

DEC's Greenhouse Gas Plan is Risky for Consumers, Threatens Electricity Supply

Energy prices would rise as system reliability dim

December 05, 2006

Contact:
Gavin Donohue or Chris LaRoe
518-436-3749

ALBANY, N.Y., 12/5/06 – The Independent Power Producers of New York (IPPNY) today expressed strong objections to the New York State Department of Environmental Conservation's (DEC) pre-proposal for its Regional Greenhouse Gas Initiative (RGGI), describing the measure as bad for consumers and threatening the reliability of New York's electric system. As written, this draft proposal would auction 100% of the emission allowances necessary for generators to continue producing power, a risky experiment whose impact on consumer prices and system reliability must be evaluated prior to implementation – a prudent step that the DEC has failed to take.

"DEC's myopic pre-proposal neglects the impacts that it will have on the cost and availability of power to New York's residents and businesses and is the epitome of putting the cart before the horse," said Gavin Donohue, President and CEO of IPPNY. "Before a regulatory body proposes a 100% auction of allowances for generators – an approach not tried anywhere in the country – it first must study and fully understand the impact of such a process. Cost and reliability impacts on electricity supply are not something DEC should be gambling with."

According to the New York State Energy Research and Development Authority, in 2004, electricity generators accounted for less than a quarter of greenhouse gas emissions, yet DEC's pre-proposal only targets generators, ignoring emissions contributed by other sectors. Furthermore, no commercially viable back-end emission control technologies currently exist, forcing generators to purchase allowances to continue producing power. New York's past environmental initiatives to reduce emissions have allocated allowances to generators. Making these allowances available only through an auction in this case is guaranteed to unnecessarily drive up production costs and raise consumers' electric costs. Compounding the problem, if an adequate number of allowances are not available or become too expensive, needed generators will be forced to shut down – threatening New York's already scarce energy supply.

Several energy experts, including the New York Independent System Operator whose job is to maintain New York's electricity markets, have indicated that New York's energy demand will soon surpass the State's capacity to generate it. Throughout this initiative, parties (including the New York State Reliability Council) have called for comprehensive reliability studies. Yet, prior to the release of this pre-proposal, DEC failed to evaluate the impacts that 100% auction of allowances would have on existing generators and investors in new generation (new generators will be forced to vie for the same allowances as existing generators), thereby calling into question the ability of New York to meet its future energy needs.

"Haste makes waste, and DEC cannot waste this opportunity to create a well-balanced rule," said Donohue. "The only responsible method for determining the mechanism for distributing the proper level of allowances is to fully identify and assess the impacts that each approach is likely to have on costs to New York's consumers, system reliability and, fuel diversity."

-30-

The Independent Power Producers of New York, Inc. (IPPNY) is an Albany-based trade association representing the competitive power supply industry in New York State. IPPNY Members generate almost 75 percent of New York's electricity using a wide variety of generating technologies and fuels including hydro, nuclear, wind, coal, waste-to-energy, oil, natural gas and biomass.