BEFORE THE NEW YORK STATE SENATE
STANDING COMMITTEE ON ENERGY AND TELECOMMUNICATIONS

PUBLIC HEARING

TO CONSIDER AND ANALYZE THE LONG-TERM BASE LOAD ENERGY GENERATION AND TRANSMISSION NEEDS OF THE STATE OF NEW YORK

Town of Somerset
Town Hall
8700 Haight Road
Barker, New York 14012

September 25, 2012
11:00 a.m. to 3:00 p.m.

PRESIDING:

Senator George D. Maziarz
Chair

SENATE MEMBERS PRESENT:

Senator Thomas O'Mara

Senator Patty Ritchie

ASSEMBLY MEMBERS PRESENT:

Assemblywoman Jane Corwin

ALSO IN ATTENDANCE:

Representative of Senator Catharine Young's Office

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SENATOR MAZIARZ: Good afternoon, everyone, and thank you very much for being here.

I'm Senator George Maziarz, Chairman of the Senate Energy and Telecommunications Committee.

I want to thank my colleague, Senator Patty Ritchie from the north country, and also, Assemblywoman Jane Corwin, who will be representing, next year, the town of Somerset, and currently represents parts of Niagara and Erie County.

We are also going to be joined, he's just a few minutes away, Senator Tom O'Mara, and Senator Jim Alesi, who are on their way here.

We also have a representative from Senator Cathy Young's Office in attendance here today. I'm not sure if there are any other members that are represented here.

I know that Senator Kennedy was expected. We haven't heard back from his office yet.

I would just like to open, before I introduce my colleagues for their opening statements, I would just like to welcome all of you to the town of Somerset, the village of Barker.

This public hearing concerns the future of our state's energy generation and transmission

systems.

The witnesses who came from all over our state, as well as the assembled spectators, I want to thank all of you for being here.

In particular, I would also like to thank, and he is also going to be here to testify today, Dan Engert, the Supervisor of the town of Somerset, for allowing us to use this space.

Today, we sit almost in the shadow, literally, of the Somerset coal plant. This is the cleanest coal plant on the east coast, and both the former and current owners of this facility have poured tens of millions of dollars into making this plant environmentally compliant and state-of-the-art.

The same can be said of the NRG-owned coal plants at Huntley and Dunkirk.

New York is the envy of the nation because of its diverse fuel mix. We've an abundant hydropower, natural gas, oil, nuclear, coal, and every renewable energy imaginable. This diversity protects us from fluctuations of the market, and allows us to shift to the cheapest sources of energy to fuel our economy.

I strongly believe that maintaining this

diversity is vital to our state's energy future, especially if we are to hold down utility costs, protect robust reliability, and promote New York generation jobs.

There are some, of course, who disagree with this approach.

They have taken the ideologically inflexible position that coal is the enemy and should be eliminated from our energy portfolio. Their position is not a practical one, it's a political one.

It's sad that some groups, centered mostly downstate, who have never been to our community, never seen the plant here at Somerset, never met its workers, would embark upon a crusade to close this plant. The closing of this and other coal plants in Western New York would cause immeasurable harm, not only to the workers who depend on these jobs, but also to the towns, cities, and school districts who depend on the tax revenue to support these vital services.

Even though I do not personally believe that we should move away from the coal-fired generation, I can also see the forces arrayed against it, and understand that we may need a new plant to

revitalize and renew our upstate generating industry. It's clear to me that a solution that can lead to a future for Somerset, Cayuga, Huntley, and Dunkirk here in Western New York, Bowline in the Hudson Valley, Port Jefferson in Long Island, and dozens of other plants across the state, lies with the conversion to natural gas.

Natural gas prices are at an all-time low and are projected to stay that way for an extended period of time. This provides us with a unique opportunity to take advantage of an abundant resource to power our energy future.

The operators of Huntley, Dunkirk, and Somerset plants, who you will hear from today, are committed to our communities. They are willing to invest hundreds of millions of dollars more in their facilities to convert them to state-of-the-art combined-cycle natural gas plants. These will be the cleanest and most efficient in New York State, and ensure that generating capacity and jobs remain in our communities.

These companies need a partner in order to make the investment required. They need a hand up, not a handout.

The Governor's Energy Highway Initiative is a

great start and, hopefully, it will provide a road map to a real statewide solution to modernize and maintain our power-generating capacity.

I believe the elements necessary to provide these businesses with the assistance and certainty they need are, as follows:

We should allow power producers to access Excelsior job credits in order to encourage job creation;

We should create a clean-fuel repowering tax credit equal to at least 12.5 percent of the cost of construction or repowering costs for any generator who commits to and completes a project aimed at meeting the most current environmental standards and burning cleaner fuel;

We should allow projects that meet the environmental criteria outlined above to access the State debt financing through the New York Power Authority to lower construction costs;

Every regional economic development council should adopt as part of its regional strategy, a plan to maintain and encourage clean power generation;

We should sell inefficient and aging State generation assets, like the NYPA peaker plants in

New York City, and create the New York Clean Energy Innovation Fund to assist plants further with the cost of repowering;

We need to create a level playing field, and as such, we must take a critical look at current environmental exemptions enjoyed by some oil-fired plants that have negatively impacted the capacity market for all other upstate generators;

We also need to look at why we continue to apply crippling RGGI charges to our in-state generators but not imported power, and, of course, we should not make RGGI worse for our own companies;

Any excess revenue that is brought in from possible gas drilling, Power Authority operations, NYSERDA collections, or any other energy-related funds should be dedicated to the repowering and redevelopment of our energy-generating fleet.

The bottom line is, that every citizen of our state will benefit from a robust energy industry, and we must do all we can to support it and encourage it.

This industry currently employs over 10,000 New Yorkers, and we need to keep those jobs here in New York.

Before I leave the generation topic, let me

say one more thing, clearly, and unequivocally:

The Indian Point generating station, which employs 1,300 people, pays tens of millions of dollars in property taxes, and has a stellar safety record, must be a part of our energy future. As a nuclear plant, it produces no emissions, as well as 2,000 megawatts of reliable and clean energy for Downstate New York.

As a recent report by the Manhattan Institute clearly showed, closing this plant will rise energy prices, put thousands of families out of work, and produce no positive results.

Again, let's not allow politics to trump common sense.

Now, let me move on to talk about transmission.

Everyone in the energy industry knows that our state does not have a generation problem at the moment. We have a transmission problem. Everyone acknowledges that this problem has to be addressed, but on the method, we have reached -- on the method of addressing that, we've reached a fork in the road.

Some would like to simply run a giant "extension cord" from Canada down the Hudson River.

This project would create no jobs outside of the downstate region, bypass every generator on the way, and simply dump government-subsidized power into the downstate market. This will devastate upstate generators, eliminate thousands of jobs, and, according to the chief economist at the PSC, cause upstate electric rates to increase while city rates decline.

The developers claim the cost will be roughly $2 billion, and the ratepayers will not be asked for a dime.

I just don't think this is true.

Two years ago, NYPA built a power line across the Hudson River, from New Jersey into New York, a distance of only a few miles. The cost, nearly $1 billion.

Yet we are told that this project, running under the Hudson River for 300 or so miles, will cost only 2 billion.

Con Edison says that this project will cost 11 billion, not 2 billion.

If they are correct, as I believe they are, who will pick up the other 9 billion? My guess is that you and I will.

This project will also try to use

eminent domain to take away New Yorkers' property and force them from their homes in Stony Point, New York. This project is being pushed by Transmission Developers, Inc., and is called the "Champlain-Hudson Power Express."

The plan I and others prefer takes the opposite course. It would invest billions into our state's economy, and create more than 30,000 construction and permanent jobs. It would relieve existing transmission bottlenecks which strand 1,500 or more megawatts of power upstate. This project would relieve this congestion, and allow generating stations upstate, hungry to produce power, to access customers in a downstate region hungry to consumers.

Just as importantly, this project would allow us to maintain and expand upstate generation, creating more jobs and protect our fragile tax base.

This project, proposed in the Governor's "Energy Highway" RFI, called "Transco," is a real solution to our energy transmission needs, not a Band-Aid attached to an extension cord.

New York needs this project, and I strongly support it.

Some might ask the question: Why not do both

projects?

The answer to that is simple.

First, the economic viability of some of the Transco upgrades, particularly those that might impact Western New York, would be fatally damaged by the installation of the Champlain-Hudson power line.

In addition, Hydro-Québec, the State-owned utility backing CHPE, has 10,000 megawatts of additional power under development that would need more customers, and no one has more customers than Downstate New York.

Mark my words, if the PSC approves the Champlain-Hudson line, it won't be the last line under the Hudson. The result will be a complete dependence on Canadian power, devastation of our power-generating industry, a gigantic loss of jobs in New York, and higher energy rates for New Yorkers.

No, we can't do both; it's one or the other.

And, in that case, we must choose investing in New York over investing in Canada.

That is why I have proposed Senate Bill 7391, a bill that prohibits projects like CHPE from using eminent domain. I believe that will effectively kill the project.

Over the last two years, I've been proud to work with Governor Cuomo to solve some of our state's biggest energy problems. These include developing a new Article 10 siting law and creating a permanent placement for Power for Jobs to recharge New York programs.

Critics said it couldn't be done, but working together with this governor, we did it. Now we face transmission and generation challenges that affect each and every New Yorker.

I know that working with Governor Cuomo and the Assembly, my colleague Assemblyman Kevin Cahill, the Chair of the Assembly Energy Committee, these problems can also be solved, and I look forward to getting started. I am willing to negotiate and compromise, but only if the resulting policies protect our in-state generators and the workers who depend upon them, and strengthen, and not weaken, our communities.

The time for talk is passed, the time for action is now. And, going into the next legislative session, this "energy highway," working again, along with Governor Cuomo, is going to be our top priority.

I do want to thank, and also introduce,

Senator Tom O'Mara, who arrived.

I said you were going to be 10 minutes late, and we're right on point. So --

SENATOR O'MARA: Perfect.

SENATOR MAZIARZ: With that, I would like to ask my colleague Senator Ritchie to say a few opening comments.

SENATOR RITCHIE: First of all, I would just like to start off by thanking Senator Maziarz for holding this important hearing today, and those of you who are going to testify.

This really is an important issue for all of New York State.

I represent an area that has three nuclear facilities located in it, along with a number of other generating facilities, including a large steam plant. So, it is my priority to put as many people back to work in my district as possible, along with putting back as many people in the state of New York back to work.

So, I look forward to hearing the testimony today, and listening to Senator Maziarz, who's done a lot of work on this issue, to make sure that we're making the correct choices, we're putting as many people back to work here, and we're doing what we

can to lower energy costs.

SENATOR MAZIARZ: Thank you, Senator Ritchie.

I now ask, Senator O'Mara.

SENATOR O'MARA: Thank you, Chairman.

And thank you for speaking for 10 minutes so that I could get here to get a testimony before it begins.

But, I share Senator Maziarz's concerns about protecting and promoting the viability of our own New York State power industry, so that we have our own local source of energy, and not more reliance, further reliance, upon out-of-state, and in fact, out-of-country generation.

So, I look forward to your testimony today, and comments on this very important issue on our energy sources here in New York State.

Thank you.

SENATOR MAZIARZ: Thank you very much, Senator.

And now our colleague on the Assembly side of the aisle, Assemblywoman Jane Corwin.

Assemblywoman.

ASSEMBLYWOMAN CORWIN: Thank you very much, Senator, and thank you all for who -- came today to testify.

As you can see, I'm not a senator, and this is a Senate hearing, so I very much appreciate the invitation by Senator Maziarz to include me in this very important meeting and discussion.

As he had stated earlier, this part of Niagara County will soon be becoming part of my district, but have -- I have been, for the last four years, representing other parts of Niagara County.

And, I can tell you firsthand, that the jobs that are created by this power plant here in Somerset are critical to the economy here in Niagara County and Western New York. And any kind of decisions -- policy decisions that are going to be made regarding energy in New York State, aside from having a huge impact on the entire New York economy, certainly has a dramatic impact on what's happening here in Western New York.

I just was at a business meeting this past week, with business people from around New York State, and I can tell you the big conversation that I heard, was discussing energy and energy costs for businesses.

Particularly manufacturers, we've had a big push to increase manufacturing in New York State,

and, certainly, the cost of power is a huge part of that equation.

So, no one understands more than I do how important it is that we have low-cost power for our businesses to be able to create these jobs.

We also have to make sure that those jobs are created here in New York State, and certainly, just -- without having to read the documentation, it just doesn't make sense to be pulling power in from Canada, when we've got power plants throughout the state, with people who have the expertise, the knowledge, and the ability to be able to provide that energy at a lower cost to our business owners and to our ratepayers.

So, I look forward to hearing the testimony.

I -- certainly, if someone can explain to me how this Champlain Express makes sense, I -- I'm willing to hear it, but, right now, I don't see where there's any common sense in that at all.

But, I do look forward to the testimony today.

Thank you.

SENATOR MAZIARZ: Thank you very much, Assemblywoman.

I do want to note, the Assemblywoman just

recently did tour the Somerset generating station also. I saw that in the local media.

I do want to just acknowledge -- he's going to be testifying in the third spot, but I do want to acknowledge, and just thank, I did that in my opening remarks, but he wasn't here at the time, the Supervisor of the town of Somerset Dan Engert, who's arrived.

Dan, thank you very much for allowing us to use your facilities here today.

Our first witness is Ray Long from NRG Energy.

Ray, thank you very much.

RAYMOND LONG: Thank you, Senator.

Senator Maziarz, and members of the Committee, my name is Raymond Long. I'm the vice president of government affairs for NRG Energy here in New York.

I would like to begin by thanking Senator Maziarz and the Committee for your leadership on energy issues, and for taking the time to hold this hearing today.

As you may know, NRG is an owner and operator of electric-generation facilities nationally. Our portfolio includes generation fueled by natural gas,

coal, and oil. We own two nuclear reactors in Texas.

Our thermal division owns and operates combined heat and power facilities that serve municipalities and businesses throughout the country. Additionally, NRG is the largest developer of electricity from solar technologies nationally.

We're the partners -- we have partners in four wind farms.

We serve over 1.8 million customers -- retail customers in Texas and the northeast states, including New York.

And we are investing heavily in electric-vehicle infrastructure technology through our eVgo company, which is creating the nation's first privately funded electric-vehicle charging system.

That will be my own commercial for the whole company. I'll stick to New York from now on, out.

Here in New York, NRG purchased five electric-generating facilities in 1999, located in the communities of Dunkirk, Tonawanda, Oswego, Queens, and Staten Island.

We own nearly 4,000 megawatts of installed capacity in New York, which is enough to power

approximately 3.2 million homes.

These facilities have provided reliable, competitive, and clean power to New York customers for many years. NRG plants have among the highest availability factors in the industry. The units at each facility are bid into the New York Independent System Operator, and provide energy, as well as reliability services, such as voltage support, reserves, and load-following capabilities.

Moreover, these facilities play a large and important role in their communities, providing significant property-tax payments, jobs, and contributing to local economic activity from goods and services procured to keep the facilities in operation.

In addition, NRG employees, individually, and collectively, contribute to the community in many other ways, large and small, as friends, volunteers, customers, individual taxpayers, and neighbors.

Together, NRG plants in New York pay more than $34 million per year in property taxes, and generate an estimated $207.8 million of additional economic benefits from goods, services, and downstream jobs.

And those numbers are annual.

In my testimony, I have provided a breakdown of benefits, per plants, which I'm going to skip over as part of this testimony -- my verbal testimony.

Over the past few years, NRG has taken steps to operate its facilities in New York as efficiently and cost-effectively as possible, to remain competitive in the changing marketplace, and to comply with evermore stringent environmental regulations. We have invested approximately $400 million at Dunkirk and Huntley to install state-of-the-art emission-control equipment.

These two facilities comply with New York State and federal environmental regulations, and they are among the cleanest coal facilities in the United States.

Second, each of our facilities has cut costs to ensure that we are as competitive as possible in the marketplace. This is especially important for coal facilities, like Huntley and Dunkirk, which, traditionally, have higher fixed costs, and reducing those costs as much as possible have made these facilities more competitive.

Finally, NRG has proposed repowering initiatives at various facilities, to replace the

older equipment with more efficient, cost-competitive, and cleaner technologies.

We have submitted the following three initiatives to the Request for Information issued by the Governor's Energy Highway Task Force:

The first one I'll mention is our Astoria project in Queens, New York, which would, essentially, replace the existing plant with four natural gas combined-cycle units.

The second proposal that we made is at our Huntley facility in Tonawanda, New York. We would, essentially, run a natural gas line in the facility, allowing us to be able to co-fire natural gas and coal, which would provide both economic and environmental benefits to the facility.

And then, finally, at Dunkirk, we've proposed a natural gas combined-cycle facility there.

And under this proposal, NRG would bring a natural gas line into the existing facility in the near term. A new natural gas combined-cycle plant will then be constructed, with an approximate commercial online date of 2017, at which time the coal units would be permanently retired.

This is the only project proposed in New York to date that lays the groundwork to phase out an

older coal plant and replace it with new state-of-the-art natural gas facility.

The environmental benefits from this proposal include a 100 percent reduction in mercury emissions and 99 percent reductions in sulfur di- -- oxides and nitrogen dioxides.

It creates 500 construction jobs and preserves 27 permanent positions, while preserving the tax base for the Chautauqua County community.

This project has very strong support from the Western New York community, including the entire delegation of state, county, and local elected officials, which is led by Senator Cathy Young.

Now, let me say a few things about the Governor's Energy Highway Task Force.

NRG applauds the Governor for taking the initiatives to spearhead a comprehensive process to upgrade and modernize New York State's electric power system. Clearly, this initiative has the ability to provide consumers in New York with a variety of benefits, including:

Growing the New York economy by investing in infrastructure that would create jobs and economic activity;

Improving the environment by repowering

New York's generation fleet, and meeting growing energy demand downstate by developing energy-generation resources.

Through a combination of projects, like the repowering of older generation facilities and targeted in-state transmission upgrades that will reduce bottlenecks and allow for the improved flow of power, New York can achieve the greatest return for its investment dollars for many years to come.

In-state projects, like those proposed by NRG, will generate:

First, excellent, well-paid jobs -- permanent jobs and construction jobs for New Yorkers;

Two, millions of dollars of tax revenues for host communities;

Three, millions of dollars of ongoing economic activity in the form of payroll, and goods and services procured to serve these facilities in New York;

Four, huge environmental benefits;

And, five, more price-competitive sources of energy for New Yorkers.

Now, the recommendations from the task force of the next announced step in this process.

It is critical for these projects to become a

reality, that the task force initiates a process to competitively award long-term contracts.

As we have seen in every major project developed in New York, and with few exceptions, everywhere in the United States, long-term contracts have been the key for developers to secure the financing necessary to move a project forward.

There are several examples of when New York, with NYPA, Con Ed, and LIPA, has entered into long-term contracts for generation projects. There are many ways to structure these agreements; and, therefore, to manage costs by sharing the risks between the developer and the contracting entity.

But the important thing is, that there's a financeable contract for the desired project.

Let me say a few words about the Champlain-Hudson Power Express project.

This project, backed by Transmission Developers, Inc., and The Blackstone Group, is challenged on a number of different levels.

First, the project violates the spirit of the competitive energy and capacity markets established in New York. The transmission line has one entry point in Canada, and one exit point proposed in

Queens. This highway, without on-and-off ramps, leaves no realistic ability for New York generators to utilize this line; and, therefore, only heavily subsidized generation from Canada will be able to access the New York City market.

Additionally, the addition of up to 1,000 megawatts of power from Canada will further threaten the viability of in-state generation.

Second, the Blackstone-TDI project will not create any meaningful jobs for New Yorkers. Although the project would allegedly create some short-term construction jobs, these are short-term, and they're insignificant compared to the jobs created by in-state generation projects that I've already discussed.

And, finally, the Blackstone-TDI project would likely escalate the timing of the closures of existing in-state generation facilities by artificially suppressing wholesale prices below sustainable levels.

As you know, upstate plants are already economically challenged due to low natural gas prices, low capacity prices, and higher compliance costs.

The development of Blackstone-TDI would

likely contribute to the shutdown or mothballing of many additional generating units, further hurting local economies and increasing New York's unemployment.

