

THE X FACTOR

News and views on the future of New York's energy marketplace.

Brought to you by the Independent Power Producers of New York, Inc.

President's Message



Gavin J. Donohue
President & CEO of IPPNY

I know it sounds strange—particularly after this wickedly cold and miserable winter—but it won't be long before New Yorkers are complaining about the heat. And when the complaints start, the next thing to get cranked up will be the air conditioners. Lots of air conditioners.

When that time comes, we will all be reminded about the need to conserve energy to avoid possible outages. And people will start to ask: Why don't we have enough energy?

Good question.

New York State's electricity demand keeps increasing every year. The New York Independent System Operator says the state will need 7,100 additional megawatts of generation capacity—enough to run 7.1 million homes for a year—by 2005. That's only two years from now.

How is New York going to meet that need?
The answer is simple.

Competition. Healthy, vigorous and strong competition that allows energy generators and sellers to battle each other for residential, commercial and industrial business in a robust marketplace.

In such a marketplace, consumer costs will become stable and predictable as electricity becomes more plentiful. New cleaner, environmentally friendlier power facilities will gradually replace older, less efficient plants. Jobs will be created as new plants are built, and more jobs would be created to manage the facilities.

Call it a Win-Win-Win solution.
So why has it been so elusive?

Another simple answer: Action.

Everybody says they support competition, but that's not enough. Supportive statements need to be backed up by action, or else the promise of competition will never be realized. And it's the people and businesses of New York State who will suffer.

Action means reauthorizing our siting law.

Amazingly, Article X was allowed to expire at the end of last year—despite the fact that an Article X success story lives in the shadow of the state Capitol at the Bethlehem Energy Center.

It doesn't take a genius to figure out that you can't expand electricity supply without expanding generating capacity. Thinking otherwise is like trying to wring water from a rock. Squeeze away; it's not going to happen.

Article X must be renewed so new plants can be approved efficiently while preserving important environmental reviews. Other states bring generation on line and still address their environmental concerns. Why can't New York?

But that's not all. New York needs to support a Standard Market Design plan that will remove barriers to companies doing business across state lines. That will level the playing field, facilitate interstate trading of electricity and lower electricity costs for New Yorkers.

Third, while the Governor's call for a 25% renewable portfolio standard is an admirable goal, it should be understood that the goal is totally unachievable without new generation capacity. Which brings us back to Article X.

"New York's electric demand continues to rise and shows little sign of abating. Unless significant generating capacity is added to the system—and soon—demand is going to overwhelm supply and reliability will be at risk," William J. Museler, NYISO President and CEO, said in February.

**He's right. The time for talking is past.
It's time for action.**

Article X renewal
Competitive market development
Transmission upgrades
Innovative new products and services
Operational flexibility and reliability
Nationally standardized market rules

We Need SMD...ASAP

In the 1860s, the decision to standardize railroad tracks across the country made possible the transcontinental railroad and revolutionized commerce and passenger transportation across the United States. The decision was a no-brainer, and it opened a still-young nation to efficient (for the 19th Century) coast-to-coast commerce.

Now, we need a new kind of national standardization in the electricity market—one that, like the innovation that allowed goods and people to move directly from coast to coast, will make possible the inter-regional flow of electricity. This new kind of “golden spike” for energy is called Standard Market Design.

Standard Market Design, or SMD, is a Federal Energy Regulatory Commission initiative to ensure that the design of all electric systems across the nation operate according to a uniform set of rules, thereby enhancing the efficiency of the nation’s competitive electric markets and facilitating the inter-regional flow of electricity.

“Standard market design will reduce inefficiencies in the electric power industry [that] are caused by barriers to transmission access and inconsistent administration of short-term energy markets,” FERC says.

“Standardized wholesale electric market rules should allow all market participants to compete on a more level playing field, with clear, consistent rules for all players and regions. This will reduce some of the costs and obstacles that keep new generators from entering new markets and let them operate more efficiently,” FERC says.

What’s more, “entry of new, efficient generators with low production costs and lower transactions costs will foster price competition and force existing generators to become more cost-efficient or close down,” FERC says.

“Sadly, our nation’s electric systems are currently in a similar state of affairs as the once disjointed rail system,” said Gavin J. Donohue, President &

CEO of the Independent Power Producers of New York. “With limited standardization across state lines, the difficulty of transferring power from one region to another adds significantly to the cost of power.”

