

**REMARKS OF ROGER B. KELLEY
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(Introduced by Chris Trabold.)

Thank you, Chris, and good evening. It's great to be back home.

I'm sure most of you know that Chris succeeded me as IPPNY chairman at the start of 2005. A tough act to follow, but Chris has done an extraordinary job of serving this organization, protecting its interests and expanding its influence. And—like me—he's benefited immensely from the presence of a man I hired—Gavin Donohue.

When Gavin heard that I'd be going to the Power Authority, he immediately called me—I assumed, to offer congratulations. It turned out, though, that all he really wanted was to tell me he needed a speaker for this conference and that, as NYPA's new president, I'd qualify for the assignment.

So here I am—though I'm still waiting for some kind words from Gavin.

I do, however, appreciate the warm welcome I've received here tonight. And I'm very pleased to have this opportunity to share some thoughts with you at a critical time for the electric power industry, for the members of IPPNY and for the Power Authority.

What may seem like a pretty dramatic career change has actually made me think about some of the ties between our organizations.

Together, we account for virtually all of the electricity that's produced in New York State. And much of the power NYPA uses to serve customers ranging from governmental entities in downstate New York to businesses throughout the state is generated by the companies represented here tonight.

Beyond that, we all have a part in addressing some of the most imposing energy problems in this state's history.

The fact is that—with the encouraging exception of new wind generation upstate—the additional power plants and transmission lines that New York will need to meet its future energy requirements have not yet been built.

There are, of course, some very clear explanations for this.

The absence of a power plant siting law to replace the Article Ten legislation that expired at the end of 2002 is a major concern. I know there are significant differences of opinion, but I hope the policymakers in Albany will arrive at a resolution that leads to enactment of a new siting law.

Still other obstacles have arisen in the years since Article Ten expired.

We're seeing a steep rise in construction costs for power plants and transmission lines because of huge increases in demand for raw materials, labor and other items. Longer manufacturing lead times are drawing out project construction—increasing debt costs. This was underscored in a recent report for an affiliate of the Edison Electric Institute which found that prices for steam generating plants, transmission projects and distribution equipment went up by 25 to 35 percent between 2004 and this year.

In this climate, there is a need for greater reliance on long-term contracts or long-term markets to ensure potential investors that debt will be repaid. The absence of such mechanisms has impeded access to the credit markets.

The New York Independent System Operator predicted earlier this year that substantial infrastructure additions—in the form of generation, transmission or demand resources—will be needed by 2011 to ensure reliable service in Southeastern New York, and beginning in 2012 for the state as a whole. Those lead times are already very tight for licensing and construction of new facilities.

As a follow-up, the ISO last week issued its 2007 Comprehensive Reliability Plan, which found that market-based generation and transmission proposals, along with plans by the regulated transmission owners, would—if implemented—meet or exceed reliability requirements through 2016. But the report also cited a number of risks and uncertainties that could affect these projects.

Bear in mind, too, that the ISO forecasts are based strictly on reliability needs. They don't consider the potential benefits of new capacity in encouraging competition and reducing costs to consumers, in providing fuel diversity and in cleaning the air by permitting retirement of older, less-efficient units. These are all essential considerations as we plan for the future.

Against this backdrop, I'd like to talk to you about how I see the New York Power Authority's role in meeting the state's energy requirements.

First, let me say that Governor Spitzer has told me that he wants to use the Power Authority to the greatest possible extent to benefit the people of this state.

This means that NYPA will move aggressively to help meet the governor's ambitious "15 by 15" target of cutting the state's energy use by 15 percent below the forecasted level by 2015.

It means we will figure prominently in efforts to achieve the goals of the Renewable Portfolio Standard and the Regional Greenhouse Gas Initiative.

And it means we will again focus—where appropriate—on our traditional role of electric power infrastructure development.

We continue to view the private sector as the primary provider of new generation—and new transmission. But we will do what is necessary if needs are not being met.

Nowhere are such needs more acute than in New York City, where a series of power-supply agreements call for NYPA to serve the city government and other large public entities through 2017. A number of factors could—as soon as 2010—threaten our ability to provide reliable, economical service.

