Upstate New York Power Producers
Response to
New York Energy Highway Request for Information

Introduction

The bondholders of AES Eastern Energy are preparing to take ownership of the Somerset and Cayuga power plants following the parent company filing for bankruptcy protection on December 30, 2011. The bondholders have formed a new company, Upstate New York Power Producers, to take ownership and maintain operations. It seeks a partnership with the state to help meet its fixed cost obligations in the near-term while pursuing a key role in the state's long term energy plan. One short term proposal S6842-A9873, would provide for NYPA to enter into a power purchase agreement to buy power from these facilities over the next three years. The power purchased by NYPA would be available for use as part of the state's Re-Charge NY program providing low cost power to support regional economic development at the same time it provides stability to the Somerset and Cayuga facilities and their employees and neighbors.

Ultimately, these facilities should play an important role in the New York Energy Highway. Upstate New York Power Producers is taking steps to ensure that the Somerset and Cayuga plants are able to be a part of New York's long term energy plan. New York's energy needs require a diverse blend of fuel-type resources to provide the state's residents and businesses with a dependable and affordable energy pool. Upstate New York Power Producers looks forward to being a part of the solution.

Somerset and Cayuga are in compliance with the current environmental regulations and well positioned to meet upcoming environmental regulatory change. Historically, Somerset and Cayuga have invested significantly in environmental control technologies which include FGD systems, SCR systems, water treatment system, and by-products handling.

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The Upstate New York Power Producers proposal includes two existing generation projects. Those projects are the Somerset Power Station and the Cayuga Power Station.

Somerset

Somerset is a 675 MW pulverized coal-fired power plant located in Barker, NY, on the southern shore of Lake Ontario and began commercial operations in 1984. The facility has one General Electric ("GE") steam-turbine generating unit and is supplied steam from a Babcock & Wilcox balanced draft, drum type boiler. The Boiler Draft system features a Combustion Engineering electrostatic precipitator, a Peabody flue-gas desulfurization system and a 613 foot reinforced concrete stack. The site was designed to accommodate a second unit, which was never built. In 1999, Somerset underwent a major boiler and turbine maintenance outage, during which the installation of the selective catalyst reduction ("SCR") system was completed. The boiler control system was upgraded in May 2005. In 2009, Somerset completed a major maintenance and turbine outage.

Cayuga

Cayuga is a 306 MW pulverized coal-fired power plant located in Lansing, NY, on the eastern shore of Cayuga Lake. The facility has two operating units: Unit 1 was commissioned in 1955 and is comprised of a 150 MW Westinghouse Electric steam turbine. Unit 1's steam turbine generator is supplied with steam from a Combustion Engineering tangentially-fired, pulverized coal, single reheat boiler. Unit 2 was commissioned in 1958 and is comprised of a 156 MW GE steam turbine generator. Unit 2's steam turbine generator is supplied with steam from a Combustion Engineering tangentially-fired, pulverized coal, single reheat boiler. Both units at Cayuga were retrofit with wet scrubbers, low NOx burners, new ID fans, new mills and a control upgrade around 1995. In 2001, Unit 1 was retrofitted with an SCR in order to achieve a 90% NOx reduction. The Unit 1 SCR was designed for low load operation and an economizer bypass to achieve a 50% load reduction with the SCR in service. Unit 2 does not have an SCR.

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The Somerset and Cayuga projects have demonstrated a high level of availability and low forced outage rates.

Somerset

	2006	2007	2008	2009	2010	5-Yr Average
Availability Factor	92.70%	97.00%	92.20%	73.20%	92.30%	89.50%
Capacity Factor	91.30%	94.80%	87.80%	57.20%	76.90%	81.60%
Output (GWh)	5,398	5,607	5,206	3,368	4,558	4,828
Forced Outage Rate	3.09%	1.84%	0.72%	5.57%	0.89%	2.42%

Cayuga

	2006	2007	2008	2009	2010	5-Yr Average
Availability Factor	91.20%	88.60%	89.30%	94.30%	82.80%	89.20%
Capacity Factor	85.40%	84.80%	80.90%	61.00%	66.80%	75.80%
Output (GWh)	2,276	2,258	2,178	1,630	1,783	2,025
Forced Outage Rate	5.24%	4.93%	6.72%	3.71%	4.60%	5.04%