The electric market design already in place in New York, as administered by the New York Independent System Operator (NYISO), has been closely tracked as a premier model for SMD since it is considered ahead of the curve on this important initiative. SMD’s adoption in other regions would enhance the free flow of electricity between New York and neighboring regions.

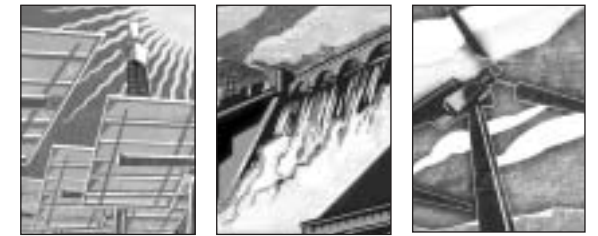
How would SMD benefit New York?

- It would reduce electricity costs. Because the state is a net importer of power, it tends to experience higher average wholesale electric costs. Because of New York’s relative lack of surplus electrical capacity compared to its neighbors, anything that facilitates inter-regional trading of electricity can be expected to lower electricity costs, as higher-cost power in New York must compete with lower-cost power from neighboring regions.
- Improve our competitive edge. Creating a level playing field across regions will enhance the ability of New York’s suppliers to compete in a regional market.
- Locational pricing. Locational Marginal Pricing is a fundamental component of SMD and it uses location as the guiding pricing principle. Under LMP, the price of electricity in a particular location takes into account not only the cost to generate that electricity, but also the impact that transmission congestion has on electric prices. This helps the marketplace decide the best locations for new investment.

For more information on Standard Market Design, see www.ferc.gov/Electric/RTO/Mrkt-Strct-comments/nopr/smdqas.pdf



Who is IPPNY?



The Independent Power Producers of New York, Inc. (IPPNY) is a trade association representing more than 100 companies involved in the development of generation, marketing and sale of electric power and natural gas in New York State. Utilizing cutting-edge technologies and fuel types such as Natural Gas, Wind, Hydropower, Coal, Landfill Gas, Nuclear, Oil, Resource Recovery and Biomass, IPPNY members produce over 70 percent of New York State’s electric power.

For more information:
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Renewable Portfolio Standard Must be Competitive

As the federal government works to standardize electricity markets, New York must be careful that the proposed Renewable Portfolio Standard, also known as RPS, does not impede the process. The goal of any RPS is to ensure that a certain percentage of electricity is generated by renewable resources.

Like many other states, New York has decided to implement a RPS to reduce our reliance on fossil fuels and improve the environment. New York should consider other states’ experiences and keep a strong focus on developing a system compatible with regional competitive markets as the RPS process moves forward.

New York’s goal is to have, within 10 years, 25 percent of the electricity bought here coming from renewable resources. “As we work to reduce market barriers to trading electricity across state lines, we need to make sure we are not inadvertently returning to the days of balkanized single-state electrical systems with incompatible rules throughout the region,” said Gavin J. Donohue, IPPNY President and CEO.

Competitive markets are the key to New York’s energy future. “New York’s RPS will be successful if we stay focused on the goal of bringing the benefits of competition to all of New York and avoid the temptation to create more New York-only systems that increase the cost of power to everyone,” said Donohue.

Article X Reauthorization: A Cornerstone of a Competitive Marketplace

Broad coalition calls on Governor and Legislature to pass power plant siting law

A broad coalition of groups representing both businesses and working people has joined with the Independent Power Producers of New York (IPPNY) in urging Governor Pataki and leaders of the state Assembly and Senate to pass legislation re-authorizing Article X of the New York Public Service Law, the state's power plant siting law.

All agree that reauthorization of the siting law is a critical component of ensuring a safe and reliable supply of electricity, particularly as New York faces daunting energy needs in the coming years.

"If competition is ever going to result in lower electricity costs for ratepayers, then action must be taken to allow new power generating plants to be built," said Gavin J. Donohue, President & CEO of IPPNY.

"The Legislature and the Governor have an obligation to the people and businesses of New York to not only reauthorize Article X, but to strengthen it to ensure New Yorkers' energy needs are met."

The broad coalition supporting Article X includes Daniel B. Walsh, President, **Business Council of New York State**; Denis Hughes, President, **New York State AFL-CIO**; Howard Shapiro, President & CEO, **Energy Association of New York**; Kathryn Wylde, President & CEO, **New York City Partnership**; Richard Anderson, President, **New York Building Congress**; and Brian McMahon, Executive Director of the **New York State Economic Development Council**.