Under two agreements concluded a number of years ago, we'll be required to close our 885-megawatt Charles Poletti Power Project in Queens on January 31, 2010, and—by sometime next year—we might have to shut down two combustion turbines we installed in that borough in 2001. Together, the loss of Poletti and the smaller plants would deprive us of 964 megawatts of much-needed capacity within the city. Already, under the Poletti agreement, we've had to limit the plant's capacity factor.

In light of all this, the Authority in 2005 issued a request for proposals seeking 500 megawatts that would help us meet our in-city capacity requirements.

The winning bidders were FPL Energy and Hudson Transmission Partners. FPL would obtain the power from a plant operated in Central New Jersey by another independent power producer—AES. It would ultimately be carried into the city on a new 345-kilovolt transmission line to be built under the Hudson River by Hudson Transmission Partners.

The Authority views this capacity as a vital new asset, and we're working with Hudson Transmission and PJM to resolve significant interconnection cost issues on the New Jersey side of the line. We're hopeful these will be settled. But—given the time required to do so—it's now clear that the line won't be in service before the first quarter of 2011—rather than in the summer of 2010, as we originally anticipated. This has only heightened our concerns about the outlook for New York City.

As of now, we project that a tight capacity market—made significantly tighter by a Poletti shutdown—could conservatively increase annual costs to our governmental customers in the city by \$80 million to \$100 million in the 2010-2011 period. And that's without considering the impact of a pending increase in Con Edison's delivery rates.

Looking further ahead, it's clear that—even if all goes smoothly with the Hudson Transmission project—still more capacity will be required to meet the governmental customers' long-term needs.

We've been discussing the overall situation with city officials and the other customers and have recommended to them that they consider having us issue another request for proposals for in-city capacity.

We intend to issue a two-phase RFP—with the “fast-track” first phase seeking proposals for 500 megawatts of capacity that could be available by the summer of 2010. These would essentially be limited to projects that are already well into engineering, siting and permitting. And, as those of you who know me are aware, I fully understand the dynamics of the market and will ensure that there will be timely review of the RFP.

The second phase would involve proposals that would take more time to develop and submit, and that would have more-flexible in-service dates.

The Power Authority is considering—as one option—building its own power plant—at the Poletti site or elsewhere in the city. Other approaches could include construction by a private entity, a repowering of Poletti, purchases from the private sector or a “build-buy” combination. Depending on the supply outlook, we will look at the possibility of building or purchasing capacity to meet citywide needs—not just those of our customers.

Our recommendations to our customers and our trustees will be based on the results of each phase of the RFP—on what we view as the most favorable overall outcomes for the customers and the city.

The Power Authority recognizes the skill and experience that companies like yours could bring to a power plant construction project. We would welcome—and carefully consider—proposals for a public-private partnership.

Under certain scenarios, for example, a successful bidder could design, build or operate the plant for us. There could also be an arrangement in which the Authority and a private entity would share ownership of a new plant, with each entitled to a portion of the output. Under some of these approaches, costs to NYPA's customers could be lowered by taking advantage of our tax-exempt financing.

I'm well aware that potential construction by NYPA—on its own or in a partnership—represents a significant change from the four supply RFPs we've issued since 2001. These entailed only power purchases or financial arrangements with other parties. But I believe we must explore all possibilities—in cooperation with our customers.

We're also considering how to proceed in response to the recent Public Service Commission order approving the National Grid-KeySpan merger and requiring—among other conditions—the sale of KeySpan's 2,450-megawatt Ravenswood plant in New York City. I know many of you were delighted that the sale was required—and somewhat less pleased that the Power Authority will be allowed to bid on the plant.

We were surprised ourselves that the PSC included us. At this point, we're evaluating the merits of Power Authority involvement in the bidding process. As with our own RFP, we'll base our decision on the needs of our customers and the city.

Let me assure you that the Power Authority remains firmly committed to viable competitive power markets in New York State. The goal must be to strengthen these markets and to do everything possible to encourage private-sector investment in the infrastructure that we need.

To this end, we believe that establishment of an effective ISO forward capacity market—at least in New York City—deserves serious consideration. The current six-month capacity market creates considerable uncertainty that can only inhibit investment in new power plants.

