



# Empire State's Energy Plan

SPUR TO NEW CONSTRUCTION

BY RICHARD KORMAN

» NEW YORK'S NEW governor, Eliot Spitzer, this spring rolled out an ambitious energy policy designed to cut greenhouse gases, improve efficiency and keep a lid on rising energy costs. A key part of the program aims to jump-start construction of new power plants. Since New York's expedited power plant siting system expired four years ago, only 250 megawatts of capacity has been added.

"The fact is, we're going to have to build more power plants," Spitzer recently told executives. "But we want to build clean plants, and we want to build them fast." Spitzer said he will propose a new law that fast-tracks only wind-power facilities, low- or no-emission new power plants, and the re-powering of old plants. A new Clean Power Supply Board will coordinate the process.

Much more needs to be done. New York must settle the details of a new siting law and decide how the state will eliminate barriers to long-term contracts to spur capacity construction. Also unclear is whether Spitzer will overhaul the entire deregulation regime in the state and whether deregulation was to blame for a lack of new capacity.

Capacity affects reliability and is the foremost concern. New York has a backlog of approved power plant projects sitting on the shelf, unable to get financing. Partly due to volatility of natural gas prices, New York City utilities have stopped offering to buy

electrical power from New York merchant power developers under long-term contracts. Instead, they buy power at market-clearing prices or import supply from other states. Gavin J. Donohue, president of the Independent Power Producers of New York, an Albany-based trade association, speculates that the utilities have stopped issuing requests for proposals because "they don't want to make a bad investment."

But long-term contracts are needed to finance the new plants with predictable and stable revenue, Spitzer said, and Donohue said they would help.

The New York State Public Service Commission noted the shortcomings of wholesale competition in sparking new merchant power plant investment in an announcement made in conjunction with Spitzer's speech. While competitive markets, where feasible, assist in assuring safe and adequate utility service at reasonable costs, the PSC stated, "Competitive markets may not automatically yield results that would further the public policy needs of the state regarding electrical supply infrastructure."





As a result, the PSC is inviting comments on barriers to long-term contracts.

Some believe the PSC's own policies are to blame.

Absent a statewide statute, New York State has been stirring up energy competition for more than 10 years on a company-by-company basis. After California's energy crisis of 2000-2001, New York instituted automatic procedures to mitigate price spikes, said Timothy Mount, an economist at Cornell University who studies electricity markets. "The effect in New York City is that prices are held down, but peaking units can't make a living," he said.

"My feeling is they are more worried about financial returns to incumbents than new capacity," Mount claimed. "I really hope Spitzer re-implements some planning for capacity to meet load."

A promising example, Mount continued, is a plan in New England under which the system operator would purchase power three years ahead of time.

Meanwhile, New York's relatively robust retail energy market will probably take a back seat to capacity concerns. Earlier in the year, the PSC disbanded the state's Office of Retail Market Development.

James Denn, a PSC spokesman, said the state is not turning back from retail competition. "The retail market in New York State has matured and is prospering and now is an opportunity to re-examine what we have accomplished," he said.

Craig Goodman, president of the National Energy Marketers Association, has in past years praised the state PSC for its policies. He said his association's members can help New York State meet its environmental goals and provide the long-term contracts that interest the new administration. "We urge him to do a minimum of damage to the competitive market," Goodman said, speaking of Spitzer.

To meet a goal of reducing energy consumption by 15 percent by 2015, Spitzer said, New York would decouple utility revenue from energy efficiency. To carry out the policy, the PSC announced that it will invite utilities to file revenue-decoupling proposals in ongoing and new rate cases, and that the proposals should provide a way to eliminate disincentives to encouraging energy efficiency. A rate "true-up" would be considered for each utility at least once a year.

## NewsFLASH

### WIND SETBACK

The West Virginia Supreme Court has reversed a circuit court dismissal of a lawsuit filed by homeowners that challenges a \$300 million wind farm, according to the *Associated Press*.

The Supreme Court sent the case back to circuit court for further proceedings.

Project opponents say the turbines would lessen their property values. Backers of the effort, NedPower and Shell WindEnergy, maintain that the property owners, if they sustain losses, could go to court after the turbines are erected. State utility regulators have endorsed the project.



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