

New York Association Of Public Power

Watts up for Public Power in New York State

NYAPP Representatives Meet with Congressional Delegation

In December 2006, members of the New York Association of Public Power and LIPA met in Washington with representatives of the New York Congressional Delegation to provide an overview of the key issues Municipal and Cooperatives are facing due to the deregulation of the electric industry and the operation of the NYISO. Representing NYAPP were Hubert Bianco of Freeport, Walter Haase of Jamestown and Paul Pallas of Rockville Centre. Also present was Richard Bolbrock representing LIPA.

Mr. Haase opened the discussion stating that Municipals and Cooperatives have a different business model than the rest of the utility industry. In New York State Muni and Co-op rates are typically lower than that of investor owned utilities in adjacent areas. Mr. Haase also stated that Congress and FERC should use Muni and Co-op rates as a yardstick when evaluating investor owned utility rates, pricing and NYISO costs.

Mr. Pallas discussed the increased cost associated with the NYISO. In his presentation, Mr. Pallas indicated that Rockville Centre's cost of electricity at the wholesale level has increased from 20% to 40% when compared with what the cost would have been absent the NYISO. This analysis only looks at the added costs without regard to any wholesale increase in the commodity cost of electricity. This increase is composed of three major components: **local capacity charges, losses and ancillary services**. Prior to the ISO, contract losses were paid for in kind, meaning not all of the energy contracted for would be delivered. The balance went to the system to account for the losses inherent in transmitting electricity over the transmission system. Therefore, the Muni and or Cooperatives would be paying for these losses at contract rate which is substan-

tially less than the cost that we now pay using a marginal loss approach. Any energy shortfall at our system due to the reduction in delivered energy under the pre ISO method would be generated locally. While this may be more than at market rate, this difference is not close to the difference we are now seeing.



Paul Pallas Speaks to Congressional Delegation in Washington

Mr. Pallas also discussed capacity requirements on Long Island stating that under the NYISO rules, Long Island Utilities are required to maintain nearly 100% percent of their peak load in local generation capacity. Prior to the NYISO, long term transmission contracts covered capacity for the amount of the underlying capacity and energy contract. As a result, Long Island and New York City Utilities are now required to purchase capacity to meet this requirement. Rockville Centre is currently investigating the potential to build generation to meet this requirement. The study alone will cost Rockville Centre over \$100,000.

The third component of cost increase is ancillary services. This includes, among other things, the administrative costs of operating the NYISO. While NYAPP members do have some say in how the NYISO is administered through the governance process, these costs have risen significantly since the inception of the NYISO.

On accountability, Mr. Pallas stated that the NYISO governance structure is the best there is among the other organized markets. He also mentioned that New York has a shared governance approach, with both an independent Board of Directors and a stakeholder voice through the committees and working groups. Unlike in other organized markets, the stakeholder committees are not just advisory in New York. The concurrence of both the Board and the stakeholders is needed for major decisions.

Mr. Pallas summed up his presentation by discussing the forward capacity market concept which NYISO is trying to implement. The basic concept is that loads are required to commit to capacity obligations for several years

NYAPP MEETS with Congressional Delegation

into the future and that existing generators get paid an administratively determined price based on the cost of a new plant. This approach is contrary to the original intent of deregulation in that it shifts the financial burden away from the generators and back to load serving entities.

Mr. Bianco discussed the need for long term transmission contracts. He stated that APPA in 1992 and APPA and NYAPP in 2005 supported the Energy Policy Acts, both of which included Long Term Transmission



Walter Haase Speaking to Congressional Delegation

Rights (LTTR). However, even with these Acts in place the focus by the NYISO has been to perfect the hourly energy market which shifts dollars from loads to generators.

Mr. Bianco commented that Freeport and other NYAPP members have existing firm energy contracts in place until 2025 while they only have transmission rights in place until 2013. In addition, Freeport and other NYAPP members have the opportunity to get additional energy from Niagara now due to capacity increases made by NYPA yet we may not be able to get that energy because we do not have enough transmission capacity. What went wrong is that the focus has been on retail competition rather than transmission access. Mr. Bianco went on to say that the intent of Congress is not being implemented because the NYISO is not accountable and it is doing as little as possible to modify market design.