There's been a lot of interest about the mothballing process, and what's been going on with our Dunkirk facility. I would like to make a few comments about that.

On March 13th, NRG filed what is commonly referred to as a "mothball notice" for the Dunkirk facility with the New York Public Service Commission.

This notice was the culmination of several months' work in analyzing the economics of this facility.

The bottom line, was that Dunkirk was losing a significant amount of money, and that trend is expected to last for the next few years.

The drivers for this poor economic outlook are low natural gas prices, low wholesale energy and capacity prices, and the high fixed costs of the Dunkirk facility, which is similar to all coal generators.

The mothball notice, contrasted with the retirement notice, does not preclude Dunkirk from

returning to service should natural gas prices rise and energy and capacity prices support bringing the plant back.

The conclusion of NRG's filing with the Public Service Commission, was that two of the units at Dunkirk are needed for reliability for a period of nine months, and one of those two units may be needed for an additional two years.

These reliability agreements may actually form a bridge from the old Dunkirk units to the new natural gas combined-cycle facility I discussed earlier.

Under this scenario, the units under the reliability agreements would keep part of the Dunkirk facility in operation, providing power, jobs, and taxes, and other economic activity to the community in the near term. The new natural gas combined-cycle facility would be developed after the award of a long-term contract, potentially through the Governor's Energy Highway Task Force.

The end result would be a facility fully transitioned from coal to natural gas, while continuing in operation, continuing to employ people, and continuing to pay property taxes and to support the community.

To get to the current reliability agreement, National Grid and NRG entered into an agreement for Dunkirk Units 1 and 2, for the period of September 2012 through May 31st of 2013.

As of early September, Dunkirk Units 3 and 4 were taken out of the market and are currently being mothballed.

As a result, NRG has been working with IBEW Local 97 on reducing staff responsibly at Dunkirk. At this time, there are no layoffs anticipated.

Regarding the PILOT agreement with Chautauqua County IDA and the taxing jurisdictions, NRG is currently making payments consistent with the PILOT agreement. Reductions to the PILOT agreement are not expected until 2014.

We have seen other companies file similar mothball notices throughout New York for what we suspect are, essentially, the same reasons.

NRG's other coal facility, Huntley Power Station in Tonawanda, also faces economic -- challenging economic situation, and we continue to look for ways to improve the competitiveness of both Huntley and NRG's Oswego oil facility in the wholesale market.

What differentiates Oswego from our coal plants, is it has lower fixed-cost structure and a very large capacity value; however, we must continue to reduce our operating costs there as well in order to be viable in the long-term.

I'm just going to have a few conclusions, and then I'll sum up.

Regarding the energy needs of the state, including Western New York, Senator Maziarz championed the development of the law for the Recharge New York Program and the re-enactment of the Article 10 power-plant siting law, breaking many years of gridlock on both issues.

Additionally, during the State budget process, Senator Maziarz, the Committee, and the Senate colleagues continuously guarded against increased taxes and fees on the energy industry, and, importantly, on their impact to Connecticut consumers.

Additionally, the Senator has announced several bills designed to help address the state's economy and future energy needs.

We need to capitalize on opportunities to revitalize New York State's economy from the inside out, and I would like to thank Senator Maziarz and

the Committee, once again, for demonstrating this commitment to the best interests of New York through this legislation.

And, in particular, Senate 7391, which you already mentioned, would limit the use of eminent domain only to activities that achieve public-use benefit or purpose that maximizes benefits to New York State.

This legislation prevents outside entities from using eminent domain to access our waterways, land rights-of-way, and ultimately, take unfair advantage of New York ratepayers.

Additionally, the following proposals will similarly assist with the repowering of New York's existing generation infrastructure, which will provide significant local and state jobs and economic benefits:

The Excelsior Jobs Credits program, which supports generation jobs through allowing power plants to access the Excelsior job credits;

Clean-fuel repowering tax credit, generation facilities that meet the environmental standards established in the 2011 Power New York Act would be eligible to take at least a 12.5 percent tax credit on necessary improvements;

And, finally, low-interest debt financing. This program allows repowering projects that meet strict environmental standards to access low-interest debt financing though the State of New York.

It is important to note that the most cost -- the most effective means to getting power plants in New York repowered is to issue long-term contracts.

Investors and banks currently want to see revenue streams for these $400-plus million projects in energy infrastructure. Tax credits and low-interest financing go a long way to lowering the overall costs of these projects and, thus, lessening the impact to the markets and ratepayers.

Long-term contracts ensure that developers can get financing, which is the key to getting steel in the ground.

And, thank you for the opportunity to speak here today, and I would be happy to take any questions.

SENATOR MAZIARZ: Well, thank you very much, Mr. Long. We appreciate your testimony here today, and much of it was right on point.

I have just a couple of questions regarding the two Western New York plants, Huntley and

Dunkirk.

And I know that if Senator Young were here, I know Senator Young has worked diligently with the Governor's Office, with yourself, on the issues involving -- particularly involving Dunkirk, but of all upstate generators.

But, I just want to clarify what you said.

Basically, your application to mothball Dunkirk is only a transitional direction, let's say, to transform Dunkirk from a coal-fired plant over to a natural gas-fire plant.

So, it's not about closing Dunkirk and mothballing it permanently.

Is that an accurate assessment?

RAYMOND LONG: Let me -- let me put it in my words, Senator, and see if this makes sense.

SENATOR MAZIARZ: Okay.

RAYMOND LONG: The decision to mothball Dunkirk in the proceeding that we went through with the Commission was based on the economics of the facility now, and the decision was based solely on those economics.

The decision to mothball, rather than to retire, was based on our belief that, ultimately, natural gas prices will rise, or equalize, depending

on how you look at it, providing the potential opportunity to bring those units back.

Separately from that, was the proposal that I mentioned to the -- that we made in the response to the Governor's Energy Highway Task Force.

That proposal involves building a natural gas line into the existing facility now, and then building the new natural gas combined-cycle facility on site.

Both of those initiatives are contingent on having some sort of a financing mechanism, a long-term contract, to move forward.

SENATOR MAZIARZ: Right, right.

RAYMOND LONG: So, it -- absent that process and absent a contract or a path forward, the plant will stay in mothball, and then, hopefully, come back when prices equalize.

SENATOR MAZIARZ: Thank you.

The other question was about Huntley.

You know, the perception of Huntley is -- and I grew up in north Tonawanda, right across the river. You know, I remember the Huntley plant when I was a young kid.

The perception is that Huntley is an old plant; and, therefore, that it's not very

environmentally efficient, and that NRG may be looking for a pathway to close Huntley.

And that is not the case at all, is it?

RAYMOND LONG: No, Senator.

You know, we -- when we were going through this process at Dunkirk, we were, at the same time, naturally, looking at all of our plants, and how economically viable they all are.

Clearly, both coal plants are financially distressed right now. Huntley just a little less so than Dunkirk at this time.

So, in our vision, it didn't make sense at that time to file a mothball notice for Huntley either.

So, no, our intent is not --

SENATOR MAZIARZ: Huntley, right now, meets every environmental, every DEC, standard?

RAYMOND LONG: Yes, it does.

And to your point, Senator, and as I mentioned in my testimony, at both of those facilities, within the last three years, we invested 200 million at Dunkirk, 200 million at Huntley, put on all the back-end emission controls that were required.

These are among the cleanest plants in the --

coal plants in the country right now.

If natural gas prices hadn't dipped down, coal plants would still be more viable.

SENATOR MAZIARZ: Thank you.

Senator Ritchie?

SENATOR RITCHIE: Just a couple of questions.

If those two projects aren't pursued, what will that do to the grid if they're not pursued in that area?

RAYMOND LONG: In other words, if -- at the Dunkirk project that I mentioned, if we don't pursue it, it's hard to say what will ultimately happen.

As the Senator mentioned, our intent is not to close either plant.

We could have filed retirement notices to do that, and we chose to file mothball notices instead, believing that the markets will equalize.

Assuming that the markets equalize at some point in the future, we'll reevaluate and, potentially, bring those units back at that time.

SENATOR RITCHIE: And you mentioned the Oswego plant.

Could you tell me what challenges you have there?

RAYMOND LONG: It's essentially the same

thing. You know, it's what we're all dealing with: Looking at fixed costs of our facilities. Looking at where capacity markets are at -- wholesale capacity markets are at.

The difference between Oswego -- quite frankly, the plain difference between Oswego and our coal units, is it has much lower fixed costs at those facilities. The economics are just completely different there than they are at Huntley or Dunkirk.

SENATOR RITCHIE: Thank you.

RAYMOND LONG: Thank you.

SENATOR MAZIARZ: Senator?

SENATOR O'MARA: Maybe I missed it, but what is the -- your projected expense for converting the Dunkirk facility to natural gas?

RAYMOND LONG: Just the natural gas conversion will be under $20 million.

I don't have an exact figure for you right now, but we think 20 million is the absolute high end of what the conversion would cost.

SENATOR O'MARA: Okay. And what do you think the price of gas needs to be to make that viable for you?

RAYMOND LONG: We think that, right now, the benefits to converting to natural gas are in

existence now.

With gas prices being as low as they are, it would provide that -- those units that were converted the opportunity to co-fire natural gas with coal, giving it a distinct economic advantage over where it's at now.

So, we think the opportunity is there now, Senator.

SENATOR O'MARA: Now, at your facilities, do you have a PILOT in place for each facility for the real-property tax payments?

RAYMOND LONG: We do, yes.

SENATOR O'MARA: And at Dunkirk, I think you mentioned that you wouldn't be looking at any PILOT reductions until 2014?

RAYMOND LONG: Yes.

SENATOR O'MARA: Now, what would come into play at that time that might affect your PILOT payments?

RAYMOND LONG: The -- at -- our PILOT at Dunkirk specifically stipulates that if the -- if units close at the plant, that the PILOT would be -- the PILOT amount would be reduced on a percentage basis commensurate with the closures of those units.

In 2000 -- 2014 taxable year is the next

opportunity we have, under the payment schedule, to reduce the amount that we pay, based on the mothballing of the two units that I mentioned.

SENATOR O'MARA: All right, and can you tell us what that change might be?

What you're paying now to the communities, and what you would be paying with the reduction in 2014?

RAYMOND LONG: I have the numbers, Senator. I didn't bring them with me today.

I'd be happy to follow up with you, Senator, and provide those to you.

I can tell you that it's -- the two units that are under agreement with the public -- with the Public Service Commission now, are less than 50 percent of the output of the facility.

So if the -- the rough reductions would be more than 50 percent.

SENATOR O'MARA: Okay.

RAYMOND LONG: And I will get you those numbers.

SENATOR O'MARA: And do you know as to where your PILOT stands in relation to what a 100 percent taxation would be without that?

RAYMOND LONG: I don't know.

SENATOR O'MARA: No?

RAYMOND LONG: I can get that for you as well.

SENATOR O'MARA: All right.

Do you have similar reduction periods for the other facilities that might come into play like the Dunkirk scenario?

RAYMOND LONG: I don't believe -- I don't believe that the Huntley PILOT has that same reduction stipulation in it.

I will check on that as well.

SENATOR O'MARA: Thank you.

Thank you.

SENATOR MAZIARZ: Assemblywoman Corwin?

SENATOR RITCHIE: I have just a quick question.

You didn't talk too much about RGGI, or the impact that RGGI's had on your business.

Can you just talk a little bit about what your experience has been, and how that's impacted your energy costs, and the problems that you're having?

RAYMOND LONG: To be honest with you, I have not spent a lot of time on RGGI.

I can tell you, I know that some of the folks

who are coming behind me are planning on speaking specifically about RGGI.

I can provide you with some follow-up information, where -- what our company's position on it is. But --

SENATOR RITCHIE: All right, that would be fine. Thank you.

RAYMOND LONG: Thank you. I appreciate it.

SENATOR MAZIARZ: Thank you very much, Mr. Long.

We appreciate that, and we appreciate the business that NRG is invested in New York.

RAYMOND LONG: Thank you.

SENATOR MAZIARZ: Thank you.

RAYMOND LONG: Thank you all.

SENATOR MAZIARZ: Our next testimony is, Jerry Goodenough, the plant manager of the Somerset plant.

JERRY GOODENOUGH: Good afternoon, Senator.

SENATOR MAZIARZ: Good afternoon, Jerry.

JERRY GOODENOUGH: Thank you very much, and I sincerely appreciate the opportunity to talk to you about my businesses and about energy policy. I think you're going to find that I'm passionate about both.

I have written testimony, I've given you a bio of myself, some facts and information concerning the businesses.

I could echo a lot of the comments that my colleague Mr. Long made ahead of me, as far as jobs and economics locally. I think this town knows the impact of this plant locally.

I would like to spend my time today talking, and echoing some of your opening comments, Senator. They were spot on as far as what our businesses are facing currently.

The decisions that you and your colleagues are going to have to make down the road on energy policy are going to be all about balancing issues; issues that are emotional to some folks, very hot topics. In fact, some folks would like to turn these issues and unbalance the equation and make everybody focus on just one particular topic.

We need to look at local economic issues, state economic issues. We need to balance the environment, we need to balance reliability and performance of the units.

I hope today the information that we all are going to provide to you will help you with these decisions.

I'm going to talk about four or five different issues facing the businesses today, some current programs and regulations, some initiatives down the road, and then, a project that I would like to talk to you about currently at Somerset.

Each time I talk about these issues, I want to go back to this theme of: Do they balance everything that we need to look at? Are they balancing economics, environmental, the reliability of the system properly?

First conversation I would like to have revolves around the plants that I run, and the decisions we've made to balance those issues.

I've been lucky enough to work at the facilities for 24 years of my career, in various different aspects of the job. We've had three different ownerships.

Throughout the history I've been there, ownership has been very concerned about the stakeholder relationships we have with our shareholders, with the local districts, with the environment.

Fortunately, ownership has invested tens of millions of dollars into these plants, well ahead of any required regulations.

It's very interesting to me, the dynamic and the passion behind the folks running these plants for the environment.

I've got a quick story.

Four weeks ago, I had a tour at Somerset, you know, right next door here. And, we walked in with the tour, into the control room, and I could immediately tell something was going on. I saw the emotion on the folks' face running the plant.

When the tour left, I came back, and I said, "What's going on?"

We happened to be doing a rata that day.

It's a test. That, an outside firm comes in to test the accuracy of the emissions-monitoring equipment. They need to measure the same numbers that we're measuring.

We were failing that rata. That's not good.

And I said: What's going on? You know, we're tight. You know, we have state-of-the-art equipment. What's happening?

And they said: The test folks can't measure the mercury in our stack. We have no mercury going up the stack, their instruments don't go low enough.

We've actually had to back off the controls we're using in order to produce the mercury so that

we can pass this test.

So, two interesting things there:

One is, to show -- we only put about 10 pounds, to 11 pounds, of mercury a year out of this facility. It is one of the cleanest facilities in the state.

But second of all, these guys, they only had to do this for three hours. And they were concerned, that for three hours, they were turning down the equipment.

That's how passionate they are about balancing the environment and the decisions we make.

We get that. We understand what it takes.

What we don't understand, is how there's plants inside New York's borders that don't have to follow those same rules.

There are plants running today that are less economic than the plants I run, that are way less environmentally friendly, that are allowed to run under exemptions from DEC and EPA. These are air exemptions and water exemptions, and we just don't understand that.

Senator Maziarz, I very much appreciate your opening remarks bringing that subject up.

The next subject I want to talk to, about

current regulations.

And, Assemblywoman Corwin, I'm glad you asked that question on RGGI.

I don't think we should be here today discussing the merits of CO2 regulation. That takes scientists and a bunch of other folks, but I do want to talk about this program.

There is some underlying outcomes of this program that some folks may not realize.

So, the RGGI adder, just for the plants I run, for the year 2011, we represented 13 percent of their revenue brought into New York. Just two facilities. Somerset alone is 10 percent.

So, it is a big burden to these businesses. What happens is, that that causes these plants to run less. It's part of the dispatch costs.

Now, certainly, the driver right now is natural gas, and the low prices we're seeing. However, the CO2 adder is also hurting these plants; therefore, there's less energy produced inside of New York; therefore, imports are increased, imports from plants outside of New York that do not participate in this particular program. These plants are less economic than the plants I run, and they're less environmentally friendly. So not only

are they running, but they've increased in their capacity. They do not have scrubbers, they do not have SCRs, so, actually, emissions are increasing as a result of this program.

So I again echo your comments, this is not a good program.

I believe at a minimum, if we go back and we look at, "Are we balancing the equation correctly, looking at the environment, looking at economics, looking at reliability, looking at what's best for New York State?" this program does not do the balance. We need to levelize that playing field.

And I've also been an advocate, believe it or not, maybe one of the few coal plants out there, that this needs to be a federal program, so that all states are involved in this program.

The next initiative I would like to discuss, I don't think I need to spend a lot of time on. I mean, the board that you've put up, discussing the -- or advocate -- or, not advocating for the Central Hudson-Champlain project, is enough said.

I also echo your comments, that I don't understand how this particular project could still be put forth in New York. It doesn't add jobs, we can't connect to it. It's just -- it's not good

business for New York.

And I appreciate the fact that you've all been out in front, of educating folks on how this isn't a good program for New York.

The initiative put forth by the Governor, the "energy highway," that makes a lot of sense.

You mentioned earlier that we don't have a generation problem in New York. We have a transmission problem.

That's perfect. That's what we have. We need to fix that.

If we can get that fixed; if we can update, and add to the aged transmission system, not only does that allow local business in Western New York to compete at -- with environmentally friendly projects, lower economics, send electricity down to New York, but it also opens up the avenue for the untapped renewables that are in Western New York.

We can help with the renewable-portfolio standard put through by the Governor. It -- it adds jobs, it keeps the money local. It's a good piece of legislation to get behind.

And I appreciate the efforts of all of you getting behind that.

Taking a look at the plants that I run, going

back to the equation of balancing all the -- all the issues in front of us, we realize, that no matter how hard we work at reducing costs, at increasing our performance, at getting better coal deals, at getting better rail deals, that there's outside forces acting on this business that we can't control to keep things moving forward.

We echo the Governor's comments that he put out in the summer, indicating that there is indeed a gap of time that is currently present in the energy grid that renewables can't fill.

His proposal was to fill that gap with, purely, just natural gas plants.

I get the momentum behind natural gas. It's low cost, it's plentiful.

I'm very concerned about fuel diversity.

You know, if you sit down with your portfolio manager, and you tell him you're going to invest in just one particular stock or bond, or in just cash, he's going to just shake his head.

And that's the same investments we need to make in New York. We cannot invest in just one fuel source. We need to keep the diversity structure that's been set up in New York, something that we've all been proud of, alive and well.

What the -- the proposal I have for the project at Somerset, is a project that we've worked hard, as a community, to promote.

I want to digress real quick again, and just mention, Dan Engert and John Syracuse, and their leadership that they've provided locally.

This community has gone through some very difficult times. This community has learned the hard way that they are part of this business.

There was some tension a few years ago.

Dan and John fought their way through that tension, and fully understand how this business impacts this community. And, they've had to make some hard decisions, but it's worked.

And now they have a group of folks in this community that want to help this business. They want to see it survive.

They've been working with the plant manager at this particular site, Jack White. They're on a regional sustainable council.

We've been working with the local union leadership.

And we've gotten behind a project that we feel is a good mix for the Somerset plant: We'd like to add a biomass facility to the plant.

This particular region thrives on the energy-production industry and the agricultural industry, and this is an excellent balance for both of them.

Farmers are behind this project. We have folks that will help us -- will have helped us to develop the economic model for the capital.

We've done these projects before.

I've been involved with a plant on Seneca Lake, Greenwich Station. We did biomass there. It worked well. We fired up to 10 percent of the megawatts with biomass product. We know how to do this.

The funding for a project like this would not nearly be the size needed for a full natural gas conversion.

I understand, Senator, the topic of the moment is to really look at natural gas conversion. And I've spent a lot of time doing that.

The economics aren't necessarily viable right now to do that, but I'm not opposed to a project like that. I just think, right now, this biomass project fits better. Plus, it protects the diversity of coal, going forward.

I cannot foresee this grid having 60, 70,

80 percent fired natural gas, whatever number we're striving for, and then the gas staying at two and a half dollars.

I think we'd be in a very big economic bind if we got there, and we did not have fuel diversification left.