Article X provided a consistent approach to siting power plants and was considered the most comprehensive power plant siting law in the country. But it amazingly was allowed to expire on December 31, 2002. It is vital that new generating resources have a clear blueprint for the siting process in order to plan for the future of New York's electric supply.

"Allowing Article X to expire without any extension fostered doubt in the energy and financial communities about New York's commitment to new supply and will lead to serious capacity shortages within a very few years," Donohue said. "Consumers will not see the full benefits of competitive energy markets without sufficient generation supply."

What's more, new power plants are more environmentally friendly because they operate more efficiently, use less fuel to generate power and produce fewer emissions. For example, the new Bethlehem Energy Center near Albany will reduce water intake by 98 percent, reduce SO₂ emissions by 98 percent and reduce NO_x emissions by 97 percent, compared with the outdated Albany Steam Station it is replacing.

At the same time, the new plant will produce nearly twice the power of the old plant.

Article X of the Public Service Law, first enacted in 1992 and revised in 1999, is intended to foster co-operation between the many state agencies involved in permitting electric generating plants greater than 80 megawatts and to provide "one-stop shopping" for plant developers. Even before Article X, New York had for decades recognized the unique permitting challenges posed by power plants with a distinct siting process.



Article X is vital to the economic success of New York's businesses. Re-authorizing Article X and encouraging power plant developers to invest billions of dollars in-state will increase competition in energy markets and help ensure a safe, reliable supply of electricity.

"Without enough power, New York's prosperity will falter—and New York already has less power than it needs," said Business Council President Daniel B. Walsh. "The uncertainty in the financial markets for power plants makes it even more critical that we have certainty in the regulatory process for siting plants. No siting law is a prescription for no additional plants."

Re-authorizing Article X will also benefit New York ratepayers. "It's a simple question of supply and demand," said Donohue. "If New York allows investors to build new, state-of-the-art plants, supply will grow and force more competition."

More competition to supply electricity means increased development of new, innovative goods and services to benefit ratepayers.

Denis Hughes said, "The New York State AFL-CIO has historically called for a fair and sensible energy program. Article X is such a program. It will ensure a competitive, low-cost and consistent approach to siting power plants."

Howard Shapiro, President and CEO of the Energy Association of New York State, whose members are major energy companies in New York, noted that the expired Article X law may have provided the most stringent process for siting power plants in the nation. He noted that

Article X had been administered effectively and efficiently and balanced environmental concerns with the need for new, environmentally sound power plants. "Failure to pass a substantial extension of the Article X law could jeopardize the reliability of New York's electric system, increase electric costs to consumers and foreclose the expected environmental benefits that we would see from the newer facilities," Shapiro said.

The issue is particularly important to New York City as it rebuilds from the tragedy and economic fallout of the World Trade Center attacks.

"Financing to build power plants has become increasingly difficult in this economic climate," said Kathryn Wylde, President and CEO of the New York City Partnership. "Article X must be re-authorized in order that developers and lenders will be encouraged to move forward on these critical projects. Our ability to retain and recruit businesses in New York depends on an abundant, reliable and affordable supply of electricity."

"In New York City, the need for new power plants is especially urgent.

Faced with growing demand, aging generating facilities and lack of financing, the overall situation has become critical," said Richard Anderson, President of the New York Building Congress. "The City's leading business organizations all agree that an action program is overdue, including prompt reauthorization of Article X. Reliable power must be at the heart of New York's future."

Brian McMahon, Executive Director of the New York State Economic Development Council said, "A reliable supply of reasonably priced electricity is one of the most important factors business investment decision makers consider when deciding where to build a facility. This is especially true for heavy user industries, such as manufacturing. Without a continuation of New York's electric generation siting law, companies considering a New York location will invest in other states."



Top X Reasons to Re-Enact Article X

- I. New York will face BLACKOUTS, especially in New York City and Long Island, if Article X is not re-authorized and no new plants are built.**
- II. Billions of needed investment dollars will go elsewhere.
- III. Currently, as of January 1, 2003, all new proposed power plants will be permitted through the SEQRA process.
- IV. Even California recognized that an efficient siting process is important to competitive markets and subsequently streamlined its permitting process.
- V. Competition must succeed in order to provide the maximum benefit for all New Yorkers.
- VI. Years of staff expertise and agency cooperation between PSC & DEC in permitting power plants will be wasted if Article X is not re-authorized.
- VII. New power plants are far more efficient than existing facilities. That efficiency will lead to cleaner plants running more often and allow the state to rely less on older, less efficient technologies.
- VIII. New power plant construction brings hundreds of good jobs and millions of tax dollars to local communities.
- IX. Other Northeast systems have outpaced New York in building new electric capacity by 5 to 1.
- X. New York needs 7,100 MW of new generating capacity by 2005 according to the NYISO.