By H. Bianco

LTTRs and Other Key Issues at the NYISO

The most important developments at the New York Independent System Operator (NYISO) in recent months relate to Long Term Transmission Rights, approval of the NYISO's 2007 budget, reliability standards and planning, and evidence of market manipulation. Congress mandated that entities like the NYISO provide Long Term Transmission Rights (LTTRs) with a priority to Load Serving Entities, and FERC established seven guidelines to implement that requirement. Although the NYAPP, NYPA, LIPA and other New York public power entities offered a joint proposal on LTTRs, the NYISO ignored that proposal. The NYISO developed its own LTTR proposal, which is based on the current Transmission Congestion Contract mechanism, and submitted it to FERC on February 5. NYAPP will be protesting the filing on the grounds it does not implement Congress's mandate.

NYAPP was active on the working group that advised the NYISO on its 2007 budget. The NYISO Board approved a budget that was on target with the five year goals established in 2003, and which increased the Rate Schedule 1 charge to customers only slightly. At NYAPP's request, NYISO President Mark Lynch also made a commitment that the NYISO will meet the target for the 2008 budget.

On reliability, FERC is reviewing national reliability

standards which will be mandatory, with penalties for noncompliance, effective in June 2007. NYAPP is reviewing the impact these standards have on its members. Additionally, the NYS Reliability Council lowered the Installed Capacity Reserve Margin to 16.5% for 2007, where it has been at 18% for many years. This should lower costs, while maintaining adequate resources. On the other hand, the NYISO began to look at imposing a forward capacity market for NY, in line with similar proposals in New England and PJM. Customer representatives have strongly opposed this concept in those regions. The NYISO intends to make a proposal by July 2007.

Finally, 2006 brought complaints that a generator was withholding capacity from the capacity market in NYC, raising the prices not only in the City, but also upstate. The NYISO has a market monitor for the energy markets, but not the capacity markets. NYISO stakeholders, including NYAPP, developed a market power mitigation plan and filed it at FERC in December.

Major issues facing municipal and cooperative utilities in 2007 include the establishment of Long Term Transmission Rights, evaluation of the impact of reliability standards, and the development of the proposed forward capacity market.

By Tom Rudebusch

New York Association of Public Power Disputes Claims of Savings from Electricity Markets in New York State

The New York Association of Public Power (NYAPP) is concerned that advocates of restructured electricity markets have claimed “billions” in savings to consumers based on inaccurate and flawed studies, which are produced by consultants paid for by those same advocates. In particular, NYAPP disputes the results of a recent study which was sponsored by the PJM Interconnection LLC, the organized electricity market covering the area to the south of New York. That study claims there are up to \$1.3 billion in annual savings for consumers in New York, based on retail rate data from NYAPP’s members, which are community-owned municipal and cooperative electric distribution utilities.

“It is completely inappropriate to take claimed ‘savings’ to customers of NYAPP member utilities and extrapolate those ‘savings’ to customers of

the larger investor-owned utilities in New York,” stated NYAPP President Paul J. Pallas. Rebutting key assumptions made in the consultant’s study, Mr. Pallas stated that NYAPP members rely primarily on long-term power contracts and do not purchase their electricity requirements from the hourly organized electricity markets in New York, administered by the New York Independent System Operator (NYISO). The NYAPP members rely on cost-based wholesale power contracts, and not on the market-based rates for power from the NYISO.

“It is therefore false to draw conclusions from changes in NYAPP member rates from 1999, when the NYISO was established, to 2004, and generalize those changes for all customers in New York over that time period, as the

study attempts to do,” stated Mr. Pallas. Moreover, the consultant’s own data shows that the retail residential rates averaged over all 51 municipal and cooperative electric utilities in New York rose by 7 cents per kilowatt-hour from 1999 to 2004. The retail residential rates of the much larger investor-owned utilities in New York averaged a 10 cent increase over that same period. “The fact that the consultant found that our rate increases were less than their rate increases does not make a very sound basis for claiming ‘savings,’” stated Mr. Pallas.

In fact, Mr. Pallas stated that, based on data from the Village of Rockville Centre where he is Superintendent of the Electric Utility, the utility’s costs are being driven up by the NYISO. “Even though we do not buy our energy from the NYISO’s hourly markets,” he stated, “our wholesale costs on Long Island have risen by 30 to 40 percent.”

NYPA Raises Rates

On January 30, 2007, the NYPA Board of Trustees voted to increase rates to customers purchasing hydroelectric preference power. The increase will be 7.1 percent commencing May 1, 2007, and 5.8 percent commencing May 1, 2008. The primary reason for the increases is the relicensing costs of the Niagara

and St. Lawrence Projects, according to a staff report.