We think we can get this funded through programs like the renewable energy credits that NYSERDA offers.

We did win an auction earlier on in the Greenwich project. We know how to compete in that.

We feel we can get some NYSERDA funding.

And what I'd also like to promote, is, I feel like we should get some of the RGGI funding back into this district. We've spent over $35 million just on the RGGI tax, and I feel like we should get some of that back in, for green jobs, for green programs, in this district.

I want to just finish my comments, and then open up for questions.

The lack of a structured energy policy, going forward, has not necessarily helped any of us invest lately.

You guys have a tough job in front of you to try to put some clarity to that.

I would advocate that you continue to look and balance all the issues that were faced: local economic, state economics, the environment, the reliability of the grid.

I'm sure you also have to balance all the political issues associated with that.

I struggle with that a little myself, but I'm starting to learn that that's also an important factor.

And, if you have comments, questions, if you need to reach out for any knowledge base, you know, I'm there to help.

This community understands what they need to do to help out.

And, we're all advocates for this.

SENATOR MAZIARZ: All right, thank you very much, Jerry.

JERRY GOODENOUGH: Yes, sir.

SENATOR MAZIARZ: We appreciate you being here today.

What are the current employment levels at Somerset right now?

JERRY GOODENOUGH: Somerset is just under 100 folks. Around 97. That's a combination of IBEW and salaried people.

SENATOR MAZIARZ: Okay.

And I asked this question of the previous -- the previous speaker.

Somerset currently, I assume, meets or exceeds every federal or state --

JERRY GOODENOUGH: Yes.

SENATOR MAZIARZ: -- DEC, EPA, standard?

JERRY GOODENOUGH: Yes.

SENATOR MAZIARZ: And has for some time.

What --

JERRY GOODENOUGH: Has for some time.

And, with one small tweaking of a piece of equipment, we feel we can meet all future regs that have been put out there.

SENATOR MAZIARZ: What's been the total investment by the -- I realize the current owners only owned it for a very short period of time, but, by AES before that, let's say, in the last, five, six years.

JERRY GOODENOUGH: Environmentally, in the last, five, six years, it's been over $25 million.

SENATOR MAZIARZ: $25 million?

JERRY GOODENOUGH: Yes.

And, remember, this plant was built with an FGD in the mid-'80s.

SENATOR MAZIARZ: Right. And I trust that all that work has been done by local --

JERRY GOODENOUGH: Yes.

SENATOR MAZIARZ: -- local --

JERRY GOODENOUGH: Yep, local workers, local vendors.

This plant, when it was running and outage time was a premium, so, you'd tried to work the outage around the clock, seven days a week, would employ up to 600 to 700 contractors.

Now, employing that many contractors, some of them weren't local, but, we exhausted the local bench before we would go out.

SENATOR MAZIARZ: Right.

I just asked that question, because I knew the answer, but I just wanted to make sure that everybody here from throughout the state know of what a great -- what a great citizen you've been, and your company has been, and continues to be, here in Niagara County.

And I know, it was very important that you mentioned Supervisor Engert and, also, County Legislator John Syracuse.

You are absolutely right. They did an outstanding job fighting for the survival of this

plant.

JERRY GOODENOUGH: Yeah. And just to echo, I kind of left out, but we have been working very hard with union leadership as well.

SENATOR MAZIARZ: Yes.

JERRY GOODENOUGH: It's interesting to see everybody come together for a common cause.

SENATOR MAZIARZ: And they are going to be testifying later on in the hearing, the union. The IBEW Local 966 are going to be testifying later on in the hearing.

JERRY GOODENOUGH: Excellent.

SENATOR MAZIARZ: And I thought your rather judicious use of the word "tension" was very good.

[Laughter.]

SENATOR MAZIARZ: With that, I'll turn it over to Senator Ritchie.

SENATOR RITCHIE: In your particular situation, you mentioned that we need to level the playing field.

Can you elaborate on what you see New York State needs to do to level the playing field?

JERRY GOODENOUGH: I would concentrate on continued look at fuel diversity.

I would concentrate on all plants within New York following the same environmental regulations. That's air emissions, NOx control, 316(b) water regs. There should be no exemption for any plants.

I would continue to focus on projects that enhance the plants, as far as, you know, keeping the local jobs, and, becoming more environmentally friendly.

SENATOR RITCHIE: And just one last question: Do you know what the economic impact would be on -- the biomass facility would have on the agricultural business here in this part of the state?

JERRY GOODENOUGH: I can't give you numbers, but we have talked to local farmers who sell crops for a living, and they're very excited about the project.

We have worked with, same job, different owner.

We've worked with Morrisville. We've worked with SUNY Buffalo. We've worked with Cornell. These guys are -- they're freaks, for a better name. These guys love building the switch grass. They want to build it, it's like switch grass on steroids. They want to build it with more BTUs.

They're trying to get three, they're trying to get four, cuttings a year.

It's very exciting for these guys.

And the farmers are looking forward to trying to work together with us.

SENATOR RITCHIE: Thank you.

SENATOR MAZIARZ: Senator O'Mara?

SENATOR O'MARA: Yes, thank you.

Thank you for your testimony. And I just want to let you know I very much appreciate your comments on the need for fuel diversity in our state, and in our country, for our security, and for the balancing of the economies as they -- the various costs adjust throughout that.

My district includes Ithaca, so, right next to your Lansing plant that you've acquired.

Can you give me a little bit of information on where you stand in the Cayuga facility, as far as what you're up against there?

JERRY GOODENOUGH: Yeah, so, I had a little smirk on my face.

So, you understand fracking if you have Ithaca.

SENATOR O'MARA: And the Southern Tier, and sort of half the Finger Lakes. I understand it very

well.

[Laughter.]

JERRY GOODENOUGH: So, uhm --

SENATOR O'MARA: Let's not go there today.

[Laughter.]

JERRY GOODENOUGH: Yes.

[Laughter.]

JERRY GOODENOUGH: Yes.

It's very interesting.

So, the same issues that faced Somerset, as far as getting folks to understand what your business is all about, we faced in Ithaca. The same type tension and push back, initially.

The community of Ithaca now is very supportive of this business. They are behind it.

There are two folks that sit on regional councils there, and one of them is constantly calling me, e-mailing me: Hey, have you tried this idea? Are you looked at biomass there? Have you tried...?

We've looked at algae. We've looked at Enviro-Cubes.

You know, they're very supportive of, What can we do to enhance the profile of that particular plant?

SENATOR O'MARA: Do you burn hydrilla?

That's an issue in Ithaca too.

JERRY GOODENOUGH: Uhm --

SENATOR O'MARA: It's a very heavy supply source, I think, if you can get it to convert.

JERRY GOODENOUGH: We haven't looked at hydrilla. However, if you're familiar with the area, you know they have a problem with the dregs in the lake. And we've actually looked at trying to put them on our particular landfill.

One thing that we haven't talked about is -- is looking for wells on our property.

SENATOR O'MARA: Now, what is the fuel source currently at Lansing?

JERRY GOODENOUGH: It's 100 percent coal.

SENATOR O'MARA: And --

JERRY GOODENOUGH: And, again, the same clean technologies at this particular plant. They have an FGD, they have an FCR, and they have low-NOx burners.

SENATOR O'MARA: Okay.

You acquired both of these plants from AES.

Did you acquire the facility in Dresden?

JERRY GOODENOUGH: No, sir.

Out of -- AES, Eastern Energy was made up of

six facilities, the old NYSEG facilities.

When we filed for bankruptcy, all six facilities filed.

Coming out of bankruptcy, Somerset and Cayuga were acquired by the bondholders, and that's the current business structure that I run.

SENATOR O'MARA: Thank you.

JERRY GOODENOUGH: Thank you.

SENATOR MAZIARZ: Assemblywoman Corwin?

ASSEMBLYWOMAN CORWIN: Thank you very much.

Actually, most of the questions were already asked and answered, and, thank you very much.

I just want to make a comment.

I was in the Somerset plant recently, and I can tell you, it's an incredible facility. Extremely competent people at the helm, tremendous efficiency, cleanliness, security.

It really was a very impressive operation.

JERRY GOODENOUGH: Thank you.

ASSEMBLYWOMAN CORWIN: I think you're doing a great job there, and especially given the economic considerations that we've been discussing.

Getting back to RGGI. I can't leave the RGGI issue.

You say that the Somerset plant alone had

$35 million in additional --

JERRY GOODENOUGH: That was Somerset and Cayuga combined, the facilities I run.

ASSEMBLYWOMAN CORWIN: Okay, and that's associated with RGGI, and our participation in the RGGI program.

Let's say, hypothetically, we're not in the RGGI program.

How would that impact your operations, and what would -- what would that do to the way you do business?

JERRY GOODENOUGH: Our -- okay, there's -- there's two points I want to make on this.

How would this affect our operations? We.

Would become more economic.

RGGI is thrown right into our dispatch costs, so it's an adder, so it keeps us out of the market at times. So, we would have run more.

Second, that $35 million would have been poured back into the plant, and the local community.

We too had to renegotiate our PILOT.

Folks here locally know a lot about our financials. We shared a lot.

$35 million, or, in particular, Somerset's portion, is more like $25 million. Would have made

the plant more valuable. Probably would have increased our PILOT payments.

ASSEMBLYWOMAN CORWIN: Great. Thank you very much.

JERRY GOODENOUGH: Thank you.

SENATOR MAZIARZ: Thank you very much, Jerry. We appreciate your testimony here today. Thank you.

JERRY GOODENOUGH: Thanks for your time.

SENATOR MAZIARZ: Our next witness is Dan Engert, the supervisor of the town of Somerset. And, again, Dan we just wanted to express our appreciation for you allowing us to use these facilities here today.

DANIEL M. ENGERT: We're glad that you're here. Unlike Jerry, I'm going to stick to my written testimony script, in the interest of time, so I don't get off track. This is a passionate subject for me, and for our community, and so I'll stick with my written testimony, if you don't mind.

SENATOR MAZIARZ: Thank you.

DANIEL M. ENGERT: You know me well enough, Senator.

SENATOR MAZIARZ: Yes.

DANIEL M. ENGERT: You'd like to be out by four, I presume.

[Laughter.]

DANIEL M. ENGERT: My name is Daniel Engert, and I've lived in Upstate New York and Niagara County for all my life. For the vast majority, I've lived right here in Somerset.

I'm a husband, and father of four children, all of whom are enrolled and/or have graduated from the Barker Central School District. I myself am a graduate of the Barker Central School District, and of the Niagara County Community College.

I'm a public servant, employed as the administrative captain at the Sheriff's Office, and I've served as Town Councilman for the previous four years, and am currently serving in my first term as the elected town supervisor for the town of Somerset.

I've led negotiations on behalf of the town for two Payment in Lieu of Tax Agreements, or, "PILOTS," adopted by the Niagara County Industrial Development Agency with the Somerset coal-fired plant within the past three years.

I guess that's a long way of putting that I'm

a layman, but, I represent a lot of people and a lot of interests here.

I'm especially grateful that you have convened this hearing within your district and in the town of Somerset.

And on behalf of the town, I welcome you and your esteemed colleagues.

I would like to begin by thanking you, Senator Maziarz, for inviting me to participate in this hearing of the New York State Senate Committee on Energy and Telecommunications, as you and your colleagues explore the long-term base-load energy generation and transmission needs of the state of New York.

You will hear from a number of stakeholders throughout this hearing, and beyond.

I'm going to speak to you today in an attempt to highlight for you, the local impact that the coal-fired Somerset facility and others in Western New York have upon our local economy, upon jobs, upon economic development, and upon our ability to deliver basic and essential services to the residents of our community.

Most importantly, it is crucial, and critical, that our public policymakers recognize and

consider what it would mean to our communities if this facility and others in Western New York were to close.

It is my earnest hope and desire that New York State will recognize the significant and important role that coal can and should play in our economy.

Speaking initially from a broader Western New York perspective, there are four coal-fired power-generation facilities located here in Niagara, Erie, Tompkins, and Chautauqua Counties, respectively.

These power plants in Western New York represent major employment and tax anchors for our communities, with a combined economic impact of more than $500 million per year in taxes, as well as direct and indirect employment.

Allow me to get into some of the specific impact issues as they relate to Somerset.

The Somerset Operating Company is owned by Upstate New York Power Producers (USNYPP), and was previously operated by AES.

The facility is located on Lake Ontario in the town of Somerset. It is a 680-megawatt coal-fired power plant with state-of-the-art

environmental-control technology.

This facility has been a highly reliable clean and safe source of power for New York for many years. It is a key stakeholder in the local community, providing jobs, large tax payments, commerce traffic, and rail traffic demand.

Let me spend a moment discussing the community's economic benefit from this plant.

The 97 employees, including 80 union employees of the IBEW Local 966, represent a payroll of $15 million.

The facility will contribute more than $52 million in PILOT payments through 2015 to the taxing jurisdictions. They represent 80 percent of the Town tax base, 70 percent of the Barker school tax base, and 5 percent of the entire Niagara County tax base.

Let me get into the impact on our school district in a bit more detail.

The school will experience a decrease of $7.5 million in revenue over the next two years. The district will be heavily reliant on increased State aid and two additional sources, each of which are vulnerable to the economic conditions and our residents' ability to assume the majority of the

shortfall.

The first is district revenues. Reserve accounts -- pardon me.

The first will be district reserves. Reserves accounts will be completely and quickly depleted.

The second is the increase in school taxes.

Being among the poorest communities in Niagara County and Western New York, this district and the residents here simply do not have the financial capacity to withstand substantive increases in taxes.

The extensive withdrawals of reserve accounts, coupled with increases in school taxes to offset the decreased revenue, are short-term responses to a long-term problem.

These areas will only go so far before significant impacts will be realized elsewhere.

The sustainability of the Somerset Power Plant is, therefore, directly tied to the district's ability to, not only maintain its status as one of the highest-performing districts in Western New York, but also to fulfill its basic mission: to successfully prepare Barker students for success in both college and career.

Furthermore, on to the economic benefits to the community:

The facility contributes to more than $6 million in estimated annual indirect and induced local job creation;

It generates an estimated $4 million in sales-tax revenue annually, and will generate an additional $70 million in economic activity over the next three years.

In total, the community benefit from continued operation at this facility alone exceeds $148 million.

I cannot underscore these impacts enough.

As you are well aware, the industrial and manufacturing sector in Western New York has declined significantly over the past 20 years, and consequently, the demand for power consumption has left right along with these declining sectors.

We have seen countless jobs disappear to other states, once proud and booming manufacturing facilities are closed and shuttered up, and our population has declined consistently over this period as well.

Currently, there is a need for energy in the southern part of the state beyond the capabilities

of their local generation; and, yet, there are low-cost and reliable plants in the western part of the state that are either idle or not running at full capacity.

The Governor has proposed an "energy highway" plan that has the potential to upgrade the aged transmission system running west to east in the state.

And, we certainly support our Governor, and encourage the Senate leadership to do whatever is necessary to make this investment a reality.

Upgrading the aged transmission system can tie generation facilities within New York to all markets within the state, keeping energy generation homegrown.

Another benefit of improving our transmission infrastructure is the ability to fully tap into a renewable expanse potential of wind, solar, and biomass that currently exists in Upstate New York.

I can agree with the need to continue to push for projects that produce energy for New York in the form of renewables. However, it is widely accepted that there is a gap that needs to be filled until renewables can support the grid of New York State.

Our Western New York power plants have

invested hundreds of millions of dollars into the state-of-the-art emission-control equipment in recent years. This investment was done as a commitment to doing business in New York. They are already compliant with the stringent new EPA emission rules that will have hundreds of power plants closing across the country by 2015.

The Somerset Operating Company, particularly, is recognized as one of the cleanest facilities in the entire United States.

These plants can create energy by combusting clean coal at environmentally compliant, state-of-the art facilities, and they should be used to help fill this gap while maintaining fuel diversity which New York needs to provide its residents and businesses with dependable and affordable energy.

I have been closely working with Jack White of Upstate New York Power Producers and the Niagara County Center for Economic Development, to develop a plan that includes adding jobs and local revenue to the economy, while striving to continue to provide environmental benefits from firing coal at the Somerset facility.

I am pleased to report to you that plans are

currently underway to co-fire biomass here.

I hosted a meeting, in conjunction with the Center for Economic Development, earlier this year in Somerset, between agricultural stakeholders, and it was extremely well-received.

We have been working through the Western New York Regional Sustainability Plan Energy Working Group, as well as the Agriculture Working Group, to further promote this initiative.

Agriculture and electric generation are two primary industries in the local area.

A biomass project provides some certainty in the near future for both of these critical local business sectors.

The project provides a steady reliable income stream for local agriculture in the growing, harvesting, and delivery of fuel feedstock to the power plant, while the plant reduces CO2 emissions and reduces its consumption of coal.

Incentivizing credits for reduced emissions projects will greatly benefit the Somerset facility.

Any renewable energy-production project currently in the planning phase rely on subsidies to make the economics work, and this project would fall in the same line.

Most energy crop producers want to guarantee their production, and this project would need some incentives to make it worth the effort from the local producers.

I also believe that we must recognize that reducing CO2 emissions is a significant objective towards cleaner energy.

In January of 2011, President Obama traveled to New York, Schenectady specifically, the birthplace of General Electric, to deliver a speech focusing on growing our economy and creating jobs through clean-energy development.

The President announced his appointment of GE CEO Jeffrey Immelt as the chairman of the Council on Jobs and Competitiveness.

Along with several other companies, GE is working on developing clean-coal technology projects that can make America more competitive in a global market.

And I also believe that the long-term viability of the Somerset facility requires more investment into clean-energy development.

Support for and incentivizing technology research, development, and deployment is critical, and offers opportunities for technological advances,

economic growth, while reducing costs, and it should not be abandoned at the State level.

Expectations of new markets are a key factor in triggering additional private investment and technological innovation.

Discussions have recently ensued in Albany regarding the conversion of the Somerset facility to natural gas.

While I'm not so sure that this is the best long-term solution for the facility, I also recognize that business decisions can be changed based upon political realities.

And like Senator Maziarz, I am a strong believer in the importance of fuel diversity, and I also share his belief that coal should be part of our energy mix.

However, if it is a State policy decision to encourage conversion to natural gas, as it appears to be the case, then we need real incentives to make it happen.

Senator Maziarz has outlined a plan that makes good sense, because its commitment to a fairer capacity market will allow coal plants to continue to operate in the short term, and the significant incentives it includes for repowering to natural gas

will make this a viable option for the future.

As Supervisor of the town of Somerset, I am here to tell you that it is vitally important to our community, our economy, and the tax base that generation continues at the Somerset facility.

I am open to any form or mix of generation that might be proposed, as long as that plan is realistic, and provides the proper incentives to ensure the long-term viability of this facility.

That being said, it is important to note that clean-coal-burning facilities add diversity to the current fuel mixture for New York State.

According to current reports from the U.S. Energy Information Administration, coal provides just 7 percent of New York's power, while New York has the fourth highest electricity costs in the entire nation. The average retail price for electricity is 15.94 cents per kilowatt hour.

The parallel to me is striking.

The affordability of coal in relation to other sources of energy provides businesses with a reliable supply of electricity that can put our economy back on track.

In fact, four of the five states in the nation with the lowest retail electricity costs rely

upon coal to generate 80 percent or more of their electricity.

Frankly, I have been discouraged at the apparent singling out and direct opposition to coal in this state, generally.

Given the dependency on coal in our country, coal-fired power generation will remain substantial. It is estimated that it will remain accountable for as much as 39 percent of the power generation in the U.S. by 2035.

Citing even our own "New York State Energy Plan 2009" document, coal is recognized as a plentiful domestic resource, and clearly acknowledges that it offers fuel diversity to the state.

Calculations based on the current rate of use, it's estimated that the United States has a 242-year supply of known recoverable reserves of coal. The U.S. has more reserves of recoverable coal within its borders than any other country.

Finding ways to use coal more efficiently promotes greater domestic energy security, which is a critical component to the stability of our economy.

New York State cannot afford to develop and

implement further policies that directly impact coal-fired generation facilities in such devastating manners.

And please allow me to briefly discuss one of the singling-out measures to which I am referring.

