



April 22, 2005

BY HAND DELIVERY

Mr. William M. Flynn
Chairman
New York State Public Service Commission
New York State Department of Public Service
3 Empire State Plaza
Albany, NY 12223-1350

Ms. Denise M. Sheehan
Acting Commissioner
New York State Department of
Environmental Conservation
625 Broadway
Albany, NY 12233

Mr. Peter R. Smith
President
New York State Energy Research and
Development Authority
17 Columbia Circle
Albany, NY 12203-6399

Dear Chairman Flynn, Ms. Sheehan and Mr. Smith:

Enclosed are some initial comments by the New York State Reliability Council related to the Regional Greenhouse Gas Initiative process. The NYSRC's comments raise issues related to the potential impact of RGGI standards on bulk power system reliability, and urge the RGGI participants to give careful consideration to the need to maintain the current high level of electric system reliability in New York State and the RGGI region.

Your consideration of our comments is appreciated. Please contact me if we can provide any further information concerning our comments.

Sincerely,

A handwritten signature in black ink that reads "Bruce B. Ellsworth / ca".

Bruce B. Ellsworth
Chairman
NYSRC Executive Committee

Enclosure

cc: Franz Litz
Karl Michael
Mark Lynch
AL90589

April 22, 2005

NYSRC Reliability Comments Related to the Regional Greenhouse Gas Initiative

INTRODUCTION

The following comments of the New York State Reliability Council (NYSRC)¹ relate to potential impact of the Regional Greenhouse Gas Initiative (RGGI) on the reliability of the New York State bulk power system. The NYSRC does not have a position with respect to the adoption of RGGI standards. However, the adoption of RGGI standards may raise significant reliability issues, and the NYSRC urges the State Working Group and Stakeholders to carefully consider and address the potential impact of proposed RGGI standards on the reliability of the bulk power system. New York has a long history of support for a high level of electric system reliability. That support reflects the painful experience of major system interruptions in the past, and the extremely serious consequences of disruptions in New York State and, in particular, the New York Metropolitan Area. It is essential, therefore, that the RGGI process give careful consideration to the potential impact of RGGI standards on electric system reliability.

The NYSRC has the following comments regarding the Regional Greenhouse Gas Initiative:

¹ The NYSRC was approved by the Federal Energy Regulatory Commission (FERC) as part of the comprehensive restructuring of the electricity industry in New York State. The NYSRC's primary responsibility is the promulgation of reliability standards applicable to the operation of the New York State bulk power system.

Coal Retirements

Approximately 1,350 MW of near term coal unit retirements have recently been announced in New York. Significant coal retirements in PJM, Canada, and New England have similarly been announced. It is unclear how these retirements have been factored into the RGGI analysis. The NYSRC is concerned about the impact on system reliability of these retirements and the possibility that RGGI standards may accelerate the retirement of coal fired generators that are critical to system reliability.

Fuel Diversity

Fuel diversity is very important to system reliability. A RGGI standard will likely reduce oil and coal capacity and increase reliance on natural gas for power generation within the New York Control Area (NYCA). The NYSRC has Local Reliability Rules for New York City and Long Island which limit the use of natural gas by certain generators to assure the operational security of the bulk power system. The RGGI studies should model these Local Reliability Rules. Greater reliance on natural gas and new restrictions on oil units and dual fuel capable units could reduce reliability. Gas pipeline infrastructure may be more vulnerable to interruption than decentralized oil storage assets. The RGGI studies also should consider the gas infrastructure enhancements that would be required to meet the projected demand for natural gas.

Operational Impacts

Entities within the RGGI region may reduce local generation to comply with RGGI standards and increase reliance on imports not subject to the RGGI standards. Greater reliance on more distant power supply may reduce reliability. The RGGI studies should

consider the ability of the bulk power system to accommodate the projected level of imports. In addition, units now relied upon as “must run” generation (i.e., units that must run to protect reliability regardless of economic considerations) could be affected by RGGI standards and may no longer be able to operate. It also is important that procedures be adopted to permit the waiver of RGGI standards during periods of major system emergencies to support the reliability of the electric power system.

Nuclear Units

Approximately one third of the energy produced in the RGGI region is nuclear. Many of these units are up for license renewal. Loss of the contribution of one or more nuclear units to the emissions profile of the region would greatly exaserbate the impact of a “capped” RGGI standard. Without the environmental benefits provided by nuclear units, marginal oil and coal units may no longer be able to operate or the cap may be exceeded. Similar impacts could result from an extended outage of one or more nuclear units.

Change to Electrical Characteristics of Power System

To meet RGGI standards, resource adequacy requirements will likely be satisfied through the installation of gas fired combined cycle generation and renewable resources.

Reliance on existing coal and oil resources will be reduced. It is assumed that it will be infeasible to build new coal units. Over time, this will result in a substantial change in the electrical characteristics of the power system. Of particular concern are changes to inertial characteristics (ability to dampen during fault conditions) and the impact on local reactive power requirements.

Viability of Existing Units

It is possible the RGGI standards could cause the reduced operation or retirement of base-load generators that are critical to reliability. This could result in loss of units needed to provide regulation, local reliability problems, and other reliability impacts. It also is important that the methodology for allocating credits be developed in a manner that will not impair system reliability through premature retirements.

CONCLUSION

The NYSRC recommends that the RGGI analysis carefully consider the potential impact of proposed RGGI standards on the reliability of the bulk power system of New York State and the RGGI region. Specifically, the RGGI analysis should include:

1. A realistic assessment of the retirement of generation units that will result from proposed RGGI standards and the related impacts on reliability, as well as the impact of the retirement of one or more nuclear units;
2. A realistic assessment of the impact of proposed RGGI standards on fuel diversity of generation resources in New York State and the related impacts on reliability;
3. A realistic assessment of the gas infrastructure enhancements that will be needed to meet the projected demand for natural gas based on proposed RGGI standards;
4. An realistic assessment of the ability of the bulk power system to accommodate the projected level of imports based on proposed RGGI standards; and

5. Consideration of the impact of proposed RGGI standards in the context of other applicable environmental requirements.

Based on the foregoing analysis, the proposed RGGI standards should be modified to the extent necessary to ensure that the reliability of the New York State bulk power system is maintained.

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