A public forum on the rate increases will be held on March 22, 2007. NYAPP has retained a professional consultant to assist in reviewing the cost of service, rate design and other components of the rate increases. *By Tom Rudebusch*

DCEC Awarded CREBS to Finance Landfill Gas Project

Delaware County Electric Cooperative (DCEC) has been awarded CLEAN Renewable Energy Bonds (CREBS) to finance the Delaware County Landfill Energy Project. DCEC is working with Delaware County’s Department of Public Works to develop this clean energy facility at the Delaware County Landfill located in Walton. The Project will use methane gas produced by decomposing garbage to generate electric for DCEC and potentially to produce hot water to heat DPW building at the same site.

Under the Energy Policy Act of 2005, Congress made available \$300 million of low cost financing to encourage non-profit utilities, Like DCEC to develop energy projects such as solar, wind, and landfill gas derived projects. DCEC is one of the first co-ops in the country to utilize CREB’s financing for such a project.

By Greg Starhiem



Sue McIntyre of Waste Management, Delaware County

NYAPP FINDS FAULT WITH NYISO'S FILING TO IMPLEMENT LONG TERM TRANSMISSION RIGHTS

On February 5, 2007, the New York Independent System Operator's (NYISO) made a filing at FERC to implement Long Term Transmission Rights (LTTRs) as required by federal law. NYAPP representatives immediately signaled that they would protest the filing at FERC.

The NYISO had obtained a one-week extension from FERC to modify its original proposal. "The original proposal was clearly deficient in a number of regards, including the requirement that holders of long term rights pay the winning price in an annual auction, without knowing what that price was beforehand," stated Paul J. Pallas, NYAPP President. "This means there is no price certainty," Mr. Pallas said.

In the Energy Policy Act of 2005, Congress directed FERC to order organized markets, including the NYISO, to provide load serving entities, including NYAPP's members, with priority to existing transmission capacity to support long-term firm transmission rights needed to serve their customers. FERC then issued Order 681 requiring organizations, including the NYISO, to make available LTTRs in accordance with seven guidelines. In response, Mr. Pallas noted, "the NYISO was the only organized market to file a request for rehearing fundamentally challenging Order 681." In November 2006, FERC rejected the NYISO's arguments.

Despite that rejection by FERC, the NYISO persisted in developing a proposal that changed as little as possible the NYISO's existing auctions for one-year transmission rights (TCCs). The NYISO requested the one-week extension because of a proposal made late in the process by the New York Transmission Owners (TOs). The TOs proposed a "fixed price alternative"

which is available in limited circumstances. "NYAPP is evaluating the details of the fixed price alternative," said Mr. Pallas.

A problem with the NYISO proposal stated Mr. Pallas, "is that it assesses a 'market value' on the Long Term Transmission Rights." "NYAPP members are already paying FERC regulated cost-based rates for transmission service, which is a monopoly function, and we do not understand how the NYISO can justify charging additional market prices for that essential service," said Mr. Pallas.

Further, according to the NYISO, forty to fifty percent of the transmission capacity in New York is reserved for grandfathered transmission contracts held mostly by the TOs. "We think it is discriminatory for the Transmission Owners to be allowed to serve their retail customers with cost-based grandfathered contracts," said Mr. Pallas, "while transmission dependent public power utilities are only offered long term transmission rights at 'cost plus market value'."

While several NYAPP members have grandfathered contracts, the majority, said Mr. Pallas, are served under the NYISO's Open Access Transmission Tariff, "which offers what is essentially 'non-firm' transmission service unless you agree to pay for congestion." "NYAPP members have a vital interest in obtaining firm Long Term Transmission Rights to meet the needs of their customers," said Mr. Pallas.

By Tom Rudebusch

Inside Washington

Climate Change Legislation

Signaling the importance of the climate change issue in this new session, the House of Representatives has voted to create a new "Select Committee on Energy Independence and Global Warming". The Select Committee is expected to work with the other Committees of jurisdiction to craft a comprehensive legislative package addressing both global warming and energy that is expected to take shape by early summer. Speaker Pelosi is expected to name Rep. Ed Markey (D-Mass.) to Chair the 15 member Select Committee.

The existing House Committee of jurisdiction, the Energy and Commerce Committee began consideration of the issue by distributing a memo outlining an agenda to include

consideration of a variety of issues including: the causes and consequences of climate change; state and local climate change initiatives; private sector actions; technologies/ techniques to reduce and capture greenhouse gas emissions; international climate change policies and experiences; regulating global climate change in the transportation sector and domestic policy operations.

Senate Committees are also considering a number of climate change bills, including bills introduced by Majority leader Reid (D-NV) and Energy and Natural Resources Chair Bingaman (D-NM) and Senators McCain (R-AZ) and Lieberman (ID-CT). The Environment and Public Works (EPW) Committee is the Committee with primary jurisdiction of this legislation. Sen. Clinton sits on EPW (and Chairs the Superfund and Environmental Health Subcommittee).