The participation of New York State in the Regional Greenhouse Gas Initiative program was done so, not through a law, but rather, through an end-around measure designed to avoid an open debate on the merits of that program before the people of this state.

The RGGI program has been portrayed as a program that helps the environment.

The revenues from this program are derived largely on the backs of ratepayers through special taxes on fossil-fuel-burning power generators.

When these revenues are not used to balance the budget, they have helped with renewable-energy projects and energy-efficiency projects. However, the added costs to the ratepayers, and particularly -- "particularly" -- the ratepayer and taxpayers in the communities that are home to these specially taxed generators are enormous.

$329 million has already been taken out of the economy in New York due to the required purchase

of permits.

This burden has also negatively impacted plant-capacity factors for New York plants.

As a result, the State has imported electricity from adjacent states that do not participate in RGGI. This imported electricity is generated from facilities that have less stringent environmental limitations than the facilities here in New York.

Last year, NYPA signed a power-purchase agreement with plants, including coal-fired plants in New Jersey, to deliver power to New York City. Meanwhile, power generators in New York, and particularly in Western New York, are either closing or struggling mightily to survive, along with the communities in which they reside.

Minimally, the Somerset facility has contributed to, it's estimated, 10 percent of the total revenue in the RGGI program.

And it would seem reasonable to me that some of this revenue be distributed back to the facility to incentivize renewable-energy programs, such as co-firing with biomass at the plant.

And I am very glad to see that Senator Maziarz has included just such an option in

his plan for our generation future.

I briefly discussed the importation of energy and its negative impact on Western New York.

And along those very same lines, I am aware that the Champlain-Hudson Project, a 1,000-megawatt DC line from Québec to New York City, is being proposed as part of the Energy Initiative -- Highway Initiative.

Similarly, this ill-fated initiative seeks to take advantage of the transmission congestion that precludes Western New York power producers from getting their product downstate.

If implemented by bypassing Western New York generators, it would, quite simply, draw from the resources, the jobs, the communities located in Canada, and most directly benefit them at the expense of New Yorkers.

This solution is not good for New Yorkers.

If implemented, it would result in the closure of viable plants, the loss of jobs, and huge economic impacts on our communities.

And I've talked about those briefly in the first paragraph.

These are out-of-state and out-of-country solutions, and they amount to running

"extension cords" into New York, further undermining our ability to control our destiny in the energy sector.

I applaud Senator Maziarz for his efforts thus far to stave off this very poorly conceived initiative that directly hurts Western New Yorkers.

I would like to provide one final comment for your consideration, and I believe it's entirely relevant to this discussion, as it relates to a huge potential energy customer.

It is extremely disheartening to me, in that it appears New York State's Empire State Development, privately, and even publicly, at various levels, has pulled the plug, if you will, on one of the most viable opportunities for economic development in Niagara County, and particularly Somerset.

I am told by economic development experts in our region who I work with, that ESD has eliminated any real marketing effort to attract data centers anywhere in the state.

As you may recall, it was only a short time ago when numerous giants in the industry, such as Yahoo!, Microsoft, Google, and Verizon, were circling our region, and mostly Niagara County, in

consideration to invest here and to build large data centers.

Yahoo! did ultimately invest in the town of Lockport and built a state-of-the-art data center there.

Similar to Quincy, Washington, on the west coast, the communities of Somerset, Niagara County even, the broader Western New York area generally, was poised to become the east coast's data center hub, if you will.

Verizon selected Somerset, and by all accounts, the project would have been the single largest economic-development investment in the history of Niagara County.

Sadly, certain public-policy interests created a hugely negative public perception of the incentives, and suddenly, the politically correct position became to eliminate pursuing these high-energy consumer investments due to the limited jobs created.

I ask you: What sense is made to shun investment and the associated revenue on the premise, that while it produces good-paying jobs, it just doesn't produce enough of them to make sense in a "job-per-incentive calculation"?

The "incentive" calculation, or, in other words, "taxes lost," is often misleading, as it makes the critical assumption that the amount of tax exemptions not covered by the PILOTs would be received by the government, in full, were it not for IDA tax breaks.

This is not necessarily the case.

The tax revenue would only be realized if the project would move forward on the same timetable, at the same scale, and in the same location without the incentives provided.

The alternative to this position, of course, is zero investment, zero jobs, and zero revenue to the government.

Frankly, in my opinion, the massive push to eliminate IDAs and to latch onto any and all arguments to that end is more to blame for this policy decision than any community-specific analysis.

This community, I can tell you, for one, will gladly take whatever revenue results from the incentives, and any number of good jobs that are created at this point. We'll take the half a loaf over no loaf any day.

Ironically, this position is especially

destructive to the present situation, as the power plants desperately need high-energy consumers who create certainty in terms of their sale of electricity.

A large volume of energy users will especially be needed to support the incentives that are being considered for conversion and other renewable investments.

A data center in Somerset would ease pressure immediately and provide stability for our future.

If at all possible, any attention to require the re-thinking of this apparent policy decision at Empire State Development will go a long way for the interests of Somerset, Niagara County, and Western New York.

I appreciate the opportunity to discuss these issues with you today, and to be able to present my perspective on the important issues you've raised.

Thank you again for this opportunity, and I would be happy to answer any questions that you may have at this time.

SENATOR MAZIARZ: Thank you very much, Supervisor Engert. We appreciate your comments.

Just, very briefly, can you outline for us what the total taxes that are paid?

I know you and County Legislator John Syracuse did a yeoman's effort in negotiating a PILOT agreement with the plant and the school district and the Town and the County.

Could you just outline the specific dollar amounts that the Somerset plant does pay to the County, the Town, and the school district?

DANIEL M. ENGERT: Over the next three years, ending in 2015, there will be total PILOT payments of $52 million.

SENATOR MAZIARZ: $52 million.

The bulk of that would go to the school district, I would presume?

DANIEL M. ENGERT: I believe the breakdown is, 59 percent or so to the school, 34 percent to the County, and 8 or 9 percent to the Town.

My math is --

SENATOR MAZIARZ: Yeah.

DANIEL M. ENGERT: But it's in that range.

SENATOR MAZIARZ: Yeah. I believe for the County, I've heard the County Chair -- or, legislative Chairman Ross indicate that if the County did not increase its budget at all -- that -- and if the Somerset plant were to close, that everyone's tax -- everyone -- every county

property-owner's tax bill would go up by, anywhere between 7 and 10 percent, without the budget increasing at all for the rate of inflation, or anything else.

DANIEL M. ENGERT: That is the -- that was the numbers that John was working through during negotiations.

I can tell you that the power plant has been the largest single taxpayer in Niagara County for many years. Its impact, you know, is felt throughout the county.

And Chairman Ross has spent a great deal of effort in the past three years articulating that throughout the community.

It's not just a local issue in our area, it's a countywide issue.

Certainly, you know, the local impacts on Somerset and Barker School District taxpayers is significant, but it goes broader than that.

SENATOR MAZIARZ: Thank you.

Senator Ritchie?

SENATOR RITCHIE: What's the population in the annual budget of the town?

DANIEL M. ENGERT: Population in Somerset is approximately 2,800, and the annual appropriations

budget is about 1.3.

SENATOR RITCHIE: And do most of the employees at the facility, do they live in the town?

DANIEL M. ENGERT: I'm not aware of the numbers.

There are significant number of employees that work at the facility. Whether it's majority, I'm not sure it's that high, but there is a significant number of families who -- employees and their families live in the town of Somerset, yes.

SENATOR RITCHIE: And what kind of hardship would be on the town if the plant stopped running?

DANIEL M. ENGERT: I -- I -- I don't know if I can quantify that.

We -- it would -- we rely on the facility for about 60 percent of our tax payments.

And if I were to eliminate 60 percent of the revenue from my Town tax -- from my Town budget, we can't deliver services.

So I -- you know, to say what services are going to start to be cut, I couldn't -- I mean, it would touch every single service, every single resident, in this community.

SENATOR RITCHIE: Thank you.

SENATOR MAZIARZ: Senator O'Mara?

SENATOR O'MARA: No.

Thank you.

SENATOR MAZIARZ: Assemblywoman Corwin?

ASSEMBLYWOMAN CORWIN: Nothing for me.

Thank you.

SENATOR MAZIARZ: Thank you very much, Supervisor. We appreciate it.

DANIEL M. ENGERT: Thank you.

SENATOR MAZIARZ: Our next witness is Gavin Donohue. Gavin, from the Independent Power Producers of New York.

We're going to switch up here because of a time constraint.

Don Jessome from the TDI Champlain-Hudson has a time restraint, and we will -- Gavin has graciously agreed to let you take his time.

DONALD JESSOME: Appreciate that, Gavin. Thank you.

SENATOR MAZIARZ: Thank you very much, Mr. Jessome, for being here today.

We appreciate -- we wanted very much -- the Committee members and myself, want very much to hear all sides of every issue when it comes to energy policy, both short- and long-term.

And we appreciate you coming -- traveling

here to talk about the Champlain-Hudson Power Express.

Thank you.

DONALD JESSOME: I appreciate being here.

I'd like to begin by thanking the New York State Senate Energy and Telecommunications Committee, its members, staff, for giving me the opportunity to talk about the Champlain-Hudson Power Express project, and the benefits it will bring to New York State.

Transmission Developers, or, "TDI," the company I lead as president and chief executive officer, appreciates the importance of the work done by the Committee, and we are willing and eager to assist in providing the information it needs to perform its functions.

In a few moments I'll go into greater detail of many of the project's benefits, but before I do, I'd like the Committee to know that a great deal of information about the project can be found online at the project's website, and also at the Department of Energy's, which the federal Department of Energy's Environmental Impact Statement website.

Both of these are part of our ongoing communications with the community.

In addition, TDI has made a submission regarding the project as part of the Governor's Energy Highway Initiative. A link to this submission is also available on the project's website.

Furthermore, the record developed by the Public Service Commission, or, the "PSC," with respect to this project, which bears the PSC case number, 10-T-0139, is extensive, and every document filed over the last two-plus years in this case is available online with the PSC as well.

The PSC process has been ongoing since March of 2010.

Our first meetings with public officials regarding the project began in the fall of 2008, and we continue to meet with officials at federal, state, and local levels on a regular basis.

We are committed to public outreach and participation, and to that end, more than 20 public hearings have been held in areas encompassing the entire route of the project.

We anticipate there will more hearings upcoming when the Department of Energy releases the draft environmental impact statement, or, "EIS," this fall, and we welcome them.

Our company is based in Albany and New York City, and its majority shareholder is the Blackstone Group, which is based in New York City as well.

The project will bring 1,000 megawatts of clean hydro and wind power to New York using two, approximately 5-inch-diameter, high-voltage direct-current cables which will be buried along waterways and along railroad and highway rights-of-way.

A converter station will be built on land owned by the Consolidated Edison Company in Queens to interconnect with the Con Ed's alternating-current system.

The project is --

The project will provide substantial benefits to New Yorkers in a number of areas, and I will go through those different areas.

Lower energy prices for New York ratepayers:

According to studies performed by London Economics, it is estimated that the project will reduce energy prices for New York consumers by approximately $650 million per year.

These studies are fully available, both, on our website, and have been filled with the

Public Service Commission as part of our Article 7 siting process.

A cleaner environment:

Bringing new clean hydro and wind power into the New York market will provide environmental benefits as well.

Current estimates show, that when the project is fully in service, it will reduce emissions of S02, NOx, CO2, and other pollutants. This means cleaner air and water for New York families.

In addition, as part of the Joint Proposal of Settlement, which is part of the Article 7 siting process that we filed in February of this year, there will be a $117 million Environmental Trust Fund that will be established as part of the project. It will foster an enhancing understanding and protection of the state's aquatic natural resources over the 30-plus years of the project.

Investment, economic development, and new taxes for the state of New York:

The project will also benefit New York's economy. In addition to bringing in 2.2 billion in private-sector investment to the state, the project will create an average of 300 constructions jobs per year, for 3 1/2 years.

It is estimated by London Economics that the economic activity that will be generated by the construction phase will create an additional 1,200 indirect and induced jobs for New York State.

With nearly 50 percent of the total cost of the project tied to installation during the construction phase, the spending generated by the CHPE project will increase New York's gross domestic product by nearly $150 million per year.

Once in service, the lower energy prices that will result from the CHPE project will create an estimated 2,400 induced and indirect jobs across a wide spectrum of the economy.

And, again, all of the studies that I'm citing here tody have been filed, both, with the PSC, and are fully available on our website.

New York State ratepayers will benefit as well. Based on current estimates, the project will provide approximately 20 million per year in local property taxes to upland host communities. And since the line will be buried, out of sight, and virtually maintenance free, it will place, virtually, no additional demands on the host communities.

We will also be paying tens of millions of

dollars to the State of New York for use of the waterways the project will traverse.

A stronger and more diverse energy grid:

Along with the very tangible financial and environmental benefits that it will bring, the project will also strengthen New York's transmission grid, reduce transmission congestion, and diversify the fuel-supply mix in the state --

And I've hear on several occasions, or, several of the speakers have brought this issue up, and we fully agree, that diversity of fuel supply is incredibly important.

-- and it will do this without using any public or ratepayer money.

The project is, and will remain, a privately funded merchant project, as recognized and required by federal and state agencies.

This means New York can use its scarce resources to invest in other needed upgrades to its energy infrastructure, and not be investing in this project.

The project represents 1,000 megawatts in an approximately 40,000-megawatt system.

The state of New York has approximately 40,000 megawatts of generation.

This is 2 1/2 percent of the New York's market needs.

As the economy grows and gets stronger, the power needs of the New York market will grow, and many great projects will be needed to address this demand by the time this project goes on line in 2017.

Also, in the Governor's Energy Highway Initiative, it was identified that there are many projects today. The generation fleet is getting much older. So, there will be a lot of new generation requirements over the numbers of years in front of us to meet all of the expected demand increases in the state of New York.

There's broad and deep support:

Support for the project is broad and deep and committed.

Every state agency, and there were seven in total, participating in the Public Service Commission's proceeding -- and this is through the Article 7 process -- agreed that the project is in the public interest and should go forward, as did the Cities of New York and Yonkers, and the Palisades Park Commission.

Twenty members of New York's congressional

delegation support the project.

Environmental organizations, such as Scenic Hudson, the Riverkeeper, the League of Conservation Voters, Trout Unlimited, and the Coalition Helping Organize a Kleaner Environment support the project.

Groups such as the Long Island Association and the New York State Energy Consumers Council support the project.

To date, three daily newspapers, the "Watertown Daily Times," the "Times Herald Record" in Middletown, and "Kingston Daily Freeman" have editorialized in support of the project.

The Laborers' International Union of North America and the New York State Conference of Operating Engineers support the project.

All of these groups, and others, are backing the project because it makes sense for consumers, and it makes sense for New York State.

Before I close, I would like to mention that trade with Canada is being recognized as an important strategy to help grow New York's economy.

On September 17th of this year, Governor Andrew Cuomo's North Country Regional Economic Development Council issued a progress

report that stated, one of the Council's key strategies is, and I quote, "Optimize fluidity at the north country's U.S.-Canadian border crossings. The relative ease and predictability of cross-border movement of cars and commercial traffic, as well as trains, boats, and energy transmission, is essential to a successful north country economic future."

And we certainly agree with this assessment.

I thank you for the opportunity to talk about our project, and I'm happy to respond to your questions.

SENATOR MAZIARZ: Thank you.

Again, I want to thank you for being here, and thank you for your testimony here today.

I have to respectfully say that I disagree with much of what you've said.

And I just, for the record, want to point out a couple of things, or maybe ask questions, and you can point them out.

But, the economic study that you pointed out, by London Economics --

Now, I'm not familiar with London Economics. I do not question their integrity or their ability, or anything.

-- but, I think it would be important for the

record to point out, that your company actually hired them and paid them for this study.

They did it on your behalf, is that not correct?

DONALD JESSOME: They absolutely did. And it was filed with the Public Service Commission, and scrutinized, as part of the Article 7 siting, because, as part of the Article 7 siting, economics the one of the key drivers in that siting process.

SENATOR MAZIARZ: That you are absolutely correct in that vein.

And I'd also like to ask, that -- I mean, they did their study, but, in a filing with the Public Service Commission, on this project, the New York Power Authority indicated that the cost of CHPE projects are significantly underestimated. The costs are significantly underestimated, and that the benefits of the project are significantly overestimated.

Which is the opposite, I presume, of what London Economics said.

And that's the New York Power Authority, which operates, you know, within the state of New York, as a public agency within the state of New York.

But then, privately, an investor-owned utility, Con Edison, said that, their estimate, in a filing with the PSC also, I believe, said that their estimate of the cost of CHPE would be more like 11 billion, which is five times what your $2.2 billion estimate is.

DONALD JESSOME: Sure. So let me --

SENATOR MAZIARZ: Can we reconcile all of those differences?

DONALD JESSOME: Sure, let me sort of go to, sort of each of those points.

First off, you know, the $2.2 billion estimate for our project, is from the border to Astoria, Queens.

So, anything within Canada, any generation that's going to be built within Canada, which I believe the Con Edison number incorporated, would increase the cost of the -- you know, from generator to end point.

So our project, when we talk the "2.2 billion," is just within the state of New York.

The $11 billion, I can't speak to that because it seems to me that there was no, you know, detailed information provided by Con Ed. It was a number that they put into one of their statements,

but there was no backup details. So, I certainly can't comment on the $11 billion figure.

With respect to the 2.2 billion, I can speak to that all day long.

The $2.2 billion figure has been a number that we've been refining for approximately four years.

And, we recently went out for an engineering procurement and construction RFP, to attract some of the best construction companies in the world, to both supply equipment and to install the equipment.

And the -- we just received bids back, actually, two weeks ago, and all of the bids have completely validated our estimates and costs. They were right on top of what our estimates are.

And we continue to carry a significant contingency within our budgets, because we know that there are lots of things that could be, you know, found as we're going along this 330 miles.

So the -- one of the ways that we're trying to reduce, and even make that cost lower than the 2.2 billion, is, as of today -- sorry -- a week ago, we have boats out on the water once again -- we did in 2010 -- that are doing very detailed route surveys: bathymetry, side-scan sonar, magnetometers,

core samples.

And this is going everywhere, from Astoria, Queens, all the way up to Russells Point, and all points in between, in the Hudson River, the Harlem River, the East River, and Lake Champlain.

We're going to be doing detailed studies along, both the railroad rights-of-way and the roadways that we're going to be traversing, we're actually going to be taking core samples in hundreds and hundreds of locations.

We're working with all of these parties, to reduce the estimated costs of this project to actually, hopefully, be below the 2.2 billion.

SENATOR MAZIARZ: Well, let's -- let's stay, for a minute, on the 2.2 billion.

I mean, I understand you can say that the 2.2 billion will go from the New York border to Astoria, Queens. New York-Canadian border to Astoria, Queens.

But, the infrastructure, the production, the generation, in -- somewhere in the province of Québec. I mean, it could be -- it could be part of the St. James Bay.

DONALD JESSOME: Well --

SENATOR MAZIARZ: I mean, somebody --

somebody's going to have to pay for that, from New York to wherever the generating station is.

DONALD JESSOME: Okay --

SENATOR MAZIARZ: And I can't -- I don't -- I can't under -- I would find it incredulous that ratepayers of Hydro-Québec in Canada would pay that for a New York benefit.

DONALD JESSOME: So let me talk about the Québec piece, and I'm certainly not going speak for Hydro-Québec, but, here is my understanding of the situation in Hydro-Québec, and actually, here's why we started this project:

In 2005, the Department of Natural Resources in Québec identified approximately 5,000 megawatts of new hydro facilities that they directed Hydro-Québec to start looking at, to develop.

Two of those projects are actually under construction, and I believe one may have actually just come into service. It's called "Eastmain," which is approximately a 1,000-megawatt hydro facility.

And the second project is called "La Romaine," which is approximately 1,600 megawatts that's coming on line, somewhere between 2016 and 2018, they're actually going to stage it.

So, they're actually building those facilities, or have built those facilities, for the export market, as we speak, so that those facilities are, essentially, sunk costs.

On the Québec side of the border, they are looking at building, it's approximately a 30-mile transmission line, that would go from a substation called "Hertel," which is part of the Montreal 735 kV ring, to our transmission facility at the border. So, they would actually just interconnect with us.

