



**Synapse**  
Energy Economics, Inc.

22 Pearl Street, Cambridge MA 02139  
Tel 617-661-3248 Fax 617-661-0599  
[www.synapse-energy.com](http://www.synapse-energy.com)

**Testimony of  
David A. Schlissel  
Before the Joint Committees on  
Government Regulations and Energy  
of the Massachusetts Legislature**

**March 18, 2003**

1 My name is David A. Schlissel. I am a Senior Consultant at Synapse Energy Economics,  
2 Inc, 22 Pearl Street, Cambridge, MA 02139. Synapse Energy Economics ("Synapse") is  
3 a research and consulting firm specializing in economic and policy analysis of electricity  
4 restructuring, particularly issues of consumer protection, market power, electricity market  
5 prices, stranded costs, efficiency, renewable energy, environmental quality, and nuclear  
6 power.

7 I graduated from the Massachusetts Institute of Technology in 1968 with a Bachelor of  
8 Science Degree in Engineering. In 1969, I received a Master of Science Degree in  
9 Engineering from Stanford University. In 1973, I received a Law Degree from Stanford  
10 University. In addition, I studied nuclear engineering at the Massachusetts Institute of  
11 Technology during the years 1983-1986.

12 Since 1983 I have been retained by governmental bodies, publicly-owned utilities, and  
13 private organizations in 24 states to prepare expert testimony and analyses on engineering  
14 and economic issues related to electric utilities. My clients have included the Staff of the  
15 California Public Utilities Commission, the Staff of the Arizona Corporation  
16 Commission, the Staff of the Kansas State Corporation Commission, the Arkansas Public  
17 Service Commission, municipal utility systems in Massachusetts, New York, Texas, and  
18 North Carolina, and the Attorney General of the Commonwealth of Massachusetts. I have  
19 testified before state regulatory commissions in Arizona, New Jersey, Connecticut,  
20 Kansas, Texas, New Mexico, New York, Vermont, North Carolina, South Carolina,  
21 Maine, Illinois, Indiana, Ohio, Massachusetts, Missouri, and Wisconsin and before an  
22 Atomic Safety & Licensing Board of the U.S. Nuclear Regulatory Commission. A copy  
23 of my current resume is attached to this testimony.

24 Synapse Energy Economics, Inc. ("Synapse") was retained by Healthlink to evaluate  
25 whether PG&E, on its own, could decide to permanently retire one or more of the  
26 generating units at its Salem Harbor Station if it is not granted an extension beyond  
27 October 2004 to reduce the emissions from the Station's three coal-fired units and one  
28 oil-fired unit.

1 The answer is no. The New England market rules and procedures prevent a generating  
2 unit owner from retiring a unit if such retirement would jeopardize the reliability of the  
3 electric system. A proposal to retire a generating unit must be reviewed and approved by  
4 the New England Independent System Operator (“ISO-New England” or “ISO-NE”) and  
5 the members of the New England Power Pool.

6 Thus, ISO New England would have to approve a request by PG&E to retire one or more  
7 of the units at the Salem Harbor Station if that retirement would cause reliability  
8 problems on the North Shore, in the Boston area, or throughout New England. In a letter  
9 to the Chairman of the Connecticut Department of Public Utility Control (the equivalent  
10 of the Massachusetts Department of Telecommunications and Energy), ISO-NE’s general  
11 counsel explained that:

12 The NEPOOL Agreement stipulates that owners of any bulk power  
13 facility in New England (generating stations, transmission lines,  
14 substations, etc.) must obtain ISO-NE and NEPOOL permission  
15 (through the [NEPOOL Agreement Section] 18.4 Process) to make any  
16 change in the facility’s capability, characteristics or status. ISO-NE  
17 and NEPOOL can reject the proposed change if it has significant  
18 adverse impacts on the secure and reliable operation of the bulk  
19 electric power system. The NEPOOL Reliability Committee reviews  
20 18.4 Applications and determines if proposals are technically  
21 acceptable. The NEPOOL participants Committee (NPC) grants final  
22 approval. If the NPC does not approve such a request (due to  
23 reliability issues), then it must develop some form of compensation to  
24 keep the unit in service.<sup>1</sup>