New York Lagging Behind Rest of Northeast

Other states are far outpacing NY's new generation additions

As evidenced by the map below, New England has recently added five times more new generation than New York has. Pennsylvania and the other Mid-Atlantic states have added nearly seven times more than New York. Yet New York's demand continues to grow.

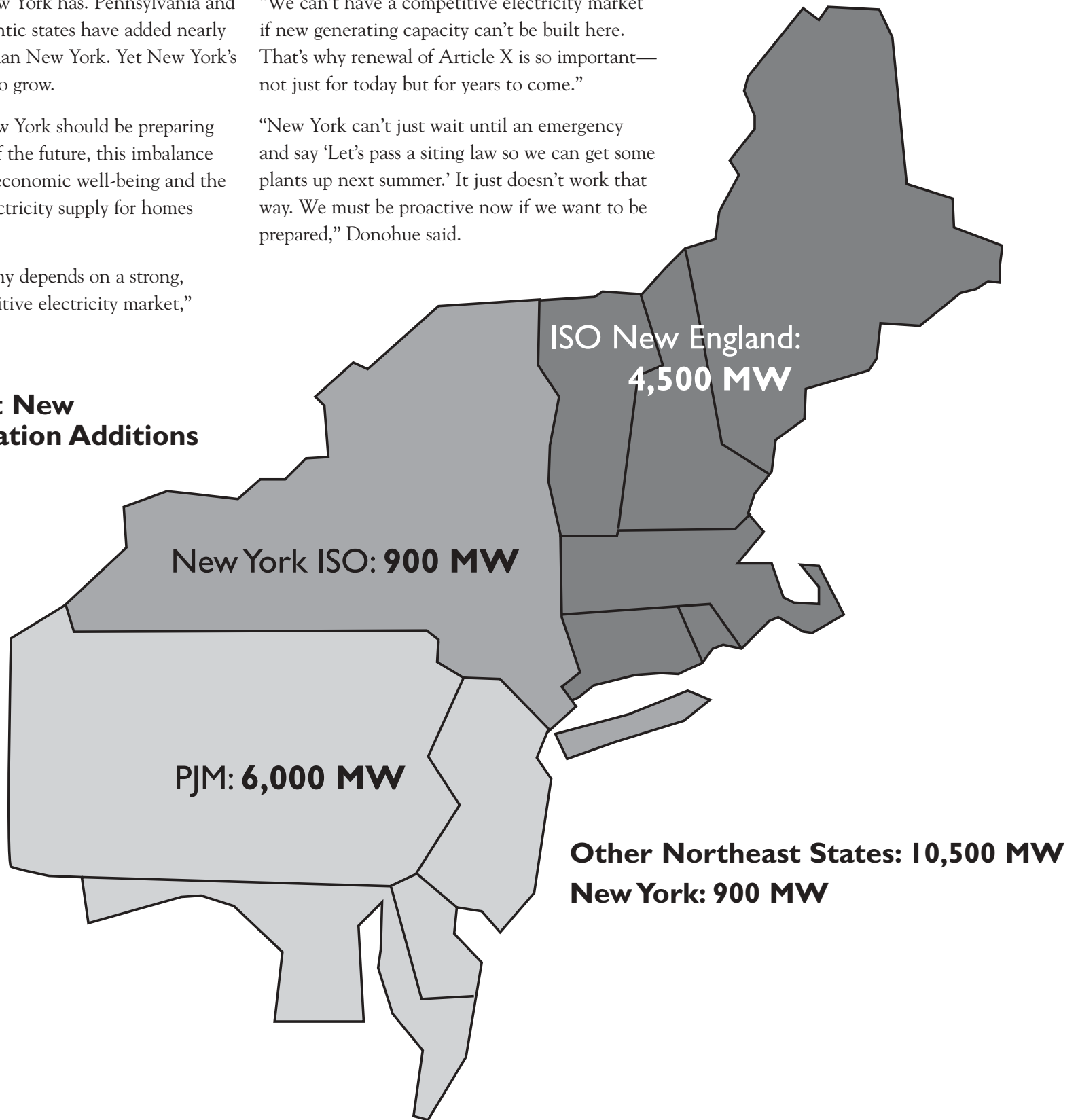
At a time when New York should be preparing for the challenges of the future, this imbalance threatens both our economic well-being and the reliability of our electricity supply for homes and businesses.