The estimates of that are approximately $400 million, and that's a combination of a converter station, and the approximately 30 miles of cable that they would run to interconnect with us.

SENATOR MAZIARZ: Okay.

The next point: I still think, you know, my point, but somebody's got to pay for that. And I think that they would expect the New York ratepayers to do that.

But, you talked about the 1,000 megawatts that this project is, as part of a 40,000-megawatt state system that we have in New York.

And I think your point is, that this is just a very small piece of a very large system.

But, wouldn't it be either TDI or -- and, certainly, Hydro-Québec's, long-term goal to grow that?

I mean, they grew it in Vermont, they grew it in Maine, they grew it in other states in New England.

Right now, in Vermont, I think they've grown it to almost be -- Hydro-Québec, not necessarily TDI, has grown their markets to almost one-third, or I think maybe more than one-third, of the entire Vermont energy market.

Now, I realize, you know, that comparing Vermont and New York is maybe apples and oranges, but I think that the methodology of, you know, coming in low, and maybe even at a lower price, and then growing that market, is clearly a strategy of Hydro-Québec.

Don't you agree?

DONALD JESSOME: Well, I mean, Hydro-Québec has been a supplier into the New York market for over 80 years. So, it started, you know, long before transmission developers had any, you know, projects on the books.

SENATOR MAZIARZ: To a limited scale.

DONALD JESSOME: Approximately

2,000 megawatts today of hydro -- interconnection between Québec and New York today, and that commerce flows in both directions.

SENATOR MAZIARZ: Exactly. That's -- I don't mean to interrupt you, but we should note that that does flow in both directions.

DONALD JESSOME: And it does, absolutely, flows in both directions, and it's a benefit to both countries; and to the province of Québec and to the state of New York.

SENATOR MAZIARZ: And Ontario.

DONALD JESSOME: And Ontario, and other points in between.

You know, with respect to transmission siting, I think we can all agree that transmission siting is not easy.

So, saying that Québec has this grand scheme of trying to, you know, push ten or twenty thousand megawatts, or any number, a large number, into any one particular market is, it's extremely difficult.

Transmission siting is extremely difficult, it's hard to do, and it certainly doesn't happen overnight.

So that's why these long-term energy infrastructure projects have to go through very

careful review by, you know, the members of this Committee, by the Public Service Commission, by the Department of Energy, by the Army Corps of Engineers.

This is going to be a highly reviewed project, and it just doesn't happen overnight.

So, you know, 1,000 megawatts, again, in a 40,000-megawatt system is still a small number.

SENATOR MAZIARZ: Okay, I see that Hydro-Québec has also submitted a proposal under the Energy Highway R05.

Is that in conjunction with TDI, or is that separate and apart from TDI?

DONALD JESSOME: I believe they have two.

I know the -- the one I'm familiar with is the one that's associated with us.

And it's, essentially, they are looking to utilize the transmission line to supply the New York market.

SENATOR MAZIARZ: Last point: You stated that the Champlain-Hudson line will not have -- will not result in higher rates for consumers in Upstate New York; and, yet, the economists -- the top economists at the PSC testified that it will.

How do you --

DONALD JESSOME: So let me just -- again, I don't want to talk for the Public Service Commission, but I will give you my perspective on that.

The actual -- Dr. Painter [ph.], during his cross-examination and testimony that we had in July of this year before the administrative law judges, was asked a very hypothetical question.

He did not do any research on it.

There was no direct testimony. There was no information provided, other than, there was a hypothetical question asked and answered.

The Public Service Commission, in its reply briefs, then clarified that position, that, essentially, they do not believe that it is going to have an impact.

From our perspective, we have done the analysis. The very detailed analysis.

And, you know, the analysis -- the latest analysis that we've filed with the Public Service Commission would actually say prices would slightly go down in this area.

But it's -- you know, it's just like a pebble in the pond. Because we're connecting way down in Astoria, Queens, the largest impact are absolutely

going to be down in the New York City and, you know, Westchester part of the state.

SENATOR MAZIARZ: Thank you.

I have many other questions and comments, but we'll submit them to you, in the interest of time, because I know you have to get going.

I'll ask Senator Ritchie to -- if she has any questions?

SENATOR RITCHIE: In your testimony, you talked about a number of jobs that this project would actually create.

Could you be specific, what exactly you're talking about there?

DONALD JESSOME: Sure.

So there's two phases of job creation.

There's the construction phase, which is the, you know, sort of the obvious.

We've got converter stations to build. These are large pieces of equipment. We have cable that has to be buried. We have people that need be on boats. There's approximately 140 miles of buried cable along railroad rights-of-way.

So, significant amounts of work for laborers' union, IBEW and other locals. This will be a unionized job. We're working on project labor

agreements.

That's the -- sort of the direct jobs during the construction phase. Approximately 3 1/3 to 4 years is the construction period.

During that construction phase, there's induced and indirect jobs. It's, just, you put a dollar in the economy and it grows beyond the dollar. And, so, that's approximately 1,200 induced and indirect jobs.

But probably the more important piece, is once this project goes into service, it's going to lower costs. And because it lowers costs, that makes industry more effective. And when industry is more effective, they can go out and use those scarce resources on things other than paying their electricity bills. They can use it to hire people.

And, the London Economics' analysis that has been performed, along with Regional Economic Modeling, Inc., which is a sister company that they use to do these analysis, it's approximately 2,400 indirect jobs across the wide segment of the economy.

All of the studies I'm talking about here have been filed with the Public Service Commission, and are fully available both on their website and on

our website.

SENATOR RITCHIE: So you're saying that the majority of those jobs would be New York jobs?

DONALD JESSOME: Absolutely. Yes, absolutely.

SENATOR RITCHIE: How many do you foresee coming from Canada?

DONALD JESSOME: Canadian jobs in New York State? Probably zero.

SENATOR RITCHIE: Zero? Okay.

The same as -- concerns that Senator Maziarz had on the two topics, one of them for me had to deal with the letter that NYPA submitted to the Public Service Commission, and it actually talks about the overestimates and the underestimates.

So I guess I would ask, with regards to the cost-benefit analysis, your company filed paperwork that utilized only one alternative.

Can you elaborate on why you only used one alternative?

DONALD JESSOME: Sorry, one alternative for...?

SENATOR RITCHIE: Well, as far as a combined-cycle gas turbine facility, that's the only alternative that was included in your presentation.

So --

DONALD JESSOME: Oh, sure.

So, in the Article 7 siting, the parties who are part of the joint-proposal settlement, and also the parties who are opposed, get to file information with respect to the project.

We filed, "we" being, TDI filed our information with respect to the economics of the project and the environmental benefits.

The Public Service Commission decided that they would do an analysis, to compare a combined-cycle -- best-in-class combined-cycle gas-fired plant with our project.

So it was actually the Public Service's analysis who did the comparison.

SENATOR RITCHIE: Okay. Thank you.

SENATOR MAZIARZ: Senator O'Mara?

SENATOR O'MARA: Just a couple of questions.

One is, to start out with, since we're on the question of cost: If the cost estimates you have are incorrect and it is higher costs to construct it, what impact is that upon the ratepayers?

DONALD JESSOME: Zero to ratepayers.

So, let me just clarify that point, to be very, very clear on this, because I think there has

been some misinformation.

We have made an extremely strong commitment to the Federal Regulatory Commission, to the Public Service Commission, with respect to, that this is a merchant-transmission project.

"Merchant" means we have to go find our own customers, we have to go find our own financing. This is private-sector financing, and we have -- and we are out, right now, looking for customers.

Hydro-Québec has put their hand up and said that they would like, at least, for 75 percent of the transmission space. So, they would actually be paying for this project.

This project will not go forward if the economics do not make sense for the people who are going to be shipping on this line.

What we have made a commitment to, to the Public Service Commission, is, we will not even go forward with this project unless we have a 25-year contract with a credit-worthy counterparty for at least 75 percent of the capacity on this line, to further protect any ambiguity as to whether or not this is a merchant-transmission line or not.

So any risks associated with the project costs going up are fully beared by TDI, Blackstone,

and the shippers.

SENATOR O'MARA: Won't the cost of that, though, to Hydro-Québec go up, depending on what the cost of your construction is, and building that into their rate for what they charge for the electricity being delivered?

DONALD JESSOME: Well, the way the markets work in New York State, is they bid their price into the marketplace, and, if it clears, it clears, and if it doesn't, it doesn't.

Because they're -- once it's in service, this is a sunk cost to them. So what they would be doing is, they would be bidding their power prices into the market at their marginal cost of production, which is, you know, in a hydro facility is essentially zero.

So, for them, that this cost risk is similar to any other cost risks that they have on major infrastructure.

But once it's in service? Once it's in service, their marginal cost of production is essentially zero, and that's what they bid into the market.

And that's actually highly regulated by the New York Independent System Operator, as to bidding

prices that come into the marketplace for different generation facilities.

SENATOR O'MARA: This line will terminate in Astoria, Queens.

What other connections along the line will there be throughout New York State?

DONALD JESSOME: There will be none.

This will be into Astoria, Queens.

However, there already is an interconnection to this line through the Québec system.

So, we had talked earlier about a bilateral trade that goes back and forth across the Québec-New York interface on a daily basis, every hour of the day.

Generators in Upstate New York, and other places, actually can gain access to our transmission facility through the existing AC transmission system.

SENATOR O'MARA: And then have to transmit it, up through Canada, back down around through the Champlain-Hudson line?

DONALD JESSOME: Correct.

SENATOR O'MARA: And there's no inputs for -- other than that route along the Hudson River, for our New York State power plants to supply power into

that line?

DONALD JESSOME: At this point in time, that is correct.

SENATOR O'MARA: Are there any projections or plans to possibly do that?

DONALD JESSOME: There certainly can be in the future.

Converter stations along the way can be built. That is a potential for a future.

SENATOR O'MARA: And I heard concerns about the cost of a converter station to be -- put it on the line.

Could you elaborate on what the cost for a converter station would be?

DONALD JESSOME: Sure.

A 1,000-megawatt converter station is approximately $200 million.

And, so, it's not one-for-one, so, you know, a 500 megawatt is not 100. It's probably 120.

There are some economies of scale as you get into larger converter stations, but that's kind of a good rule of thumb.

SENATOR O'MARA: Thank you.

SENATOR MAZIARZ: Thank you, Senator.

Assemblywoman Corwin?

ASSEMBLYWOMAN CORWIN: Thank you very much.

Just a couple of quick questions regarding energy security. We're talking about running power from one country into another.

Obviously, Canada has been a very good friend to us. We've had a great relationship for many years, however, there's no guarantee that 50 years down the line, or 75 years down the line, that we have a different relationship with them.

This compact that you're negotiating with Hydro-Québec, what kind of guarantees are there, that you're negotiating, that would ensure that we don't have any problems, going forward, as far as, the relationship, cross-border issues, terrorism issues, whatever?

Are you putting guarantees in this contract, to make sure that nothing would get in the way of that power getting down to New York City?

DONALD JESSOME: Well, what we are negotiating with Hydro-Québec is a transmission-service agreement. So, they would pay us the right to use the transmission facilities to deliver power.

I would say, to answer your question directly, we are not negotiating an agreement that

essentially says, you know, the two countries are going to be best friends forever.

What we're agreeing -- you know, what we're negotiating is a very economic contract that Québec is highly incented to deliver the energy.

And all of our studies say that it's highly utilized at, you know, 95 percent of time, just because the economics are so strong for the parties.

So, you know, from a security perspective, I think that we just have to look at the 80 years of very secure supply from Québec, into New York, and, you know, project that out, forward, because there is such strong economic basis for the relationship.

ASSEMBLYWOMAN CORWIN: And just -- I -- and forgive me for not knowing this: Hydro-Québec, do they provide power to Ontario and Toronto, the southern Ontario region?

DONALD JESSOME: They certainly supply into Ontario. They supply into Atlantic Canada. They supply into New England. And I believe they may supply into the PJM market as well.

ASSEMBLYWOMAN CORWIN: Okay, because Toronto and southern Ontario is a very, very fast-growing region of Canada. Obviously, Canada would benefit from running more power into their fast-growing

region as opposed to another country's region.

Are there any kind of guarantees that power wouldn't get redirected, or become prohibitively expensive going to New York City, because power would be going back to their faster-growing city, Toronto?

DONALD JESSOME: Well, southern Ontario, there's no question that it's growing at a very, you know, good clip.

But there -- you know, the -- I think the -- what I -- keeps me, you know, going on forward on this project, is New York City is still the most expensive market in America.

And that's why this project is economic, is because the fact that it is an expensive market; and therefore, it needs new supply.

And, you know -- you know, there are, certainly, other markets that they can look at, but they're restricted just like every other market on the transmission intertie capability. It's very difficult to build transmission.

You know, crossing a border is extremely tough. And, so, it's -- you know, it's just very difficult to get, you know, all of that transmission built so that, you know, all of the supply would go

to just one marketplace.

ASSEMBLYWOMAN CORWIN: Okay.

Also, you were talking about the lower energy costs to businesses in New York State.

I'm assuming you mean it would lower the overall energy cost because it could go into the independent system and, generally, reduce costs.

A business in Western New York, how would their costs -- energy costs go down because of this system?

DONALD JESSOME: It's approximately 3 percent. 3, to 2, percent, depending upon whether you're commercial, industrial, or residential. And, it's not a larger number. It's just because of the fixed costs of infrastructure is a large percentage of the bills in that market.

ASSEMBLYWOMAN CORWIN: But, assuming that the New York City-area businesses would see a bigger decrease in costs, than --

DONALD JESSOME: No, no --

ASSEMBLYWOMAN CORWIN: -- that's something that's outside of that service area?

DONALD JESSOME: That's correct, yes.

And we actually have posted those all on our website, and we've broken it down into

New York City, Long Island, Westchester, and -- just, those were the easiest ones for us to be able to calculate, because as you get north, it just becomes smaller and smaller, and so it's less significant.

ASSEMBLYWOMAN CORWIN: And, also, just one last question: You talked about the economic advantage for doing this project right now.

Are you including any kind of price floors or ceilings, or anything like that, in your negotiations for the Hydro-Québec, so that if the economic situation were to change, and -- to prevent it from becoming economically infeasible?

I mean, are you -- it's attractive right now. 30 years, 50 years down the line, New York City could be a very different place, prices can be very different.

Are you putting any kind of guarantees in there to make sure that we don't get future increases in costs down the line?

DONALD JESSOME: We're actually -- the guarantee to us, is that they will buy the space on the line.

And, so, they're guaranteeing to us that they will buy the space, and they will utilize -- you

know, and then they will use it, to utilize, to take their supply to marketplace.

So, we have very strong guarantees to ensure that they are going to pay us for that service.

ASSEMBLYWOMAN CORWIN: Okay.

All right, thank you very much.

DONALD JESSOME: Thank you.

SENATOR MAZIARZ: Thank you.

Just one more question, and then an observation I'd like to make.

You stated that the TDI project would result in reductions in certain types of emissions, thereby helping the environment.

Can you tell me where those emission reductions are going to come from?

DONALD JESSOME: We have the reports. I can certainly supply those to you.

I just -- it's in the state of New York, only, that I'm talking about. That -- there actually is environmental benefits beyond the state of New York, but, when I talk numbers here today in front of this Committee, it's strictly state of New York.

We can supply those to you.

SENATOR MAZIARZ: Okay.

And just an observation I want to make.

You did mention some labor unions that were in support of this project.

I should just say, and later on, because I know you'll be leaving, that some labor unions will be testifying here in opposition to this project too.

So I think it's just fair to, you know, state that there was labor unions that are in opposition to this project too.

I do, Mr. Jessome, want to thank you.

I can tell you that, on behalf of the Senators and the Assemblywoman, in our lives, sometimes it is very difficult to go to public meetings or public hearings where you know many of the people disagree with you. Those are never easy to attend.

And we appreciate the fact that you took the time to travel here, to come up here.

DONALD JESSOME: No, I appreciate being here, and, you know, any time.

SENATOR MAZIARZ: Thank you.

DONALD JESSOME: We're happy to --

SENATOR MAZIARZ: All right. Thank you very much.

And thank you to Gavin Donohue for letting us switch-up here.

DONALD JESSOME: Thanks, Gavin.

SENATOR MAZIARZ: Next is Gavin Donohue.

Gavin is the head of the Independent Power Producers of New York.

GAVIN J. DONOHUE: Thank you, Senator.

Senators, Assemblywoman, thank you for having me here today.

I'm here to discuss the issues regarding economic development and infrastructure investment in the energy industry in New York State.

As president of the Independent Power Producers, also known as "IPPNY," we represent generators, power marketers, and other participants in New York's competitive energy markets.

IPPNY member companies utilize cutting-edge technologies and fuel types, such as cogeneration, nuclear, hydro, coal, wind, oil, landfill gas, natural gas, and energy-from-waste, and biomass.

This diversity of fuels protects consumers from dramatic price variations resulting from an overdependence on one fuel type and increased electric-system reliability.

A reliable and robust energy industry is

important for both state and local economies.

IPPNY's members drive the state's economic engine, and continue to build, improve, and invest in New York's energy-supply infrastructure.

As providers of approximately 75 percent of the state's electricity, Independent Power Producers have invested in excess of $10 billion to purchase, construct, and operate their facilities.

Generators also pay over 600 million, and invest $50 million in their communities, as good corporate partners.

In addition, these facilities provide well-paying jobs to more than 10,000 individuals across New York State. Many of these facilities are located in Western and Upstate New York, where they are either the largest or amongst the biggest employers and taxpayers in their local community.

Since these facilities are outstanding corporate citizens, there are significant impacts to a community if a power plant makes the tough decision to close because it is no longer financially viable.

While the competitive electricity markets in the state have led to savings for energy consumers, enhanced economic development, reduced emissions,

and a more reliable system, they also, naturally, have led to increased competition.

In a difficult business and economic climate, increased competition is good for consumers, but not necessarily for each market participant.

On the plus side, since 2000, competitive markets have spurred the siting of more than 9,000 megawatts of new generation, with over 80 percent of that supply located in New York City, on Long Island, and in the Hudson Valley, regions where power demand is greatest.

A diversified generation fleet has been developed, including over 6,000 megawatts of renewable resource capacity in the state.

On the other hand, lower natural gas prices and increased coal prices have left many facilities finding it interestingly [sic] difficult to compete.

Conducting business in New York has long been considered tremendously unattractive due to high property taxes and regulatory uncertainty.

While competition drives the energy industry, these tough economic times make it more and more difficult for these companies to continue to survive in New York, and across the country.

From Western New York to Long Island,

New York State generation resources face challenges like most businesses in today's economy.

In addition to a difficult business climate, environmental regulations and policies place additional constraints on these units.

Although emissions have already been reduced significantly since 2000, in New York State, the rate of power-plant emissions of sulfur dioxide have dropped more than 86 percent, nitrogen oxide has declined by over 76 percent, and CO2 has been reduced by 36 percent.

These emission reductions have been accomplished through corporate investments without ratepayer impact, given that competitive energy markets have resulted in the shift of the risk of investment and operational decisions off of energy consumers and onto company shareholders.

The cumulative effect of the layering of environmental requirements impacts cost, fuel diversity, and energy-system reliability.

More than half of the installed generation capacity in New York State is estimated to be impacted by recently adopted or proposed state and federal and regional regulations, and these units face the decision to retrofit or retire.

Several power facilities have retired already, others are contemplating doing so, thereby putting at substantial risk of hundreds of well-paying essential jobs for New York's workforce, and the contribution of millions of dollars of property taxes and other payments made by New York generators.

Competition clearly has its place in New York, as it has accomplished so much. And one of IPPNY's major goals is to continue to support the competitive running of the competitive marketplace.

By design, the markets are intended to promote investment in the most efficient and economic resources, because competition determines what resources should remain in service.

Unfortunately, some less-efficient power plants may retire in order to ensure the market supports the better-performing ones.

That is not to say that we are insensitive to the local impacts of these potential facility closures, but the solution may be to help localities directly instead of taking steps that interfere with the markets.

If a struggling plant is needed for reliability, the New York Independent System

Operator has procedures in place to ensure the system reliability is maintained.

Along that vein, due to the negative effects in the market, we should not support the entry of projects that are uneconomic.

One such project, and we heard about today, has been the focus of a lot public attention, is the Champlain-Hudson Power Express transmission line proposed by TDI.

