FERC) eventually adopted these proposals, with modifications, and on November 18, 1999, the New York Independent System Operator (NYISO) began operations.

6. The NYSRC suggests that the following paragraph be inserted on page 3-88 of the Draft Plan before the paragraph that starts with "In the process to develop a Northeast RTO":

A well-functioning RTO will include in its planning process ample opportunities for market-based generation and transmission projects, but with flexibility for the RTO to provide the proper incentives to implement regulated transmission solutions as necessary to ensure system reliability. Consumers will benefit from enhanced competition that would result from larger markets, but the pursuit of savings cannot come at a cost of degraded system reliability. Maintaining reliability standards must be the highest priority.

7. On page 3-88, the Draft Plan states that the process to develop a Northeast RTO must be subject to certain principles, including the following:

System reliability is a paramount concern for state regulators. The new system must be designed to incorporate local requirements and to ensure that short-term economic pressures do not shortchange the reliable operation of the system. Until a more optimal system is developed, the current configuration of three physical control areas should be maintained.

The NYSRC suggests that the Draft Plan be revised to read as follows:

System reliability is a paramount concern for state regulators. The new system must be designed to incorporate **appropriate state and local reliability** requirements and to ensure that short-term economic pressures do not shortchange the reliable operation of the system. Until a more optimal system is developed, the current configuration of three physical control areas should be maintained.

8. On page 3-113, the Draft Plan states:

Reliability criteria for the operation of the New York State system are developed and monitored by the New York State Reliability Council. This organization has representatives from each of the transmission owning utilities, other market participants, and independent members. Each of the local reliability rules must be approved by this Council, which also has statewide reliability responsibilities, such as determining the statewide installed generation reserve margin to meet nationally accepted reliability criteria.

The NYSRC suggests that this portion of the Draft Plan be revised to read as follows:

Reliability criteria for the operation of the New York State system are developed and monitored by the New York State Reliability Council. This organization has representatives from each of the transmission owning utilities, other market participants, and

independent members. **Each of the reliability rules, including local reliability rules, must be approved by this Council, which also has responsibility for determining the statewide installed generation reserve margin necessary to meet generally accepted reliability criteria.**

9. On page 3-121 of the Draft Plan there is a statement similar to the statement on page 1-24, and the NYSRC suggests a similar revision as follows:

The State's transmission system is generally adequate to provide reliable electricity service, **provided that the system is operated in accordance with reliability rules established by NERC, NPCC and the NYSRC**; however, there are **reliability** limitations in the use of the transmission system **for the economic transfer** of power between regions of the State.