"New York's economy depends on a strong, vibrant and competitive electricity market,"

said Gavin J. Donohue, President & CEO of the Independent Power Producers of New York. "We can't have a competitive electricity market if new generating capacity can't be built here. That's why renewal of Article X is so important—not just for today but for years to come."

"New York can't just wait until an emergency and say 'Let's pass a siting law so we can get some plants up next summer.' It just doesn't work that way. We must be proactive now if we want to be prepared," Donohue said.

Recent New Generation Additions



Get the solution to the competition puzzle at the 17th Annual Spring Legislative Conference:

"Putting the Pieces Together... New York's Energy Policy 2003"

Wednesday, May 21, 2003
8 am–2 pm
Desmond Hotel
Albany, New York

Kick-off cocktail party
Tuesday, May 20, 2003
Albany Institute of History and Art

Call IPPNY at 518-436-3749
for more details or reservations.

Speakers will include:

Senator Jim Wright & Assemblyman Paul Tonko
(chairs of the energy committees) Legislative views of and plans for the energy industry

Sam Laniado
(outside counsel to IPPNY) Overview of state and federal regulatory changes

Hon. Erin Crotty
(Commissioner of DEC) Upcoming environmental regulation changes in the energy industry

Charles Fox
(Deputy Secretary to the Governor) The administration's plans for the energy industry

A panel of industry experts to discuss and debate the role of Merchant Transmission companies in New York's energy markets

A representative of the federal government to discuss federal energy regulation

NY On Overload

2001-03 Announcements of record-breaking levels of electricity usage in New York

January 24, 2003: NYISO Announces Record Winter Peak Electric Demand

January 23, 2003: Central Hudson Customers Set Wintertime Energy Usage Record

December 17, 2002: New Long Island Winter Electric Demand Records Set Twice in the Month of December

December 12, 2002: Central Hudson Customers Set Winter Electricity Usage Record

September 19, 2002: LIPA Sets Summer '02 Electricity Delivery Record—Summer Use up over 10%—New Resources Needed for '03

September 4, 2002: Con Edison Sets New Three-Month Record for Energy Use

August 20, 2002: Weekend of August 17 & 18 Set New Electric Demand Records for Long Island Control Area

August 19, 2002: Con Edison Sets New Records for Weekend Energy Use

August 8, 2002: LIPA Sets New Record for Electricity Delivered in July

August 5, 2002: Con Edison Sets New Record for Energy Use

July 30, 2002: LIPA Sets New Summer Demand Record

July 29, 2002: New York's All-Time Electric Consumption Record May be Set Tomorrow

July 29, 2002: Central Hudson Customers Set New Peak Energy Use Record

July 11, 2002: Record Amounts of Electricity Delivered on Long Island During Recent Four-Day Heat Wave

July 3, 2002: New Electric Use Record Set By Central Hudson Customers

August 14, 2001: LIPA Delivered Record Amounts of Electricity During Last Week's Five-Day Heat Wave

August 13, 2001: Con Edison Reaches Record Level of Electricity Delivery

August 9, 2001: Con Edison Hits a New Peak in Energy Usage

August 8, 2001: New York ISO Announces two Consecutive Days of All-Time Record Electricity Demand, & Projects Third for Tomorrow