I'm trying to run through this a little bit, not to be redundant.

The transmission line, as you know, will run from the U.S.-Canadian border into New York State, under Lake Champlain and the Hudson River, and will import over 1,000 megawatts into the city.

And as we -- we strongly believe it makes no sense, from an economic, public policy, or energy perspective.

The line is a 333-mile "extension cord" running from Québec into New York City, while bypassing New York generators that have already made major investments in the state.

The Champlain-Hudson Power Express line would undercut critical investments in both in-state generation and transmission, and potentially close

power-generating facilities.

A major focus for New York State is improving the state's economy, and stabilizing, as well as increasing, the number and quality of jobs for its citizens.

However, the job-creation benefits touted by TDI substantially are overstated, and fail to account for the offsetting job losses at existing power plants which may be forced out of the market as a result of the operation of the TDI line.

Senator Maziarz, as you stated earlier today, one of the most compelling reasons to oppose the TDI line, is that the economics of the line simply do not work, and the economic analysis that has been conducted on the project is based upon data and assumptions that contain major flaws.

The line's costs greatly exceed any of its benefits, and the revenues needed to support the costs of the line currently are not available through New York's energy markets.

As such, the line is not viable financially without subsidized Canadian power and/or an above-market contract with New York ratepayer-backed entity.

These subsidies will definitely lead to

significant higher costs for the state's energy consumers.

The uneconomic nature of this project is illustrated in an informational piece IPPNY created, entitled "A Bad Deal for New York State," which is included with our testimony.

The map shows, that although a Canadian generator is chasing a higher price by selling electricity into the New York City market, the cost to deliver that power is more than the price difference they would receive.

That would be like a restaurant delivering a pizza to a far-away location for a higher price, but spending more in gas to deliver the pizza than the price they would get paid for it.

In the case of the Champlain-Hudson line, it simply does not make economic sense to use the line when the benefit of accessing the higher-priced market is lower than the cost to use the line.

The proposed project also would not include the transmission of renewable energy resources from Upstate New York to other parts of the state.

Threatening the development of such renewable resources impedes the State in meeting its RPS goal of having 30 percent of the electricity consumed by

New Yorkers come from renewable resources by 2015.

Large-scale water impoundments in Canada, the most likely source of the power to be transmitted over the line, do not qualify for the New York RPS program.

TDI claims that the New York generators could access the proposed transmission line by simply "wheeling" or transmitting power up to Canada first, then down to New York City, but this approach is also uneconomic and not financially feasible.

Like the "Bad Deal" piece previously discussed, despite the attraction of higher New York City energy prices, the cost to deliver the power there from Upstate New York via Canada is just too great and more than the price difference to be received.

Additionally, the proposed Champlain-Hudson project will not alleviate existing congestion in the state's power grid or address the most pressing in-state transmission issues. It only will circumvent them by bringing in power from another country.

The TDI project is strongly at odds with the Governor's stated goals of his Energy Highway Initiative, to build public-private partnerships and

invest in New York resources, workers, and communities.

The Energy Highway Initiative is seeking investment in New York State resources to upgrade the state's energy infrastructure in both transmission and generation. However, the TDI line does not provide any benefit, and, in fact, serves a threat to competitive energy markets, existing resources in New York State, and the associated jobs and numerous benefits provided by in-state power generators.

Although the proposed project will pass through many of the state's communities, it will provide no benefit to those localities in the form of jobs or tax revenues.

This ramped-up importation of power from Canada is not needed. Private investment through the state's competitive marketplace has ensured that more than sufficient quantities of power supplies exist to meet the state's energy needs now and for the foreseeable future.

Moving forward to address the needs of the state, including Western New York, Senator Maziarz championed the development of the law for the Recharge New York Power Program and the re-enactment

of the Article 10 siting law, breaking numerous years of gridlock on both issues.

Additionally, during the State budget, Senator Maziarz and his colleagues continuously guarded against taxes and fees on the energy industry and, importantly, their impact on energy consumers.

Building on those successes, Senator Maziarz has introduced two bills that are vital to help address the state's economy and future energy needs.

We need to capitalize on opportunities to revitalize New York State's economy from inside out.

And I would like to thank Senator Maziarz for once again demonstrating his commitment to the best interests of New Yorkers through this legislation.

First, Senate Bill 7391 would limit the use of eminent domain only to activities that achieve a public use, benefit, or purposes that maximize benefits to New York.

This legislation prevents outside entities from using eminent domain to access our waterways, land rights-of-way and, ultimately, New York ratepayers.

This legislation is consistent with existing New York State law that already contains provisions

that limit the ability of certain companies to use eminent domain, and as such, does not set a new precedent.

Additionally, the legislation does not limit other future projects from occurring, including the kind of projects the State should be encouraging for economic development and electric-system-reliability reasons.

Senator Maziarz's legislation would ensure that the power of eminent domain is available for the construction and development of transmission and generation facilities and infrastructure in New York State, rather than outside the country, as in-state facilities maximize energy-system reliability, employment, and economic development.

As a result of the Senator's legislation, the types of projects that would not be allowed to use eminent-domain powers are those that fail to provide the job, tax, and community-stability benefits that in-state resources do.

Another important proposal that Senator Maziarz is advancing is Senate Bill 7789, which would help address the local impact of potential power-plant closures.

This bill would direct the New York Power

Authority to issue a Request for Proposals for the sale of its 10 gas-turbine generating facilities smaller than 80 megawatts in size and located in and around New York City.

NYPA would report the range of bids to the Governor, the Temporary President of the Senate, and the Speaker of the Assembly, subject to confidentiality requirements. NYPA then would commence actions, as its board of trustees determines appropriate and necessary, to effectuate the sale of those facilities.

This privatization of assets is not a new idea, as previously, in 2000, NYPA sold its nuclear facilities to a private-sector owner for $967 million.

Potential revenue from New York State from the sale of these turbines could range from $400 million to $750 billion [sic].

This legislation would use the revenues from the sale of NYPA facilities to provide assistance to municipalities that have been impacted by the loss of property-tax revenues due to the closing of major electric-generating facilities, such as those here in Western New York.

In addition, this legislation would

facilitate the repowering and replacement of existing energy systems to reduce overall emissions and environmental impacts.

In addition, the sale of NYPA's facilities would put tax-exempt property back on the tax rolls and generate more property-tax revenue for New York City.

By the State putting these generating facilities up for sale, new businesses and revenues will be attracted to the state.

The Senator's legislation, therefore, is a win-win for both upstate and downstate.

The sale of NYPA's turbines makes sense, as private companies continue to operate generating facilities reliably, efficiently, and economically more than ever.

In addition, this action would shift any future risks and costs associated with these facilities from the public to the private sector. These facilities are extremely low-emitting, from an environmental standpoint, and their ownership by private entities further will ensure increased efficiencies and economic operations.

Also, a policy discussion to sell the turbines is consistent with the recently adopted

New York State energy plan.

Thank you for the opportunity to provide some formal comments today, and I'm happy to answer any questions, Senator.

SENATOR MAZIARZ: Thank you very much, Gavin.

And thank you for the work that you do year-round in Albany on behalf of the state's energy.

I'm going to ask Senator Ritchie to start off with the questioning.

SENATOR RITCHIE: Gavin, you actually stated that the job benefits by the company are overstated.

Can you elaborate a little bit on that?

And, also, what you see as potential job losses if this line goes through?

GAVIN J. DONOHUE: From a job-losses standpoint, I'll start there, I think everybody in this room knows, and certainly you as elected representatives, that we have so many facilities across the state that are struggling just to stay in the business.

And this line, by coming into New York, into New York City, will exacerbate what I think is a bad situation and put those jobs at risk.

I can't tell you today, if this line is

constructed, how many jobs will be lost, and how many New Yorkers will be out of work, and what that will do to the local community, but, clearly, it will make a bad situation worse.

To answer your first question second, the line, for those that may not know, is completely under water, down the length of Champlain and the Hudson River.

And as Don indicated, you know, there is no way at this point for folks to access that line because of just how it's physically constructed.

So, when you talk about overstating the jobs, I think the labor unions later, that are going to testify, may have more specifics on job impacts, but it's, clearly, the line will not be accessible to New Yorkers. So, I'm not really sure how many New Yorkers are going to get jobs as a result of the line.

SENATOR RITCHIE: And just one more follow-up question:

In your opinion, what is the number one thing that New York State can do to facilitate the transfer of electric generation from upstate, in the area that I represent, to New York City?

What would be the "number one" thing and the

first thing we should do?

GAVIN J. DONOHUE: Well, when the "energy highway" was announced, Governor Cuomo made a strong statement about the age of the infrastructure in the state.

Transmission lines are 80 years old. We have generating units that are very old.

We need to figure out a way to make the infrastructure in this state better. We need to put money into the infrastructure. So, we need to do work on the transmission side, along with the generation side.

Right now, the Energy Highway Initiative is looking at a lot of different things that have been proposed. But, certainly, we have upstate resources that are unable to get their product to market. And whatever needs to be done to improve that, so they can be competitive, needs to be done.

I'm not here today to endorse one specific transmission proposal over another in the state because, quite frankly, that has impact on ratepayers within the state, and that analysis hasn't been conducted yet.

But, certainly, improving the transmission system, and the general investments in New York's

infrastructure, would be most important.

SENATOR RITCHIE: So in your opinion, there are a number of upstate facilities that could generate additional capacity to send to New York City, if, in fact, the transmission line was upgraded?

GAVIN J. DONOHUE: Correct.

SENATOR RITCHIE: Thank you.

GAVIN J. DONOHUE: Thanks, Senator.

SENATOR MAZIARZ: Senator O'Mara?

SENATOR O'MARA: What models or mechanisms do you see to upgrading our transmission facilities in New York, as you talked about, that would have the least impact to ratepayers?

In other words, how they would be financed and paid for without doing it on the backs of the ratepayers?

GAVIN J. DONOHUE: Well, I -- you know, again, I think that analysis is ongoing with the Governor's "energy highway," as we sit here today.

I was surprised at the level of projects that were submitted.

I think what should happen, is that the market should be allowed to work. That, if the State decides something needs to be built, the best

way to build it would be to have a non-discriminatory RFP, and that everything can compete at the fair level, so that we don't say: Well, we like, you know, biomass over gas, so only biomass proposals would qualify.

Just using that as an example.

So the best thing do, would be to allow the market to continue to work, but, if the State feels there's a public-policy goal that needs to be met, just to make sure that it's compelling, make sure that it's non-discriminatory and that everybody can compete on the same level, would be the least way to impact ratepayers.

SENATOR O'MARA: How do you, on behalf of the Independent Power Producers, assess our current condition of fuel diversity in New York State?

GAVIN J. DONOHUE: That's one of the best things we have going for us. We're very diverse, from a fuel standpoint, and we have to continue that fuel diversity.

I think Jerry indicated that this morning.

And we can't jeopardize our fuel diversity, and it's important, because states that have over-relied on one fuel or another, when the market changes and gas prices go back up again, and they

were over-reliance on natural gas, then, all of a sudden, the ratepayers are going to be hit harder.

So, we need nuclear, we need coal, we need gas, we need hydro...we need it all. And, we need a balanced portfolio.

And we have that, we just need to continue to build on it.

SENATOR O'MARA: One last question, Gavin.

In your comments you mentioned that this TDI project is not financially viable without subsidized Canadian power.

Can you just explain to me the Canadian-power subsidization process, and what we're up against as far as fair competition between those generators and our generators here in New York?

GAVIN J. DONOHUE: Well, you know, fundamentally, we've been very involved in this process for two years.

We've been on the other side of TDI. We've supplied our own experts and our own testimony. We've spent a lot of money on this.

So, I mean, I have a different take than Don does on the project, obviously, but, HQ is a government-owned utility that is going to compete against New York generators. So, it's as simple as

that.

I think it's fair to say, that the thing that you, as Senators and policymakers can do, and I would encourage you to do this, is, you know, Don was very clear, saying that TDI is a merchant project.

And I think this process has made it more transparent and better, to ensure that this could be a merchant project if it's approved.

What I think the Legislature could do, and folks that are concerned about this, is make sure that HQ, as the shipper on the line, is held to that highest standard, so that, somehow, the certificate isn't transferred to HQ, and then HQ gets into an out-of-market contract with NYPA, or some other entity, and somehow a payment go backs to TDI as a way to fund the project.

I get what Don has said and what TDI has said. They want to be merchant, and I appreciate that.

But nobody here has looked to: What are we going to do to ensure that HQ doesn't come to get subsidized as a result of this project?

So, I mean, we can talk about legislation and we can talk environmental regulations.

As elected representatives, I think that's one thing that you could do, to assure that the PSC holds HQ to the same standards that they're going to hold TDI.

SENATOR O'MARA: Thank you.

SENATOR MAZIARZ: Assemblywoman Corwin?

ASSEMBLYWOMAN CORWIN: Thank you.

Thank you, Gavin.

Just to make sure I'm understanding here, previous comments have made the point that this project, the Champlain-Hudson project, would just be another diverse energy source. You know, 1,000 megawatts as part of the 40,000 in the state, kind of like, well, here's another competitor in the marketplace.

And perhaps that's true in the short term.

Would you characterize this whole situation as accurate in the long-term?

I mean, what I'm hearing from you, is that they're going to come into the marketplace, they'll come in significantly lower and, basically, wipe out all the plants that are already existing, who are having to work under tougher regulations and higher costs.

GAVIN J. DONOHUE: Yep.

ASSEMBLYWOMAN CORWIN: So that, in the long term, would you say that allowing this line to come down the Hudson would diminish competition in the marketplace?

GAVIN J. DONOHUE: Yeah, I would like to get to a point I think that Senator Maziarz said at the beginning of this hearing.

Currently, there's a project going on between New Jersey and New York City, to go 8 miles, and it's cost 800 to 900 million dollars to build.

I know we talked earlier about the finances.

The PSC economist in that proceeding has said that it will take 40 years for them to see any economic benefit by the New York Power Authority in the result of that line.

So you're trying to compete in New York, and we're looking at projects where people are saying: Well, it will take 40 years for them to see an economic benefit as a result of the construction of this project.

And that's what I'm hearing here today, is that, you know, in the long term, how do you compete and make financial decisions when your company is strapped, when you have a project out there that says, Well, you know, there will be an economic

return in 40 or 50 years?

And that's on the record, and I encourage the Legislature to go look at what the PSC economist said about HTP in New York City, because the costs are astronomical, and today, there's no customers for that.

So the New York Power Authority is assuming all of the costs of that project, which is directly impacting your ability, as Senators and Assemblywoman, to bring benefits to your local communities.

ASSEMBLYWOMAN CORWIN: So would you say, if we were to allow this project to go through, that in the long term, there would be more or less competition in the marketplace?

To me, competition is what drives prices down.

GAVIN J. DONOHUE: Yeah.

ASSEMBLYWOMAN CORWIN: My concern is, that if we allow this in, and our other power plants get wiped out, well, there is no more competition.

GAVIN J. DONOHUE: I would agree with your theory. I mean, that would make it less competitive in New York.

ASSEMBLYWOMAN CORWIN: Okay, so then we're at

risk, you know, 20 years, 30 years down the line, of, potentially, you've got fewer --

GAVIN J. DONOHUE: And how do you make financial judgments, if somebody says: Well, you know, the financial payoff is in 40 or 50 years?

We don't know what the world is going look like in two years.

ASSEMBLYWOMAN CORWIN: Okay. I agree.

Thank you, Gavin.

SENATOR MAZIARZ: Thank you, Gavin. We appreciate it.

GAVIN J. DONOHUE: Thank you.

SENATOR MAZIARZ: Our next witness is Paul Haering from Central Hudson Gas & Electric.

PAUL E. HAERING: Good afternoon.

With me today is Ray Kinney. He's from NYSEG (New York State Electric & Gas). He was also a key member of the STARS Initiative, as well as the New York Transco proposal that was submitted with the "energy highway."

Chairman Maziarz and members of the Senate Energy and Telecommunications Committee, my name is Paul Haering. I'm am employed at Central Hudson.

I just want to be clear: There was a

statement that was made by one of the witnesses today about Central Hudson being aligned with the TDI project.

We are not.

We are an investor-owned utility that serves electric-and-gas customers in the Hudson Valley.

So, I am the vice president of engineering and system operations for Central Hudson.

I also acted as chair of the committee that was the STARS study; the New York State Transmission Assessment and Reliability Study.

This was a study that began in 2008, and was conducted and funded by the state's transmission owners, with technical support from New York's Independent System Operator, and, system modeling consultant, ABB.

The state's transmission owners who participated in the study included: Central Hudson, Con Edison, the Long Island Power Authority, National Grid, the New York Power Authority, and New York State Electric & Gas, Orange and Rockland and Rochester Gas and Electric.

This is the same group of companies acting together under the name "New York Transco," and utilizing the results of this study that provided a

comprehensive proposal of projects as part of the Governor's Energy Highway Request for Information process.

The STARS study thoroughly examined New York's electric transmission system, with a focus on identifying the system's infrastructure needs for approximately 20 years into the future, including addressing replacement of aging system components, maintaining system reliability, and providing rational expansion to ease system congestion.

The STARS study is seen as augmenting the existing 10-year planning process that is administered by the New York ISO.

The study took a close look at possible transmission investments, seeking to identify those investments that could provide customer benefits over the long term.

The study also considered the status of existing assets. And utilizing a high-level, condition-based assessment, found that nearly 4,700 of the 11,600 miles of high-voltage transmission lines in the state may require replacement in the next 30 years.

The transmission owners support the

competitive energy markets administered by the New York ISO as the best way to provide reliable, low-cost, and competitively priced supply to the state's electric consumers.

With careful and coordinated planning, and a long-term approach to developing solutions to future energy needs, the energy issues that New Yorkers face can be turned into opportunities.

Some of the benefits that New York Transco's proposed projects provide, include:

First, increasing power-flow transfer capability.

Increasing power-flow transfer capability throughout the state, through the strategic expansion of the system, will help to facilitate the economic transfer of energy from upstate generation-rich regions to the downstate load centers.

Second, use of existing rights-of-way.

Existing transmission line rights-of-way can be used for the vast majority of the proposed projects. This offers the least-cost and quickest solution for project development, and minimizes the environmental impact associated with siting and construction.

Third, improve reliability.

Improving the robustness of the electric transmission system with upgraded and new lines improves the reliability of the entire electric system, and will help to maintain system reliability for generations to come, especially as downstate load increases and renewable generation resources are added upstate.

And, fourth, create jobs and economic growth.

Developing an improved "energy highway" will create jobs and facilitate economic growth by providing New York with the transmission infrastructure needed to support tomorrow's business needs.

In addition to creating thousands of construction jobs, it will generate or maintain millions of dollars of property-tax revenues that will primarily benefit New York's upstate regions.

New York -- excuse me.

The transmission owners believe that the New York Transco proposal is a comprehensive response to the issues identified for discussion here today, as well as the goals of Governor Andrew Cuomo's Energy Highway Initiative, specifically:

Maintaining fuel diversity and reliability in the energy markets;

Addressing transmission-system bottlenecks or congestion points that are preventing power flow from flowing easily from upstate to downstate;

Considering excess electrical-generation capability in Upstate New York;

Addressing the impacts of future generation-facility retirements;

And, protecting existing, and creating new jobs, in the energy-generation and transmission industry.

The New York Transco proposal includes a portfolio of 18 transmission projects categorized into four distinct groupings:

Immediately actionable projects;

Actionable projects;

Projects to address potential Indian Point or downstate generation retirements;

And projects to enable wind generation.

The "immediately actionable" and "actionable" projects work together to provide a broad range of benefits. These projects facilitate the flow of power from existing generation sources in New York's western and northern regions to the downstate

regions of the Lower Hudson Valley, New York City, and Long Island.

The net benefit to the state's consumers of these improved energy flows is estimated to be $175 million annually.

This benefit is a direct result of enabling lower-cost economic generation to replace higher-cost generation more widely throughout New York.

In addition, this increased transmission capacity will facilitate fuel diversity by allowing more renewable energy to be transmitted downstate, and enable clean-burning fossil fuels to play a greater role in meeting the long-term energy needs of the state.

Importantly, these projects provide increased opportunities for existing generation resources to access new markets, and, thus, aid in maintaining these important resources and associated employment in upstate communities.