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Jamestown Looks to Help Neighboring Community

In early January, the New York State Department of State awarded a \$99,000 grant to the Village of Lakewood in cooperation with the City of Jamestown, the Town of Busti and the Town of Ellicott under the “Shared Municipal Services Incentive Grant Program”.

The purpose of the grant is to examine the financial and engineering feasibility of creating municipal electric systems to replace the electric service currently provided by National Grid at the distribution level. The study will also quantify potential savings from the municipalization of Lakewood and parts of the Ellicott and Busti electric distribution systems. In addition, the study will identify the potential for enhanced productivity by the Jamestown BPU in providing distribution level services to the three municipal entities.

Lakewood’s Mayor Anthony Caprino applauded the grant award and welcomes the shared services study stating, “Municipal utilities in New York and the Jamestown BPU, in particular, have demonstrated that a well-managed municipal utility can offer lower electric power costs”.

Jamestown’s Mayor Sam Teresi concurred, noting

that “the study will consider not only the municipalization of current National Grid operations, but also the possibility of establishing an agreement with the City of Jamestown to allow its Board of Public Utilities to serve as the operator of the new municipal systems”. Such an arrangement would be similar to the current contract between Jamestown and the Village of Lakewood in which the city’s BPU serves as the operator of the Lakewood Municipal Water System.

“The study will explore the possibility of the BPU providing distribution services and overseeing the procurement of electric power, ancillary services and transmission services,” adds Walter W. Haase, BPU General Manager. “The BPU would be pleased to add these customers to our service area. The rates paid by the customers would be different than our existing customers and would be based on the unique characteristics of this new service territory.”

Current electric costs on the National Grid system are among the highest in the nation, according to the grant narrative. The delivery cost for power provides economic hardship for the residents and businesses in the region.

By Walter Haase

NERC Director Updates NYAPP Members

Stanley Kopman, Director of Compliance Northeast Power Coordinating Council, was a guest speaker at the December 2006 meeting. Mr. Kopman provided a detailed explanation of the regulations and requirements for Load Serving Entities and generators to comply with NERC registration requirements. Seen in the picture at the left, from left to right are: Stanley Kopman of NPCC, Paul Pallas President of NYAPP and Tom Rudebusch of Duncan, Weinberg Genzer, and Pembroke.



Inside Washington *Cont.*

New York Congressional Members Gain Powerful Positions in the New Congress

The election of the Democratic majority in the House of Representatives and the Senate last year has resulted in a significant change in leadership in both Chambers, leaving New York better positioned than it has been for a number of years.

In the House, **Rep. Charles Rangel**, Democrat from Harlem has ascended to the one more powerful positions in Congress—the Chair of the Ways and Means Committee. **Rep. Louise Slaughter**, representing the Rochester area now occupies the Chair of the House Rules Commit-

tee, and **Rep. Nydia Velazquez** from the 12th District is now Chairing the Small Business Committee. As the head of the Campaign Committee for Senate Democrats, New York **Senator Charles Schumer**, credited with the Democratic win of the Senate, has added considerably to his influence and is now the Vice Chair of the Democratic Conference and chairs the Joint Economic Committee.

Senator Hillary Clinton also has a leadership position in the new Congress, as Vice Chair of Committee Outreach working to coordinate the committee work of the Democratic caucus.

By Susan Stohr

NYAPP and Economic Development

By contract with NYPA, the municipal and cooperative systems have allocated a portion of the Niagara Project preference power (54 MW) for economic development purposes in their communities. The Industrial Economic Development Program (IEDP) requirements include strict job creation criteria that must be met in order for a system and its respective project to qualify.

In January 2007, NYAPP member Sherrill Power & Light received an allocation of 2.7 MW of IEDP power (half of it cost-based hydropower) for creating 37 jobs and spurring a \$23 million renovation of the former Oneida Limited facility. At the same time, the Tupper Lake Electric Department received an allocation of 0.6 MW of IEDP power for a manufacturing upgrade that will bring in 21 new jobs.

Other NYAPP members have successfully made use of IEDP power to draw industrial and commercial customers to their communities, adding local jobs and facilitating economic development. To further this activity, NYAPP joined the New York State Economic Development Council in August 2006.

However, there are constraints associated with the existing IEDP program. Under the current program, only a maximum of 50% of the qualifying load receives cost-based hydropower. The balance of the qualifying load must be served through the use of a significantly higher rate power resource, most recently, market-based power from the NYISO. Under a revised and expanded

IEDP program the municipal and cooperative systems in the State would be better able to maximize the benefit of this program by supporting the development of sustainable economic development in their communities.

