

November 17, 2004

Mr. Karl Michael
Senior Project Manager
New York State Energy Research & Development Authority
17 Columbia Circle
Albany, NY 122036-6399

Dear Karl:

Members of the New York State Coalition of Energy and Business Groups recently met to discuss RGGI program issues, including the IPM modeling assumptions. Although the Coalition members have participated in the modeling dialogue leading to the assumptions document, we believe there are still important unresolved concerns that need to be reemphasized. A number of our concerns follow.

1. The geographic multipliers for adjusting construction costs for new power plants in New York State are too low based on Coalition member experiences. The NYPA 500MW combined cycle in Queens and the KeySpan Ravenswood facility each cost approximately \$1300 per KW. The adjusted costs for these facilities using the current RGGI modeling assumptions would be approximately 13 percent less than the values provided by these companies. The Athens combined cycle facility, located in the upstate region, cost approximately \$740 per KW compared with the RGGI modeling assumption value of \$610 per KW. These actual figures support revision of the regional multipliers for new construction costs in New York State.
2. The Coalition believes that the IPM modeling may project increased use of natural gas as a compliance strategy by increasing the number of new gas power plants or by fuel switches at existing facilities. The natural gas delivery infrastructure cannot support an unlimited number of new gas-fired power plants in addition to needs that will arise from increasing future domestic and industrial demand. This raises concern about system reliability and public safety. In reality, the number of possible new gas power plants is limited by gas infrastructure and demand and therefore their number should be limited in the modeling, or modeling should correct for the costs and time needed to build new gas pipelines. Consideration must also be given to the finite electric transmission system necessary to support new power plants, or fill voids created by retirements of existing facilities. The Coalition is concerned that modeling does not adequately reflect the risks to reliability and public safety, and the financial costs and timing required to resolve the transmission and the gas transportation improvements.

3. The assumptions in the model for wind penetration should recognize that wind may impact the NYISO 1 in 10 loss of load reliability requirement. Accordingly, a high penetration of intermittent renewable resources may result in a higher internal reserve margin requirement, and also the need to maintain low capacity units in the market. This may be problematic if those same must run units are identified by modeling to be retired as a consequence of RGGI compliance. The impact of wind in modeling should also be informed by the results of the pending GE Reliability Study and the NYISO Independent Market Monitoring Study.
4. The Coalition suggests that instead of precluding all new coal builds in the RGGI region, that new coal facilities be addressed with geographic multipliers. We believe coal still may be an option in a few select areas of the region (e.g., central and western New York State). The extreme assumption of no new coal also does not entice other states to adopt the RGGI program, in particular states such as Pennsylvania.
5. To date the RGGI process has identified numerous variables with the potential to significantly impact model outcome in terms of system reliability and program costs. The Coalition recognizes that modeling resources are limited but certain variables are too important to be evaluated using averaged data. In particular, it is especially difficult to predict the future values of certain variables (e.g., fuel costs). At a minimum, the worst case scenario should be run for these important variables. We suggest sensitivity runs to bound the base case be conducted for the following: gas, coal and oil price assumptions; nuclear unit license extension; and the impacts of other regulatory programs such as Section 316(b) of the Clean Water Act.

Thank you for your time and consideration. If you require additional detail or explanation please contact me (433-3306) or Sandra Meier (433-3042).

Sincerely,

John G. Holsapple, Director
Environmental Energy Alliance of New York
A Coalition Representative

cc: Dave Lawrence, NYISO
Franz Litz, NYSDEC