The "immediately actionable" and "actionable" projects also provide tangible reliability benefits, the result of a more robust transmission system.

These benefits include increased emergency transfer capability, improved resource adequacy, and

a reduction in the amount of installed generation capacity that would be required to maintain system reliability.

The reduction in the level of future generation needed to maintain system reliability is estimated to provide consumers annual savings in the range of 55 million to 218 million per year.

The group of projects that address reliability concerns stemming from the retirement of downstate generation, when coupled with the "immediately actionable" and "actionable" projects, increase the transmission capacity into the Lower Hudson Valley, New York City, and Long Island.

As such, the projects provide an estimated transmission security benefit of almost 2,000 megawatts, which will ensure the transmission system operates adequately during emergency conditions. They also can help to address transmission security and resource adequacy needs that would result if generation resources in these regions were to shut down.

The final grouping of projects, projects to enable wind generation, which was identified in the New York ISO's 2010 Wind Study, enabled the full energy output of wind facilities in Jefferson County

and Western New York.

These projects, again, coupled with the "immediately actionable" and "actionable" projects, provide a twofold need.

First, the underlying 115-kV and 230-kV transmission systems are reinforced or upgraded, allowing for the constrained wind energy to be delivered to the bulk system.

Second, the transfer capability of the bulk system is increased to permit the energy to more freely flow to downstate markets.

The New York Transco proposal also provides substantial job creation benefits to the upstate region.

The current estimated costs for the Transco proposed projects is 2.9 billion in current-year dollars.

Using publicly available job and economic impact factors, the level of investment would support an estimated 12,000 direct full-time-equivalent jobs, and nearly 38,000 total full-time-equivalent jobs, and stimulate an estimated 7.2 billion of total economic activity.

Much of the job and economic activity is expected to directly benefit New York.

Beyond this activity, directly related to the transmission construction, is the benefits related to the enabling additional renewable-energy development in Upstate New York.

Based on approximately 2,300 megawatts of renewable projects, this could add an additional 8,000 direct full-time-equivalent jobs for construction, 300 permanent jobs, and more than 4.6 billion in economic activity.

The Transco projects are also estimated to increase local tax revenue, primarily in the upstate and western regions of New York, by approximately 60 to 90 million per year.

The New York Transco projects provide considerable environmental benefits as well. These benefits are measured in terms of reduced generation emissions resulting from the ability to dispatch cleaner resources.

The projects' estimated annual reduction in CO2 and NOx emissions is more than 370,000 tons and 200,000 tons, respectively.

Additionally, the projects represent approximately 856 transmission-circuit miles, the majority of which is within or adjacent to existing rights-of-way.

If constructed on new rights-of-way, these projects would require approximately 29 square miles of property. However, by leveraging the existing corridors, only 2.9 square miles is required, a reduction of 90 percent.

In summary, as has been detailed, the proposed New York Transco projects provide a broad range of benefits for the State and its energy consumers. The proposal addresses all of the objectives identified in the Energy Highway Request for Information, and provides a comprehensive and achievable plan for modernizing the state's transmission system and eliminating bottlenecks.

Thank you for the opportunity to testify before you today on the Transco proposal.

And, we're happy to address any questions.

SENATOR MAZIARZ: Thank you very much, Mr. Haering, for, first of all, coming from downstate up here to testify.

Just, I think it's very stark, and you pointed out here, you estimated approximately 30,000 jobs that could be created with the "energy highway" and the Transco project, versus, I believe, one of the previous testimony from Mr. Jessome talked about, 2,400 jobs with the

TD -- with the Champlain-Hudson project.

I thought it was a stark contrast.

PAUL E. HAERING: Yes, Senator, we relied on a publicly available document. It's a study that's called the "Wire Study." It was used in the RFI process, that takes the -- calculates the economic benefits attributed to transmission projects, both in direct and indirect jobs.

So that's the data point that we used, that was also part of the RFI process.

SENATOR MAZIARZ: I mean, even if you were off by 50 percent, it would still be a stark contrast.

And I hope you're not off by 50 percent, by the way.

PAUL E. HAERING: We hope so as well.

SENATOR MAZIARZ: Senator Ritchie?

SENATOR RITCHIE: No questions.

SENATOR MAZIARZ: Senator O'Mara?

SENATOR O'MARA: No.

Thank you very much.

SENATOR MAZIARZ: Assemblywoman Corwin?

ASSEMBLYWOMAN CORWIN: No questions.

SENATOR MAZIARZ: Thank you very much, Paul. We appreciate it.

Our next testimony is going to be coming from the New York Independent System Operator, Tom Rumsey and Rick Gonzalez.

Thank you, Tom and Rick, for being here today.

THOMAS RUMSEY: Thank you, sir.

One of the joys of going late is trying to sound unique in our testimony, so we'll give it a shot.

[Laughter.]

THOMAS RUMSEY: Good afternoon, Chairman Maziarz and members of both the Senate and the Assembly Energy Committees.

My name is Tom Rumsey, and I serve as the vice president of external and regulatory affairs for the New York Independent System Operator.

With me today is Rick Gonzales, senior vice president and chief operating officer of the NYISO.

He and his staff are responsible for the New York State's grid reliability, market operations, and system planning.

I'd like to start by thanking you for the opportunity to participate in today's hearing.

At the NYISO, we take our responsibility to serve as a source of objective information on energy

issues very seriously, and appreciate the leadership of this Committee in raising awareness of the important energy issues facing our state.

The NYISO is an independent, non-profit corporation responsible for performing several vital functions for New York.

Our primary mission is to reliably operate New York's bulk electric system in accordance with all national, regional, and state reliability requirements.

We also administer New York's competitive wholesale electricity market to satisfy electrical demand, and provide open and fair competition.

In addition, we conduct comprehensive power-system planning to identify long-term needs, and solicit market-based solutions to meet forecasted requirements. We then evaluate those projects as they enter the power grid and the wholesale energy market.

We also serve as the technical resource for the New York State Planning Board, having been named as a non-voting member under the 2009 law.

We have provided a written testimony in response to the issues identified in your invitation letter.

My hope is, you'll find the level of detail in that response to be of sufficient detail, and of value.

For purposes of today's hearing, I'd like to just cover the four key points we made --

SENATOR MAZIARZ: Sure.

THOMAS RUMSEY: -- and then have Rick and I take any questions that you might.

SENATOR MAZIARZ: Thank you.

THOMAS RUMSEY: So the first grid -- the four key points we made were:

First, grid reliability is essential and remains a collaborative effort with New York stakeholders and policymakers. Working with state, regional, and federal authorities, the primary focus of the NYISO is to sustain and enhance the reliability of New York's bulk electric system.

In terms of supply and demand, the New York outlook for -- or, the outlook -- near-term outlook for New York is positive. Currently, there is excess capacity across the state to meet our energy demand.

Since the inception of New York's competitive marketplace for electricity 12 years ago, the significant investment in generation assets, the

development of new demand response resources, and expansion of interstate transmission have contributed to a more reliable system.

However, after years of growth, demand for electricity dramatically declined in 2008 and 2009 at a scale not seen since the Great Depression.

This is due to a slow economic -- or, excuse me.

We have experienced modest growth since that time, but we are still at or below pre-recession levels. This is due to a slow economic recovery in the State's energy-efficiency programs.

According to our latest analysis, New York State has sufficient reserves to meet reliability requirements and forecasted demand through 2020.

Our second key point is, regulatory certainty and clear coordinated public policy are fundamental for continued private investment.

For the energy industry, this starts at the national level.

As an example: Uncertainty over the extension of the protection tax credit for wind power has an entire industry on hold.

Historically, when the production tax credit

has expired, the nation has seen as much as a 90 percent decline in wind generation.

We do not necessarily endorse the production tax credit, but I use that simply as an example of the impact that regulatory uncertainty can have on an industry.

This year, they're expecting 12 gigawatts of installations. Next year, less than one, when the PTC expires.

Regulatory uncertainty also makes development of an investment in new technologies more difficult.

Fortunately, New York State has recently taken important steps toward providing more certainty.

The Power New York Act of 2011, sponsored by yourself, Senator Maziarz, reestablished the State Siting Board for major electric-generating facilities.

By ending a nearly decade-long absence of a State power-plan siting law, this new act sends a clear, consistent signal to potential developers.

Similar, in 2009, the Legislature acted to reestablish the New York Energy -- State Energy Planning Board. With its comprehensive and inclusive planning process, the development of the

State energy plan offers an important venue for the coordination and integration of economic, environmental, and energy considerations in the development of State policy decisions.

However, it's critical that the State of New York consider both the cumulative effects that regulations and policies can have, and the time necessary for the industry to respond.

Recognizing those two key factors provides the framework for sustaining system reliability, as well as limiting short-term price volatility for ratepayers.

Our third key point, is that electric-system planning will play an increasingly important role for grid reliability, economic development, and the integration of public-policy objectives.

Electric-system planning to NYISO is a continuous process of monitoring, updating, and evaluating future grid conditions, based on changing weather patterns, economic forecasts, and public-policy initiatives.

In conjunction with our stakeholders, we conduct a biannual comprehensive system-planning process for the bulk power system. This produces -- this process identifies grid-reliability needs and

provides economic data to developers, stakeholders, regulators, and policymakers.

This was typically done with a sole focus on maintaining grid reliability.

Recently, we added economic transmission planning to enhance system efficiency for ratepayers.

This year, the Federal Energy Regulatory Commission, in its Order 1000, has established a new process to coordinate transmission planning to integrate public policy.

This order requires system planners to evaluate emerging transmission needs based on federal and state laws and regulation.

It gives it -- again for example purposes only, a state law that would establish a renewable portfolio standard could lead to transmission projects moving forward based on supporting that policy goal.

Our fourth, and final, point, is New York shouldn't simply replace, but upgrade its aging infrastructure.

Nearly 60 percent of New York's power-plant capacity and more than 80 percent of New York's high-voltage transmission lines were built prior to

1980.

Modernizing the New York power grid represents a tremendous opportunity to retain fuel diversity, help meet future reliability needs, and grow our economy.

The reliability of the electric grid, the quality -- and quality and dependability of power it provides, is essential to New York's success in the worldwide competition for jobs.

You just heard a significant briefing on the STARS projects, so I'll skip through all of that, other than to confirm we were the technical resource for that. And we don't necessarily endorse specific projects, but we did provide our technical input to that analysis.

Governor's -- Governor Cuomo's call for a $2 billion private-sector-funded "energy highway" sends a strong signal about New York's interest in addressing our energy and infrastructure needs.

The data and analysis developed by the NYISO's planning process and the STARS report are helping to inform the implementation of the Governor's initiative.

It is encouraging to note that the Energy Highway Initiative envisions developing the

steps consistent with competitive wholesale energy markets.

In closing, I would just like to reiterate the four key points:

Maintaining grid reliability is our primary focus, and requires a collaborative effort involving the NYISO, our stakeholders, and public policymakers.

Second: Regulatory certainty and clear coordinated public policy are fundamental for continued investment in the transmission of electrical generation.

Third: Power-system planning will play an increasingly important role for grid reliability, economic development, and, now, the integration of public-policy objectives.

And, finally: New York has an aging infrastructure. Modernizing the grid represents a tremendous opportunity to meet our future reliability needs and grow the economy.

Thank you, Chairman Maziarz, for this opportunity, and we stand prepared to answer any questions.

SENATOR MAZIARZ: Mr. Gonzalez, do you have --

RICK GONZALEZ: No. I'm available to respond to questions.

SENATOR MAZIARZ: Okay.

RICK GONZALEZ: And thank you for the opportunity.

SENATOR MAZIARZ: Well, first of all, we thank you very much.

And, understanding that you are an independent organization. Sometimes independent organizations don't like to take stands on very controversial issues, particularly when it involves, you know, power generation. But, you know, I think it's important, since it's -- you know, if someone pulls a switch and the lights don't go on, I think the ISO is going to get a lot of the blame for it.

So, it's important that the lights go on when the switch is pulled.

So, you know, could you just, you know, give us your opinion on Champlain-Hudson versus the "energy highway"?

You know what you think the impact of each would be, either positively or negatively, on a long-term reliability for the grid in New York?

THOMAS RUMSEY: Yeah, go ahead, Rick. You can tackle that one.

[Laughter.]

RICK GONZALEZ: Well, they're -- they are -- Senator, they are two entirely different projects.

One is -- one is updating and improving the state's transmission system, to allow existing suppliers to use the New York State transmission system, in a sense, levelizing the playing field, and providing access to the statewide electricity market.

I know you're aware that there have been, in the past, transmission-congestion bottlenecks that preclude otherwise economic resources from reaching the New York City, Long Island, and Hudson Valley electricity markets.

In contrast, the TDI proposal is a transmission line that implies there are capacity resources that -- or, energy resources from the province of Québec that would meet New York City needs.

At the highest level, both of these projects would be beneficial to reliability. And the ISO is indifferent to whether resources, such as demand-response generation or transmission, can be

used to meet reliability requirements.

That being said, it is important to understand that there are certain protections in the ISO rules, to ensure the competitiveness of the market; and, specifically, for those resources that connect to the New York City area.

So, the ISO would be obligated to evaluate a project, such as TDI, from its cost -- from its actual-cost perspective, to see if it were economic -- it were economic to supply one of the products in the New York ISO market, which is capacity.

So, the New York ISO would evaluate that project, to see if it was deemed economic from the ISO's perspective.

As such, that determination could -- that determination, whatever it may be, could limit the reliability benefit of the Champlain-Hudson project.

SENATOR MAZIARZ: Wouldn't it be, though -- where I was going with that, wouldn't it be the opinion of the ISO, that long-term energy policy, long-term reliability of the grid, wouldn't it be better to be more dependent upon in-state generation than it would be, not just out-of-state generation, but out-of-the-country generation?

I mean, I would just think, you know, that, again, for long-term energy policy, that would be more positive for an independent body like yourself.

I mean, I realize, you know, that everybody that has testified before this, and after this, has -- you know, has some skin in the game, from a certain respect.

And I know that -- that, you know, the ISO is interested only in making sure that that power is available in all areas of the state that they need it.

What we have here is, downstate needs it, we've got the capacity to produce it up here. We just have to move it -- be able to move it from down here -- from up here to down there.

THOMAS RUMSEY: That's correct.

To answer your question directly, Senator, I think, when you're talking policy versus an economic project, if you look at the state of the grid as it is today, as you just discussed, where you've got a lot of the generation in the north, a lot of the potential for renewables in the north and in the west, where 53 percent, roughly, is down in city, it's a matter of connecting those two.

If you look at the aging infrastructure and

the policy, and decisions that are going to be coming around that, the traditional bottlenecks in our transmission system happens to be some of the first areas that we're going to have to address based on the age of those transmission lines.

So, from our perspective, when you -- as a policy view, when it comes time to replace those, to not also improve the ability to move more power than it currently does today and alleviate those choke points, is the single biggest policy-challenge, in our view, opportunity for New York.

It will help retain the fuel diversity. It will help competitive markets. It will help the generation throughout the state to compete on a level playing field.

And, the "energy highway," having not looked at the projects until they're published, obviously, is seeking to address that issue, and we fully support it.

SENATOR MAZIARZ: Thank you. Thank you.

Senator Ritchie?

SENATOR RITCHIE: No questions.

Thank you.

SENATOR MAZIARZ: Senator O'Mara?

SENATOR O'MARA: With regard to those

bottlenecks you're talking about, and the infrastructure being 30-plus years old, has the technology and capabilities improved over that period of time to provide that greater handling of megawatts over the same basic infrastructure that's there; in other words, within the rights-of-way that are there?

THOMAS RUMSEY: I'll answer the rights-of-way, and then let Rick get into the technology because, I promise, I don't do math very often.

But, you know, one of the -- I think one of opportunities -- one of the challenges transmission has, is that, if you're not using an existing right-of-way, it makes it very challenging to build it.

And, the initial projects identified by the STARS currently exist -- or, utilize all existing rights-of-way, with only potential of some modification to the width if they go too much higher on the path.

So, the opportunity is more likely, if you're using an existing energy right-of-way, which most of the STARS projects currently do, and I can let Rick talk to the transmission technologies.

RICK GONZALEZ: Well, the New York transmission owners are the experts in the actual construction and design capabilities, but it is my understanding that replacing -- or, using existing right-of-ways, and by replacing lower-voltage transmission lines with higher-voltage transmission lines in those same existing corridors, improves the power-transfer capability significantly.

SENATOR O'MARA: We've heard a lot of testimony today about the power-producing capabilities of upstate, and the limits of the transmission to get it downstate where it's needed.

Are you in agreement that we have sufficient production capabilities across New York State if we can get our transmission facilities upgraded?

RICK GONZALEZ: There are currently sufficient capability to meet New York State's demands.

We had some hot-weather events this summer, and we utilized the Somerset asset here, as well as other upstate resources, so those resources play an important part in meeting the reliability needs in New York State.

THOMAS RUMSEY: I think it's important, also, if you could alleviate all congestion in the state,

just make a magic wand and you can all compete evenly, there's a very disruptive pricing mechanism right now in the energy industry, and that's the cost of natural gas.

All of generation has to compete, and win in the competitive marketplace.

And right now, with low natural gas costs, it makes some, particularly fossil generation, very challenged in that competition. That's nationally.

Across the country, 10 percent of the coal has been replaced by natural gas.

If you look at our interconnection queue, what's coming to New York State is predominantly natural gas, wind, with some improvements to the nuclear -- current existing nuclear fleet.

So, if you look at what developers are bringing to the NYISO to evaluate, it's predominantly natural gas.

And, at $3 gas prices, it's incredibly challenging for other assets, particularly fossil assets, to compete.

SENATOR O'MARA: Yeah, but, as we know, and as we see the economic cycles we go through, that's not likely to remain --

THOMAS RUMSEY: Absolutely.

SENATOR O'MARA: -- the case for, certainly not forever. The question is: How long?

And, it is a benefit to us across the state to have this diverse fuel supply for when those conditions change.

Is that correct?

THOMAS RUMSEY: That's absolutely correct.

For the second time in my life, I'll agree with Gavin.

[Laughter.]

THOMAS RUMSEY: The balanced-portfolio approach has to be the way that you approach energy.

It simply has to be.

SENATOR O'MARA: Well, my goal today was to get you to agree with Gavin, so I'm done with questions now.

[Laughter.]

THOMAS RUMSEY: All right. Thank you, sir.

SENATOR MAZIARZ: Assemblywoman?

ASSEMBLYWOMAN CORWIN: (Shakes head.)

SENATOR MAZIARZ: Thank you very much, Rick and Tom Rumsey. We appreciate you coming.

THOMAS RUMSEY: Thank you very much.

RICK GONZALEZ: Thank you.

SENATOR MAZIARZ: Our next testimony is going to be offered by Ken Pokalsky of The Business Council.

KENNETH J. POKALSKY: Good afternoon.

Thanks, Senator, for the invitation to participate today on behalf of The Business Council.

And I also want to thank the panelists for sticking it out, because it's been a long hearing, but, very important testimony on very important issues.

So, on behalf of The Business Council, I appreciate the opportunity to come today.

I'm joined by Darren Suarez, who manages our -- both our energy and environmental program on a day-to-day basis.

The Business Council has about 3,000 members across New York State. It's a very diverse membership.

And in the energy arena, we represent generators, transmission companies, local utilities, and the vast majority of our members are industrial and commercial energy consumers.

And despite occasional disagreements among those members and those sectors, which is not surprising, given the zero-sum tradeoffs that are

often inherent in the types of issues we work on in the energy arena, our members have uniformally -- uniformly supported the advancement of a New York State energy policy dedicated to the development of cost-competitive and reliable energy.

A major focus -- our major focus is on necessary improvements to the state's "energy highway."

The last major cross-state transmission project was built in the 1980s.

And it was discussed earlier, a recent assessment of the state's transmission needs indicates that there's nearly 5,000 miles of in-state lines that will approach their -- the end of the useful life and will require replacement over the next 30 years.

And while the need for transmission upgrades has been in the news lately, over the last couple of years, unnoticed by many New Yorkers, the state has experienced a significant shift in our generation fuel diversity.

Simply put, it has been mentioned numerous times today, some coal- and petroleum-based plants are no longer operating, or operating at reduced levels, due to combined factors, including low

natural gas prices, and increased cost of environmental compliance.