We also think the PSC should continue to look carefully at encouraging the state's investor-owned utilities to enter into long-term power supply agreements with independent power producers as a backstop to the competitive markets.

We're participating in the commission's proceeding on this issue and have stated that we believe such contracts could facilitate financing for new or repowered generation, as well as transmission improvements and energy efficiency and renewable energy projects. We've also demonstrated our support for this approach through the various RFPs I mentioned earlier.

There are, however, difficult issues that have to be resolved with respect to utility contracts, including cost recovery in the IOU rates; potential effects on retail competition; and—as you well know—possible impacts on capacity prices paid to existing generators.

Besides encouraging the construction of new power plants, we must focus on improvements to the state's transmission system. This has become even more essential since the U.S. Department of Energy included New York in one of the two National Interest Electric Transmission Corridors it designated under the 2005 federal Energy Policy Act. If we are unable to come up with our own transmission solutions, there is a possibility that the federal government will do it for us.

Of course, new transmission under certain circumstances can reduce or eliminate the need for new generation—and the reverse is also true. The Power Authority's preference is for market-based solutions that provide the greatest benefits in terms of reliability and economics—and we hope an economic planning process now being developed by the ISO will produce such solutions. However, we also recognize that regulatory backstop initiatives by transmission owners may be required to meet reliability needs in the absence of construction by independent developers.

As with generation, the Power Authority cannot rule out a possible future role in construction of new transmission. But our current focus is on rigorously maintaining our existing system and on identifying possible opportunities to strengthen it.

At the moment, we're involved in an unusual collaborative effort—known as the Tri-Lakes Reliability Project—to help resolve longstanding power delivery problems in the Adirondack Park.

We're working with National Grid and our municipal system customers in Lake Placid and Tupper Lake to build a 46-kilovolt power line that's scheduled for completion on time for the 2008-09 peak winter period.

NYPA obtained the regulatory approvals for the line and is providing the financing. We'll own the line until the start of 2012—when National Grid will buy it from us. They'll also be responsible for operation and maintenance. And we're cooperating with the two municipal systems to promote energy efficiency and clean energy technologies in their service territories.

While on the subject of clean energy, I'd like to briefly mention two other matters that may be of interest to you.

I was honored to be appointed to the New York State Renewable Energy Task Force, chaired by Lieutenant Governor Paterson. The group—which began meeting in late June—includes 16 representatives from state and local government, the private sector and the environmental and academic communities. It's making steady progress in its efforts to identify means of expanding the state's use of renewable energy and alternative fuels while also advancing energy efficiency.

Just this afternoon, the lieutenant governor was briefed on the major recommendations in four subcommittee reports. The process of refining those proposals will continue.

The task force's recommendations will complement the Renewable Portfolio Standard—as well as the Regional Greenhouse Gas Initiative and the governor's 15 by 15 program—in combating global warming and reducing our dependence on expensive and potentially unreliable energy sources. They could also open opportunities for you in the renewable energy field.

Meanwhile, the Power Authority is working diligently with one of your members—NRG Energy—toward possible construction of an advanced clean-coal power plant at NRG's Huntley station in Western New York. Some of you may recall that the Authority conditionally awarded a power-purchase contract to NRG last December under which we'd obtain up to 600 megawatts from the integrated gasification combined-cycle plant.

Through the "Strategic Alliance" that we've formed with NRG, we're trying to identify measures to bring down the cost of the plant—and the power—and to provide for carbon dioxide capture and sequestration.

These related issues—cost and sequestration—bear on development of clean-coal plants throughout the nation, and I think it's fitting that NYPA and NRG are cooperating in a significant initiative to resolve them.

I say that because I believe it's essential for the Power Authority and New York's independent power producers to join forces wherever possible to take on major energy and environmental challenges.

As I noted at the start, we're already doing so in a number of ways—and I'm confident we can build on this foundation.

I recognize that there inevitably will be times when our interests diverge—it was, after all, not too long ago that I was sitting where you are tonight. But I believe that the challenges faced by New York State compel us to find common ground in meeting them.

Thank you.