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New Electricity Demand Forecast Warns of Continued Risk of Energy Crisis if Power Plant Development Lags

***Despite Loss of World Trade Center and Recession,
New York Still Needs Significantly Expanded Power Supply by 2005***

(New York, New York – March 27, 2002)--In an update of its *Power Alert* report issued a year ago on New York State's electric capacity needs, the New York Independent System Operator (NYISO) today called for the immediate approval of 3,000 megawatts (MW) of new generating capacity to avoid serious electricity shortages, improve air quality, facilitate New York's economic growth, and avert strong upward pressure on prices. The report says that Long Island alone needs between 750 and 1,000 MWs approved as soon as possible to reduce severe reliability risks and high prices.

The NYISO is a not-for-profit corporation established in 1999 to facilitate the restructuring of New York State's electric industry. In addition to administering the state's wholesale energy markets, the NYISO operates the state's high-voltage electric transmission system.

The updated report, *Power Alert II: New York's Persisting Energy Crisis*, calls for the addition of a total of 7,100 MW of capacity by 2005. The original version of the report, issued in March 2001, called for the addition of 8,600 MW by 2005. The 17 percent reduction in NYISO's call for new capacity reflects the impact of reduced electricity usage due to slowed economic growth over the past year. The loss of the World Trade Center had a more marginal impact on reducing overall power demand than is widely perceived, causing an immediate gross reduction of only 140 MW and a total net reduction of 90 MW, one-fifth the amount estimated in some early published reports.

"The bottom line is that New York continues to need significant additions of new generating capacity despite the temporary dampening of demand growth caused by the terrorist attack and the recessionary conditions of last year," said William J. Museler, President and CEO of the NYISO. "To ensure that New Yorkers have reliable, affordable, environmentally responsible sources of power to fuel the growth of the information age, we have to move fast in adding new capacity to the state's power grid."

Of the 7,100 MW of new capacity that New York State needs by 2005, the NYISO says that 2,000-3,000 MW must be located in New York City, which, like Long Island, is a "load pocket" – a region whose energy needs cannot be satisfied by imported electricity due to limited transmission capabilities.

"A year after our release of the original *Power Alert* report, New York remains headed toward a very serious power shortage unless it acts immediately to get new supply sited and actually built within its borders," said Mr. Museler. "This updated report is a warning call that we are far from out of the woods with respect to our electric supply situation."

In addition, the NYISO report also recommends the renewal of the State's Article X electric power plant siting law that expires on December 31, 2002 in order to maintain the growing momentum in approving new power plants.

“The State Siting Board—led by the PSC--has done an excellent job of streamlining the process under Article X to efficiently review and make determinations on applications for siting new electric power plants and as a result 3,680 MW of additional capacity were approved during the past year,” said Museler. “Given our continued need for additional power, combined with the changing development climate brought about by the recession and the Enron collapse, we cannot afford to have the siting process lose momentum by letting the Article X legislation lapse.”

Even though six major electric power plant projects have been approved, only one is actually under construction.

In an unexpected twist since last year’s report, statewide power supplies could also be adversely affected by one of the Northeast’s worst droughts in decades. The current dry spell could potentially reduce the water available for hydroelectric generators, as well as for the cooling and pollution-control needs of fossil-fuel generators.

“The drought is simply another factor that highlights how urgently we need additional generating capacity, not only for growth in demand, but for unforeseen events and losses of capacity as well,” said Museler.

The current situation results from a growing disparity between electricity demand and supply. Between 1995 and 2001 in New York, statewide demand for electricity rose by 3,280 MW, while generating capacity increased by only 1,720 MW. In fact, since 1999, the growing disparity between supply and demand has meant that the state has been unable to cover its 18 percent reserve requirement from in-state generating sources. If this trend continues New York can expect to see increased prices, decreasing reliability and a negative impact on the environment.

“What people often forget is that by adding this new supply largely in the form of technologically-advanced combined-cycle baseload units, we will reduce the adverse environmental impact of the electric system as well,” said Museler. “The new units are so efficient that their output will begin to displace that from the older, dirtier units as soon as we have enough capacity to meet our reliability needs.”

The NYISO also has confirmed that the long-range recommendations it made in *Power Alert* remain valid. These include:

- Transmission infrastructure upgrades and expansions, and distributed generation, should be encouraged through market design enhancements. At the request of New York State, the NYISO is preparing an assessment of the State’s transmission system, which will identify potential high-value transmission infrastructure projects that could increase reliability and market efficiency. This assessment will be completed by the end of 2002;
- The State must consider fuel diversity and the economics and adequacy of energy supply as part of its energy policy; and
- The State must examine the expansion of its natural gas transmission infrastructure to facilitate the development of additional natural gas-fired combined cycle plants. The NYISO has taken steps to implement this recommendation by jointly undertaking a study with NYSERDA to examine the impact of increased demand for natural gas on the state’s electric system and natural gas infrastructure.

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The New York Independent System Operator (“NYISO”)—www.nyiso.com— is a not-for-profit corporation established in 1999 to facilitate the restructuring of New York State’s electric industry. Based in New York’s Capital Region, in addition to administering the State’s wholesale energy markets, the NYISO operates the State’s high voltage electric transmission system. Last year, the NYISO’s market volume exceeded \$5.6 billion, more than all of the other Northeast markets combined.