We believe the State Energy Committee is very correct in reviewing New York State's transmission and generating needs together.

The State can't maintain fuel diversity and ensure reliability without acknowledging that more than half of the demand for electric power in New York occurs in the New York City metropolitan area, while more than 60 percent of the power supply comes from generators located primarily in Upstate New York.

Now, I wanted to briefly touch on four topics that you asked about in the hearing notice, today, and I'll skip through the testimony relatively quickly --

SENATOR MAZIARZ: Thank you.

KENNETH J. POKALSKY: -- so, I will not read it.

First, and foremost, for our membership, it's critical, when you're looking at any aspect of energy policy, to do so in the acknowledgment that New York State energy consumers -- residential, commercial, and industrial -- pay among the highest electric power prices in the nation. It's been that

way for -- for several generations.

Recent data: Residential rates are about 60 percent above the national average. Commercial about 65, industrial about 40 percent, above the national average.

Specific projects or policies that are dependent upon either new energy assessments or, potentially, above-market power-purchase agreements, or any other type of additional consumer-funded subsidies, in our view, need to be considered in the context of these cost issues.

And, power costs, you know, repeatedly, we hear from our member companies, are among the most significant costs-of-doing-business issues facing New York State's business community.

There are many things that can be done to address the cost issues in New York State.

Regulatory reform, we've just begun to scratch the surface on looking at the -- both, the nature of the scope and the requirements of environmental mandates and other regulatory costs that add to the cost of doing business in New York State.

State and local taxes are certainly in there.

If you look at the major drivers of the cost

differences in New York State, energy and electric power system, fuel mix is number one. As mentioned, our relatively high reliance on natural gas.

And, state and local taxes are number two.

The most significant differential in the tax arena being, real property taxes, and the cost of property taxes on generation and transmission facilities.

So we need to be always mindful, when we talk about new programs and initiatives: Are we adding to or reducing State-imposed costs on electric-power system?

Second topic is transmission.

Business Council supports transmission initiatives that will result in delivery of reliable, cost-competitive energy.

We do think there's a number of ways to approach those goals.

As has been discussed, there's congestion along our 11,600 miles of high-voltage transmission lines in the state.

With the -- one-third of the state's electric load in New York City, we simply don't have sufficient capacity to move power from downstate to upstate.

The calculated opportunity costs, or added cost of transmission, due to this congestion, was calculated at about $1.2 billion in 2010.

We need to commit to projects that will improve the overall capacity to the state's transmission system, like those contained in the recently completed STARS report.

And I'm not going to go into those in detail. You've heard about them in previous testimony.

The proposed -- this detailed study, three years in development, outlines specific and practical electric-transmission projects that will bolster the power grid, provide economic benefits, support development of renewable resources, and ensure a robust power system for New Yorkers.

Specifically, one of the issues this Committee asked about, in our view, the proposed campaign -- or, Champlain-Hudson Power Express is a one-off transmission project that does not result from this comprehensive planning initiative.

It's such, in our analysis, does not address many of the objectives of the STARS report, and will circumvent, rather than improve, the state's transmission system.

The Business Council does not support the

project.

And trust me, that is not an easy conclusion for us to come to. In a -- The Business Council, I think, is one of the most aggressive and consistent advocates for new capital investment in New York State, and we don't have many multi-billion dollar proposed private-sector investment projects in the state. But, based on input from member companies, and our review of the project, we do not support Champlain-Hudson Power Express.

Third topic: Fuel diversity.

One of the important facts that was -- we think, lost, or simply ignored, in the run-up for New York State entering into RGGI, and I think it's ignored in some of the repeated calls we hear, on the need for New York State to take new initiatives, or additional initiatives, to reduce greenhouse-gas emissions, is that New York State has been -- had been, continues to be, one of the nation's most fuel-diverse states when it comes to electric -- its electric power system.

And, one of the states -- one of the lowest carbon-emitting states from its electric power system, with nearly -- not quite, but nearly 50 percent of our power -- our base-load power

generation come from -- coming from non-emitting sources: major hydro plants, nuclear-power plants, and recent deployment of new renewables.

We agree the State must support policies and encourage fuel diversity, to avoid, you know, additional disruptions or price hikes if we come too reliant on one source of power.

Perhaps, more than any other single source, the emergence of new supplies of natural gas, from what I'll call "non-traditional sources," unfortunately, not yet from those non-traditional sources in New York State -- is having a significant impact on the electrical system.

These new natural gas resources, primarily from shale formations, are transforming the supply and price outlooks for natural gas in the competition among energy options.

These developments in the natural gas arena can be expected to affect the mix of fuels used to generate electricity, as well increase the need for stronger coordination between electric-grid operators and natural gas industry.

Due to what's happening in the natural gas market, some coal and oil plants may no longer be operating, as I said earlier, due to the combination

of low gas prices and the increase in cost of environmental compliance.

And some -- by some predictions, many -- 12 in-state coal and mixed-fuel facilities will retire or be mothballed this year.

These retirements will have a significant adverse impact on local employment tax rates, and we believe overall grid reliability.

The State should critically review these retirements to determine steps that can mitigate, prevent, or to ter [sic] their closure -- or, deter closure, including, as Senator Maziarz discussed earlier today, incentives for, and reducing barriers to, repowering existing plants.

As always, we urge that any policy initiatives be reviewed with an eye to the potential impact on rates for residential and business consumers.

And, fourth, I say "Other Policies," but, it really -- I want to speak to, specifically, the issue of RGGI.

Prior to the end of the 2012 legislative session, there's some discussion in Albany, and in the northeast, about initiatives that would increase, and were designed to increase, the cost of

RGGI allowances, and use additional proceeds to do a number of things, including, perhaps, assist communities with a transition from power-generating communities to power-consuming communities.

Generally speaking, we strongly recommend against these or other proposals to increase or inflate the cost of RGGI compliance.

The RGGI program has resulted in significant cost increases to business and residential customers, and to power generators, as we've heard from earlier participants in this hearing, while contributing to reduced fuel diversity, and has done little, if anything, to address the global challenges of climate change.

So that's a set of brief comments on a handful of the issues the Committee had asked about.

Darren and I, we appreciate the opportunity to be here today, and look forward to any questions or comments you have on these or other topics.

SENATOR MAZIARZ: Thank you very much, Ken, we appreciate it. And we appreciate the work The Business Council does year-round.

And I'd just like, I don't really have a question, but an observation.

I think it's very significant that

The Business Council, as you very adeptly pointed out, doesn't very often oppose investment in New York State.

But, clearly, this particular type of investment probably has more long-term negative impact on just the energy market, on job creation, and particularly in Upstate New York. I'm talking about the Champlain-Hudson line.

So, I would just make that as an observation.

I appreciate the frankness of The Business Council on that point.

KENNETH J. POKALSKY: Sure.

SENATOR MAZIARZ: Senator Ritchie?

SENATOR RITCHIE: You talked about what New York can do to reduce energy costs, one being, regulatory reform. You mentioned property taxes.

Can you give me a few other examples of what would be helpful?

KENNETH J. POKALSKY: Well, some of the big-picture issue -- or, one of the big-issue issues, we have a -- at least a draft game plan, if you will, for promoting -- or, identifying these major transmission needs.

We now have to look at what the State can do to promote investment or eliminate barriers to

investment in new transmission.

Streamlining Article 7.

We've had legislation in the past, like we did in Article 10, to give expedited review to transmission projects in existing right-of-ways that would reduce -- or, produce a more efficient delivery of electric power.

Making sure that project reviews happen in a timely fashion.

We just had, last year -- about a year ago, we had 10 regional economic development councils talk about barriers to new investment in their regions. And every one of them said, state and local land use and project-review processes delay or discourage new capital investment in New York State.

You know, a streamlined Article 7, and other expedited reviews, whether it's a need for a SEQR review for a project, for coastal zone for when we're impacting navigable waterways, making these things happen on a timely fashion, with clear set of rules, rules that we don't ignore, because it's convenient on a case-by-case basis, are things the State can do to make -- encourage investments and make -- and allow investment decisions to happen more quickly.

And we have a number of these already drafted, and be happy to share with you --

SENATOR RITCHIE: That's great.

KENNETH J. POKALSKY: -- and share with the administration.

SENATOR RITCHIE: Thank you.

KENNETH J. POKALSKY: You bet.

SENATOR MAZIARZ: Senator O'Mara?

SENATOR O'MARA: No questions.

Thank you.

SENATOR MAZIARZ: Assemblywoman Corwin?

ASSEMBLYWOMAN CORWIN: Just real quick, Ken.

As far as energy costs to your members, how much of a priority is that for them?

Do you consider that one of the top priorities, or --

THOMAS RUMSEY: It always -- it is always one of the top two or three. And we see it, no matter where the company is located or what business they are in.

We've seen a little bit of price easing on electricity driven by natural gas prices, offset by the rise in fuel.

So any of our business who has, you know, transportation as a key concern to them, they're hit

at the other end.

But every survey we've ever done since I've been at The Business Council, energy costs have been in the top three.

ASSEMBLYWOMAN CORWIN: All right. And would you say that's a deterrent for businesses coming into New York State? Is that your --

KENNETH J. POKALSKY: It is, particularly where you -- if you look at where some of our, if -- and say, in the manufacturing arena, who are competing with both in the U.S., some of the southern states who have had historically low-cost electric power, they -- they're not subject to some of the environmental rules imposed both by Congress and by the State, that we are in generation. And, with overseas nations, who -- you know, whose attention to environmental controls are minimal.

So, yeah, it's -- if you look at where people can make investments in new business, there's certainly many low-cost energy places. And for an energy-intensive business, those factors can be significant.

ASSEMBLYWOMAN CORWIN: Thank you.

KENNETH J. POKALSKY: You bet.

SENATOR MAZIARZ: Thank you very much, Ken.

Darren, we appreciate it.

Our last testimony of this hearing is going to be offered by Phil Wilcox, from the International Brotherhood of Electrical Workers Local 97, and Mike Lutz from the IBEW Local 966.

MICHAEL LUTZ: Senators, Assemblywoman.

First, I would like to thank Senator Maziarz and the Committee. Without your leadership, not only this matter, but many local issues would be forgotten, I believe, west of the 81 corridor.

I'd also like to thank our local representatives, Supervisor Engert, and Legislator Syracuse for their efforts in all of this locally.

My name is Michael Lutz. I sit in a unique position.

I am president/business manager of Local 966, IBEW. I proudly represent the union workforce at Somerset Station;

I also represent the New York State Electric and Gas Workers in Lancaster, Lockport, Hamburg, East Aurora, and the Gowanda areas;

I am Secretary of the New York State Utility Labor Council, which has a membership of approximately 15,000 in New York State;

And, I hold the same position in the IBEW 3rd District Utility Workshop. That organization covers all of New York, Pennsylvania, Delaware, and New Jersey;

My last duty is Secretary/Treasurer of System Council U-7, which represents all the NYSEG workers in New York State, covering an area from around Albany, to Plattsburgh, Binghamton, Geneva, Elmira, and as I have mentioned, all the local locations.

As you can see, this issue affects the entire utility workforce, not only the people I represent, but all of New York State.

I have sat in discussions about these very issues for well over 10 years. Though they vary by state, they are familiar to all of us in the utility industry.

If I or my fellow friend, and speaker, Mr. Wilcox, sound redundant, it is because we have tried to address these issues with anybody that would listen.

I know that you have heard from us many, many times, so I will be as brief as possible in addressing our concerns, and the direction I believe should be taken by New York State.

I will begin with the generation issues.

In New York State, you are sitting approximately 5 miles away from what the industry would consider the cleanest coal-burning plant east of the Mississippi. It is reliable, efficient, and has the best workforce operating the facility.

It contributes to the local community and to Niagara County in a way that no other industry compares. It provides jobs, tax payments, and ancillary income for many small business entities in Western New York.

It is the largest coal-fired power plant in New York State. It can generate up to 675 to 680 megawatts of power. It contributes 80 percent of the town of Somerset tax base, 70 percent to the school tax base, and 5 percent to Niagara County's tax base.

Its sister plant on Cayuga Lake, though smaller, contributes a substantial portion to the local economy also.

Also in Western New York, we have the Huntley and Dunkirk facilities.

Mr. Wilcox can speak to their contributions for their local economies where they reside, and to their obligations supporting the tax bases that they

operate in.

In addressing the generation side of this discussion, it hinges on New York State energy diversity. It cannot be dependent on one source of energy, and I believe that generation diversity is the solution to the problems we face in this state.

It must be a multifaceted approach that includes solar, wind, hydro, coal, biomass, oil, nuclear, and gas.

For anyone that believes that we can be dependent on one or two sources has not lived through the petroleum shortages in the mid-'70s, the natural gas bubble in the '90s, and/or a cloudy or a still day.

Nationally, federal regulations will eliminate over 30,000 to 50,000 megawatts of generation, which equals approximately 74 "Somersets" from the equation, making these plants even more necessary for this diversity.

The Somerset plant sits in a unique position: Clean, efficient, able to diversify fuels to include biomass, a professional workforce, and a facility that contributes substantially to the local economy and tax base.

But, therein lies the second issue that I

will address: Transmission of that power throughout New York State.

The problems of electric transmission have been known in this state for decades. We hear it all the time, that there is an "aging infrastructure in this country".

Our utility industry -- in our utility industry, we have known it all too well for years.

Though we have been told that the economy has been in decline, look at the developments that have sprouted up, even in the Western New York area.

In Upstate New York, it has been slower, but there has been an increase in demand for electric load.

But downstate, comparatively to Western New York, it has been exponential.

It would seem that in this day and age, systems would have advanced to meet the needs.

They haven't.

The aging electrical transmission system in New York State has been known for years, but the uncertainty of regulation in the past has led to investor-owned utilities sitting and waiting to see what state and the federal government would do about it.

Knowing this, ex-government officials decided that they would invest or recruit investors, take advantage of the inaction, and go outside of the country and try to run, quote, an extension cord from Québec to New York City.

This action would not cure any of the vitally important transmission issues in New York State, benefit any of the local economies that they are proposing putting in this line -- putting this line through, and running this "extension cord" in some of the most pristine waterways in New York State, which would only be a detriment.

The job impact would be minimal, and this direct-current line would have little, if any, effect of this -- except for this power going directly to New York City, and all monies going directly to the investors and to another country.

If any of us in this room do not realize that this scenario -- what this scenario sounds like, then we are all living in a shell.

There is a better solution.

Governor Cuomo has put out an RFI for an Energy Highway Initiative. It has generated many specific transmission projects, and specific choke points that can be addressed in the near future.

It has brought together some strange bedfellows. All of the major investor-owned utilities have grouped together to form an organization, Transco, to address these issues.

Now that they know that the monies can be directed to specific projects that will bolster their systems and strengthen the transmission system throughout the state, they are actively planning for construction and upgrades.

These transmission problems or line constraints that exist contribute to Somerset's problem of not being able to move its power to where it is needed in the state.

All of this is projected to create thousands of jobs in New York State. It will employee New York State workers, enhance New York State businesses, and produce an estimated $7 billion for local New York State economies.

There are many proposals out there, but this seems to be one of the most effective in addressing the immediate needs of the problems I have mentioned.

And I believe I speak for the organizations that I represent. These problems, when solved, will be with a highly trained professional workforce,

that includes apprenticeships, and a highly skilled workforce, that I am proud to represent.

To me, it comes down to doing the right thing.

Do we keep and enhance the jobs, people, economies, businesses, localities, and the way of life that we enjoy in New York?

Or, do we just pass it through, run the cord to another country, and become dependent on them for energy needs, giving monies away out-of-state and -country, and wait to see more people leave, plants and businesses close, and watch local and state economies and taxpayers take it on the chin again, and then do we just say, "Boy, we should have done something"?

Now is the time to act, and with your help, Senator, and this Committee, I trust we will do the right thing, and act now.

Thank you for the opportunity to speak, and the time it took.

SENATOR MAZIARZ: Thank you very much, Mike.

Phil, do you want to add something?

PHIL WILCOX: Sure.

Good afternoon.

My name is Phil Wilcox. I'm a business rep

for IBEW Local 97.

We represent National Grid and host of power-generation companies in New York State, and Oswego area, and certainly Western New York at the NRG plants.

Special thanks to Senator Maziarz and the entire Senate Energy Committee for their attention to these enormously important New York State energy issues.

Not since the days of Robert Moses has there been so much at stake for the New York State energy economy.

The balance of what I have here only reiterates things that have already been said this morning, so I guess I can go right to the concluding statements, and then make a few comments.

The core of the New York State energy economy is threatened at the prospect of becoming dependent on imports.

Conversely, with the major investment into our New York State transmission system, we'll realize thousands of jobs, preserve energy independence, protect fuel diversity, stimulate renewable-energy development, and can become a national model for energy policy.

Just to refute a couple of comments made this morning:

The New York State AFL-CIO is 100 percent behind the New York Transco proposal; 100 percent opposed to TDI.

The International IBEW, both construction and utility, 100 percent behind New York Transco; totally opposed to TDI.

The Sierra Club, 100 percent behind New York Transco; totally opposed to TDI.

And with that, you know, we'll take a couple of questions.

SENATOR MAZIARZ: Thank you very much, Phil.

And I did want to point out, I was going to point out, after you spoke, about, we did receive a letter this morning, actually, from the AFL-CIO, expressing that very viewpoint; that they were very much in support of the Energy Highway Initiative, and very much opposed to the Champlain-Hudson Express line.

You know, the unfortunate part of going last in a hearing, is that everything's been said, and asked, and answered, numerous times over.

So, I'm not sure if anyone has any questions or comments that they would like to make.

Senator Ritchie?

SENATOR RITCHIE: Well, just, Phil, could you clarify, I keep hearing both sides of the issues: From the labor groups, on one side, saying that there's going to be job losses. And then a gentleman today saying, jobs are going to be created.

Can you just give me your opinion, and elaborate on what the issue is going to be?

PHIL WILCOX: Couple of things we've heard from our consultants.

The Champlain line will create a conduit to suck over a billion dollars a year out of the New York State energy economy. That's going to change the cost-benefit analysis necessary for our own transmission upgrades.

You've heard the numbers from Transco, a total of 46,000, I believe, in direct and indirect jobs, plus renewable-energy jobs.

We were approached by Blackstone for our endorsement. They promised 300 jobs in the New York City area for the interconnect.

There's no comparison.

You know, they're saying in the trades that some of them will build their own gallows if it's

the only work they can get.

And there's no clear example of building our own gallows, and running an extension cord to Canada.

So there's no comparison to the job numbers, from our perspective.

SENATOR RITCHIE: Thank you.

SENATOR MAZIARZ: Senator O'Mara?

SENATOR O'MARA: No.

Thank you.

SENATOR MAZIARZ: Assemblywoman Corwin?

ASSEMBLYWOMAN CORWIN: If I could just comment.

Like I said, I visited the Somerset plant recently. Top-notch operation there. It really is.

You know, congratulations to all of the people in your organization who are working there, because it's really a very impressive site.

PHIL WILCOX: Thank you.

ASSEMBLYWOMAN CORWIN: So, kudos to you.

SENATOR MAZIARZ: Well, again, I would certainly associate myself with the Assemblywoman's comments. I've been out to the plant numerous times --

PHIL WILCOX: Yes, you have.

SENATOR MAZIARZ: -- in the last many years, and you run a great operation out there, and we want to see it continue here.

I would just like to thank all of those who testified, all of those who attended.

You know, for us, it's a little unusual to see so many Albany faces here in Barker.

We appreciate you coming.

I thought it was important that we have this hearing.

And I thank my colleagues, Senator Ritchie, Senator O'Mara, and Assemblywoman Corwin, I thank them for attending here today.

I thought it was important that we have this here in the town of Somerset, in Barker, in a community in Upstate New York that is so heavily impacted by the future energy decisions.

I, lastly, again want to express my appreciation to Supervisor Engert, and to the staff here of the Committee, and of the Senate, for making this hearing so pleasant.

And thank everyone for coming, again.

And, with that, if none of other members have any comments or questions, I would declare this hearing closed.

Thank you.

(Whereupon, at approximately 2:25 p.m., the public hearing held before the New York State Senate Standing Committee on Energy and Communications, concluded.)

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