25 This is one of the provisions of electricity markets and system operation in New England  
26 that is designed to ensure that necessary facilities will be available to support system  
27 reliability, and that facility owners will be compensated. The precise compensation  
28 would be determined through a negotiation process between PG&E and NEPOOL.  
29 Consequently, there is no danger that PG&E can unilaterally decide to retire one or more

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<sup>1</sup> May 7, 2001 letter to Donald W. Downes, Chairman, Connecticut Department of Public Utility Control, from Kathleen A. Carrigan, Vice President, General Counsel & Secretary, ISO-NE.

1 of the units at its Salem Harbor Station if doing so would cause blackouts or other serious  
2 system reliability problems.

3 ISO-NE's response to the recent attempt by NRG Energy Inc ("NRG") to deactivate  
4 several of the units at its Devon power facility in Southwestern Connecticut represents a  
5 precedent as to what would happen if PG&E were to attempt to retire one or more of the  
6 units at the Salem Harbor Station.

7 NRG submitted an application to ISO-NE in May 2002 to deactivate Devon Units 7, 8,  
8 and 10 as of August 1, 2002. ISO-NE responded to NRG's application, in accordance  
9 with Section 18.4 of the Restated NEPOOL Agreement, by conducting studies to  
10 determine whether NRG's deactivation of an individual unit of the Devon facility, a  
11 combination of units, or all three of the units that NRG was seeking to deactivate, would  
12 have a significant adverse effect upon the reliability or operating characteristics of its  
13 system or of the systems of one or more other NEPOOL members.

14 ISO-NE's reliability studies found that NRG's Devon facilities were needed to maintain  
15 reliability of the electric system from August 1 through September 30, 2002 and, under  
16 certain circumstances, through the summer of 2003. Consequently, by letter dated July  
17 25, 2002, Stephen G. Whitley, ISO-NE's Senior Vice President and Chief Operating  
18 Officer, informed NRG Energy that ISO-NE had determined that implementation of  
19 NRG's plan as submitted to the ISO would have significant adverse effects upon system  
20 reliability in Southwestern Connecticut. Therefore, ISO-NE was denying NRG's  
21 application to deactivate its Devon units commencing on August 1, 2002.

22 ISO-NE and NRG subsequently entered into good faith negotiations to appropriately  
23 compensate NRG Energy for the continued availability of its units. ISO-NE now makes  
24 reliability payments to NRG under this agreement that are above the amounts that NRG  
25 would earn from bidding the energy from its Devon units into the wholesale market. ISO-  
26 NE also retained in the agreement the right to continue the operation of the Devon 7 and  
27 8 units until such time as it determines they are no longer required for system reliability.

1 ISO-NE and NRG subsequently reached a second agreement later in 2002 under which  
2 four other NRG generating plants in Connecticut also were designated as reliability must-  
3 run facilities. Under this second agreement ISO-NE would make additional reliability  
4 payments to NRG to ensure that NRG's Norwalk Harbor, Middletown, Devon and  
5 Montville generating facilities in Connecticut were available to ensure adequate electric  
6 system reliability at peak demand times.

7 These examples set a clear precedent as to what would happen if PG&E tries to shut  
8 down one or more of the units at the Salem Harbor Station, ISO-NE would study whether  
9 the unit(s) that PG&E wants to retire are needed for system reliability and, if they are,  
10 would pay PG&E for their continued availability and operations. ISO-NE would not  
11 allow PG&E to unilaterally retire the units.

12 Therefore, PG&E's claim that it will close the Salem Harbor Station because it is not  
13 making enough of a profit is simply not credible. PG&E will not be able to close the  
14 Salem Harbor Station until ISO-NE determines that it is no longer needed for reliability.

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