To promote that goal, in September 2006, NYAPP submitted a statement to the temporary Commission on the Future of NYS Power Programs for Economic Development. NYAPP's statement described the revisions that should be made to the existing IEDP program criteria including recognitions of the importance of both job retention and capital investment by existing and potential allocation recipients. [In many smaller communities the retention of existing jobs that are jeopardized is an essential first step to stabilizing the local economy and facilitating additional economic growth. Capital investment made by local businesses and industries should be recognized as a commitment to the community in which they are located and accepted as criteria for the allocation of economic development power.] Most importantly, if NYPA were charged with the development of additional sources of lower cost power, some of which could be made available for use by the IEDP program recipients, the program would maximize benefits by creating and retaining jobs and promoting sustainable economic growth in communities large and small throughout the State.

By Tom Rudebusch

Spring Meeting Planned for Glens Falls May 21-24 "Public Power In New York State; Preparing for the Future"

The Public Power Institute of NYAPP will be holding a Spring conference at the Queensbury Hotel in Glens Falls from May 21-24. Alan Richardson, President and CEO of the American Public Power Association (APPA) will be the keynote speaker. Other speakers include Assemblyman Paul Tonko, Chair of the Assembly Energy Committee; Mark Lynch, President, CEO of the NYISO and David Cay Johnston, Pulitzer Prize winning investigative reporter for the New York Times who is doing the comprehensive series on the changing electricity market in the US.

The comprehensive conference agenda includes panel discussions on a variety of topics including: the NYISO; Future Power Supply Options in the Era of Climate Change; Energy Efficiency; Economic Development and Mandates and Regulations.

For Conference Information contact:

Kristin LaChappelle at

518.271.9397

2006 Year End Meeting Great Success



*Paul Pallas (right) and Wayne Sherwood (left)
elected for a second term as president and vice presi-
dent respectively*



Green House Gasses Take Center Stage

You don't have to look very far these days to realize that an important "tipping point" has been reached in American society. It is the subject of carbon dioxide emissions, and, more importantly, what will be done to reduce these emissions in order to deal with the threat – some say the fact – of global warming. Whatever you may believe about the global warming phenomenon, it is indisputable that many Americans have become convinced that carbon emissions contribute heavily to greenhouse gases, and that it is time for governments, industry and individuals to take positive actions to reduce CO2 emissions.

In the new Congress, several bills have already been introduced that would establish mandatory caps, or some form of cap and trade regime, to begin the process of stabilizing carbon emissions and then achieving actual reductions over the next 10 – 15 years. In the states, California has taken the lead by passing legislation to reduce CO2 emissions by 25 percent by 2020, a truly ambitious goal that could fundamentally alter the state's economy in the next decade. In the northeast region, the Regional Greenhouse Gas Initiative (RGGI) has been moving forward for several years, with 7 states (Connecticut, Delaware, Maine, New Hampshire, New Jersey, New York and Vermont) committed to a cap and trade program for emissions from power plants of 25 MW and higher, which burn more than 50% fossil fuel. Massachusetts, which had opted out of RGGI under Governor Mitt Romney, is now back in, after newly-elected Governor Deval Patrick reversed the state's position in mid-January.

Within the electric utility industry, even some of the nation's largest investor-owned companies are urging Congress to impose mandatory restrictions on carbon, so that they can factor in the "carbon premium" on their long-term investment decisions regarding new generation plants and fuel choices. While the position is still not embraced by the majority of Electric Utilities in the country, it represents a significant shift in the politics of

greenhouse gases in just the past two years.



*Pat Hyland Executive Director
NEPPA*

In the public power community, while opinions also differ on this topic, there is a clear recognition that federal global warming legislation is highly likely in the next year or two. The American Public Power Association has created a blue-ribbon task force to review and recommend changes in the association's long-standing policy of opposition to mandatory emission caps. As Alan Richardson, President and CEO of APPA has said, "we must be well-informed participants in these debates, and offer solid, reasonable proposals if we expect to have a seat at the table. For if we are not at the table, we will most certainly be on the menu."

All the signs are clear. The burning of coal, oil, natural gas and other carbon-based fuels is going to become more expensive in the United States, with a consequent slow but certain shift to alternative fuels and forms of energy. We have reached the tipping point and there is no going back. By **Pat Hyland**



Spring flooding causes significant damage in Delaware County Electric Cooperative crews rebuilding lines after Spring Flood washed away portions of the pole line