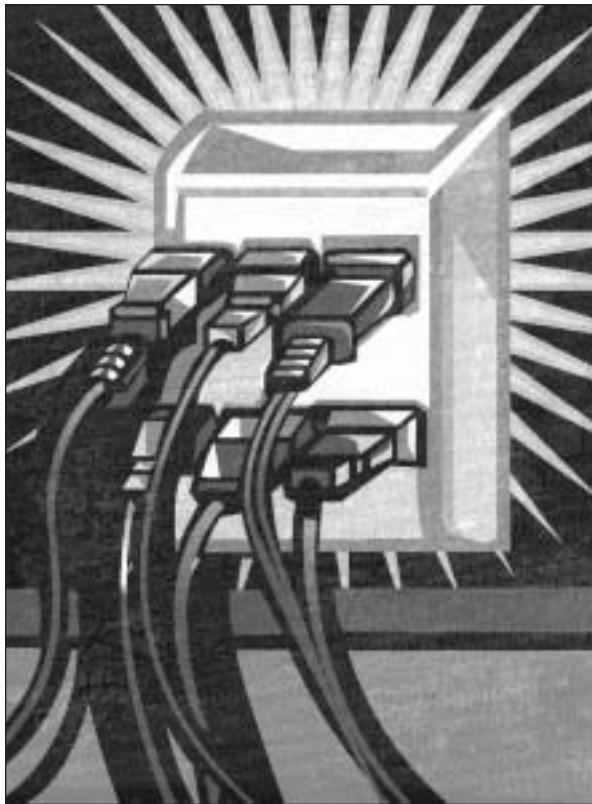
August 7, 2001: Niagara Mohawk Customers Set All-time Record for Electricity Demand

August 7, 2001: LIPA Sets New Summer 2001 Demand Record

July 26, 2001: Central Hudson Customers Set Electric Use Record

July 26, 2001: LIPA Sets New Summer 2001 Demand Record Supply Tight, New Resources Needed

July 25, 2001: Con Edison Hits a New Peak in Energy Usage



You Have the Power

How you vote makes all the difference

YEA!

S.1353 extends Article X of the Public Service Law, a proven, effective process for permitting major electric generating facilities.

NAY!

A.6248-A will burden small, clean electric generating facilities with a long, expensive process and prevent New York generators from meeting the state's growing demand for electricity.



Bethlehem Energy Center an Article X Success Story

When ground was broken last June on the new Bethlehem Energy Center, it marked a milestone in a story that shows how well New York's Article X law worked...before it was allowed to expire.

PSEG Power New York's 750-megawatt facility just south of the state capital has received glowing accolades from government leaders, environmentalists and business leaders. The project won widespread community support as well, in large part because of the company's participation in the extensive public review process set forth by Article X.

"The Bethlehem Energy Center represents the right technology at the right time, and will play an important role in our ongoing efforts to provide New Yorkers with cleaner, more reliable and more affordable power," Governor Pataki said. "This state-of-the-art Energy Center will replace 1950's technology with a cleaner, more efficient facility—a step that will dramatically reduce environmental impacts while nearly doubling electric generating capacity at the site."

The new \$400 million Bethlehem Energy Center, expected to begin operation in 2005, will lead to dramatic improvements in both energy generation and emission of pollutants.

Compared to the Albany Steam Station, the Bethlehem Energy Center will reduce nitrogen oxide emissions by 97 and sulfur dioxide emissions by 98 percent. Further, the new facility will only use about five million gallons of Hudson River water per day, compared to the 500 million gallons per day used by the Albany Steam Station it is replacing.

Joining Governor Pataki at the groundbreaking were State Environmental Conservation Commissioner Erin Crotty; Ashok Gupta, Air and Energy Program Director for the Natural Resources Defense Council; Warren P. Reiss, General Counsel of Scenic Hudson; and Business Council President Daniel B. Walsh.

On February 28, 2002, PSEG New York received approval from the New York State Board on Electric Generation Siting and the Environment to construct and operate the Center. The Siting



