



August 24, 2012

Mr. Thomas Dvorsky  
Director, Office of Electric, Gas and Water  
State of New York Department of Public Service  
Three Empire State Plaza  
Albany, New York 12223-1350

Subject: AES Notice of Intent to Mothball Cayuga Station Units 1 and 2

Dear Mr. Dvorsky,

In your letter dated July 25, 2012 to Mr. Richard Gonzales, Chief Operating Officer – New York Independent System Operator and Ms. Mary Smith, Vice President, Engineering and Asset Management – Iberdrola USA Management Corporation, pursuant to Commission Order in Case 05-E-0889 regarding generation unit retirement, you requested that the New York Independent System Operator (NYISO) and New York State Electric & Gas (NYSEG) work together to perform an analysis to determine the effects on electric system reliability and local reliability issues of the July 20, 2012 announcement of its intent to mothball its Units 1 (150 MW) and 2 (150 MW) at their Cayuga Station generating facility located in Lansing, New York and to propose solutions in the event the retirement adversely affects reliability. NYSEG provides the following response as a result of our analyses to-date and discussions with NYISO operations and planning staff.

After official notification to the Commission of its desire to mothball its 300 MW two-unit generating facility, NYSEG completed local planning studies with both of the subject units out of service. NYSEG identified a thermal overload of the 336 ACSR conductor in the Elbridge to State Street 115 kV line #972 under all facilities in-service system conditions at a local area load level of 135 MW which is approximately 73% of the projected 2012 summer peak load. Exposure to this condition historically has been limited to the months of June through September for a total of 221 hours in 2011.

Our studies also indicate that loss of the Quaker Road to Sleight Road 115 kV line #980 will cause the conductor in the #972 line to exceed its summer LTE rating at a local area load level of 120 MW which is approximately 65% of the projected 2012 summer peak load. Exposure to

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this condition historically has been limited to the months of June through September for a total of 505 hours in 2011.

Also, loss of the Clinton Corn to State Street 115 kV line #971 will cause the conductor in the #972 line to exceed its summer LTE rating at a local area load level of 138 MW which is approximately 75% of the 2012 projected summer peak load. Exposure to this condition historically has been limited to the months of June through September for a total of 170 hours in 2011. In fact, during times when the Auburn summer load is at peak (185 MW), an outage of either the #971 or #980 lines would cause the #972 line to exceed its summer STE rating.

In anticipation of a cold standby of both Cayuga units and the potential impacts identified above, NYSEG proposed in Case 09-E-0715 a transmission reinforcement to the Auburn area. The reinforcement currently includes a new 14.5 mile, 115 kV line from National Grid's Elbridge Substation to NYSEG's State Street Substation with 1033 ACSR conductor routed significantly on existing National Grid right of way. In addition, in the event that Cayuga Station is going to be permanently retired from service, NYSEG is also proposing to rebuild the existing 14.5 mile, 115 kV line #972 from National Grid's Elbridge Substation to NYSEG's State Street Substation with 1033 ACSR conductor. This plan will eliminate the thermal overload problems in the Auburn area and will satisfy capacity and voltage requirements by creating a new transmission supply into the Auburn Division. Completion of the entire project will enable NYSEG to provide adequate and reliable electric service to all customers in the Auburn Division during either extended outages (planned or forced) of the Cayuga Station generating units (Phase 1) or in the event that one or both units at Cayuga Station are permanently retired from service (Phase 2). NYSEG is actively pursuing the first phase of this project and is intending to file an Article VII application around the end of 2012. The proposed in-service date is currently the end of 2016 for Phase 1.

Studies completed to date by NYSEG and the NYISO identify that in the interim, in an attempt to eliminate the potential normal system and contingency thermal overload problems of the #972 line from occurring, both units at Cayuga Station will need to be available and capable of being committed when NYSEG and the NYISO determine it is required to maintain system reliability.

Based on the preliminary study results from NYSEG and the NYISO, a coordinated study with NYSEG, NYISO, and National Grid is needed to further analyze other local transmission facilities outside of the Auburn area. This coordinated analysis will identify any additional potential reinforcements required to mitigate possible reliability issues on the bulk and non-bulk transmission system. Initial discussions with the NYISO conclude that the coordinated study and potential long-term solutions for the wider study area could be completed by the end of January 2013.



NYSEG has provided these findings to the NYISO and NYSEG understands that the NYISO will take the appropriate steps to model and study the Cayuga Station mothballing in the next Installed Reserve Margin Study and through the Comprehensive Planning Process to assess if there are likely to be impacts on the New York bulk power system.

If you require additional information concerning this issue, please contact me at (585) 724-8923.

Very truly yours,

A handwritten signature in black ink that reads "Mary R. Smith".

Mary R. Smith  
Vice President – Engineering and Asset

Management

Iberdrola USA Management Corporation

xc: R. Gonzales – NYISO  
T. Mitchell – DPS  
E. Schrom – DPS  
W. Yoemans – NYISO