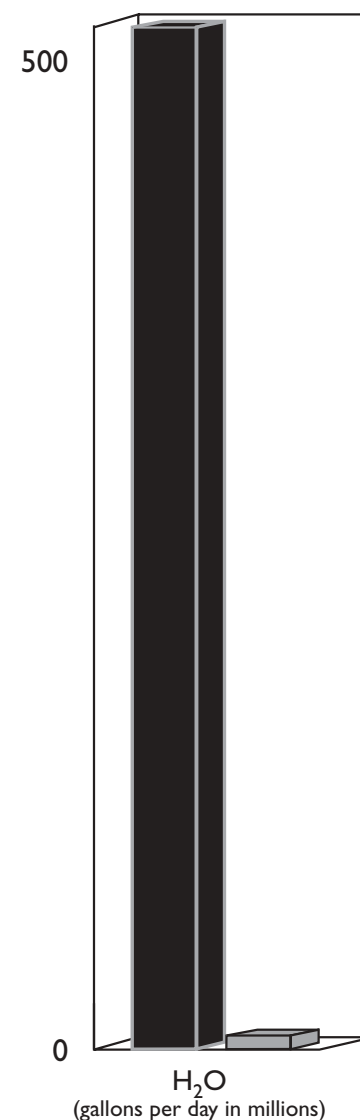
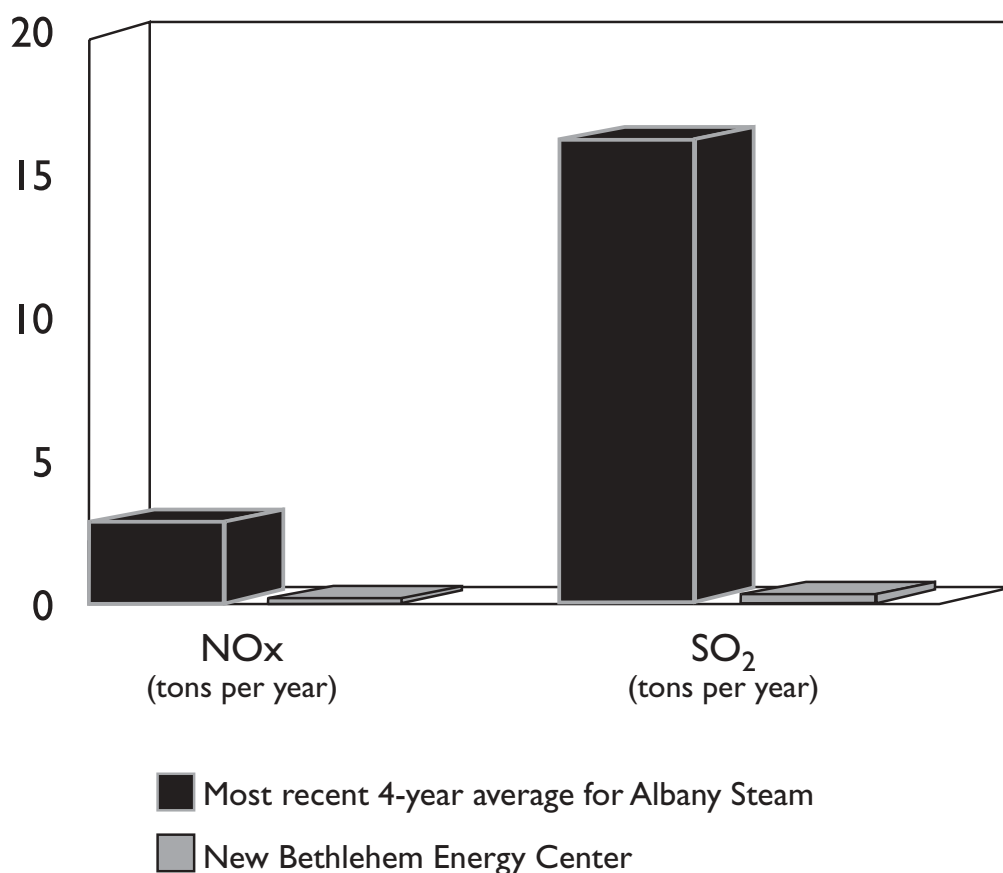
Board approval followed a comprehensive environmental and technical review of PSEG New York's proposal under Article X of the Public Service Law.

New Plants are Environmentally Friendly

The Bethlehem Energy Center will achieve huge environmental improvements over the existing Albany Steam Station it replaces.

- 98% reduction in SO₂
- 97% reduction in NO_x
- 98% reduction in water usage

All this, with an 88% increase in power capacity, from 400MW to 750MW.



IPPNY



Cultivating the competitive environment that will benefit everyone.

For nearly two decades, the Independent Power Producers of New York, Inc. has worked to build a more competitive energy market in New York State that would provide reliable supplies of electricity at reasonable prices. We advocate policies that will expedite the siting of new power plants to meet New York's need while creating a free market that benefits consumers.

IPPNY's 100 member companies produce more than 70% of New York's electricity through the use of biomass, coal, wind, oil, natural gas, nuclear,

waste-to-energy, and hydropower technologies. IPPNY member companies also develop and operate natural gas facilities and provide a variety of services critical to the electricity industry.

IPPNY is your source for information on New York's power generators and the competitive electric market, and we're looking ahead to ensure that healthy competition gives New Yorkers the power they want when they want it at reasonable, predictable prices. Visit ippny.org for more information.

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