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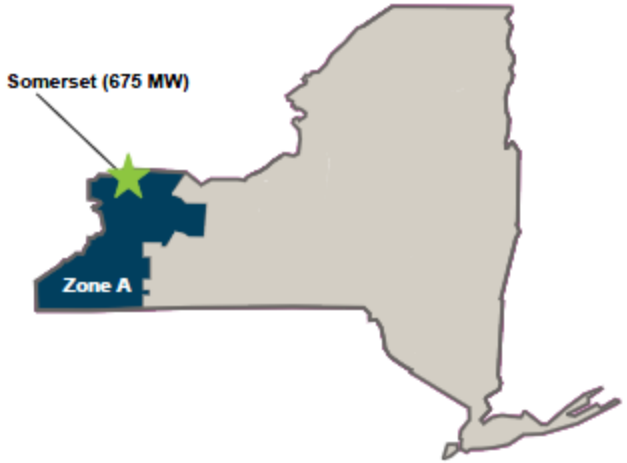
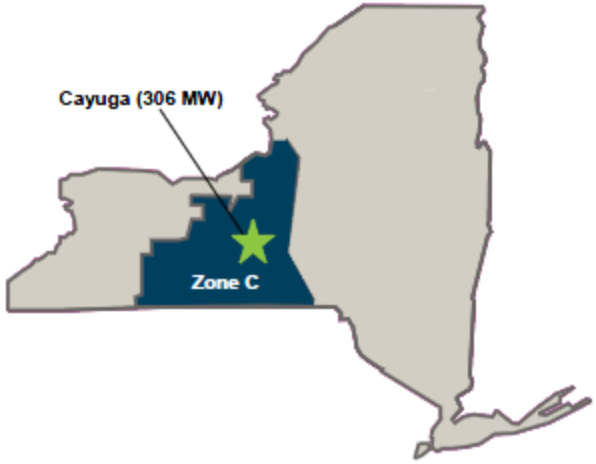
Project Location



Somerset Location

- NYISO Zone A
- Barker, NY
- Niagara County



Cayuga Location

- NYISO Zone C
- Lansing, NY
- Tompkins County

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Fuel Source and Availability of Fuel/Infrastructure

Somerset

Somerset Railroad Corporation (SRC) was established in 1979 as Class 3 Common Carrier to serve as a bridge line between the Class 1 carrier (currently CSX) and the Somerset power plant. It is a single track railroad 15.6 miles in length.

- SRC is funded through the operations of Somerset and Cayuga and management support to SRC is provided by Somerset personnel
- CSX operates all trains moving over SRC, provides dispatching services, and has a Joint Trackage Rights Agreement to service its customers at Lockport, NY

Somerset & Cayuga

Somerset and Cayuga plants can burn coals from most of the US Basins (North App, Central App, Illinois, and Powder River) and Pet Coke based on economics and origin.

Somerset is served by CSX Transportation while Cayuga is served by Norfolk Southern

- Historical coal supply largely has originated out of the Pittsburgh 8 Seam of North App
- Other sources are used based on the evaluated cost for the particular coal

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Experience, Market Availability and Suitability of Project Technology

The Somerset and Cayuga projects employ proven technology that has demonstrated the ability to deliver low cost energy for many years at very high levels of availability. Both projects are staffed with experienced people who have a good working relationship with the local workforce. Somerset and Cayuga were built to a robust design with critical equipment redundancy.

In addition to providing inexpensive and reliable energy, the projects are also highly suitable for participation in all of the NYISO ancillary markets. Their dispatch ability and ramping capability allows them to participate in the operating reserve and regulation markets, and their automatic voltage regulation capability allows them to make a significant contribution to the NYISO Voltage Support Service market.

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Project Justification

Rate Payer Value and Fuel Diversity

The Somerset and Cayuga projects comprise one of the largest and cleanest coal-fired portfolios in the Northeast. In total, coal-fired technology adds only 6% to the supply of electric generation in the New York control area, which currently relies on gas-fired technology for 38% of its electric supply. The success of these projects will serve to protect the market, and ultimately ratepayers, from price volatility in the natural gas markets.

Maintain Jobs

The Cayuga project employs 63 people and payroll and benefits total $7 million annually. At Somerset there are 91 people employed with an annual total of $10 million. At Cayuga the $3.3 million PILOT payment for the 2011/2012 tax year contributed 10% to the town tax base, 14% to school tax base and 2% to county tax base. At Somerset the $13.7 million PILOT payment in 2012 contributed 80% to the town tax base, 70% to school tax base and 5% to county tax base.

With these levels of payroll, tax payments and large maintenance spends involving local contractors, the Cayuga and Somerset projects are positioned to make significant contribution to the local and state economies.

Long Term Reliability

The Somerset and Cayuga projects will have high levels of dispatch ability and ramping capability with significant turndown ratios. This operating capability allows the units to provide up to 53 MWs of regulation and 318 MWs of 30-minute synchronized reserves. Additionally, the projects routinely support system voltage by complying with directives from the New York Independent System Operator to adjust reactive power output.

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Project Justification

Long Term Reliability – (cont.)

The New York Independent System Operator relies on these projects to maintain adequate Operating Reserves. As an example of this:

- On January 31, 2012 the Somerset Project requested the NYISO to schedule a Planned Maintenance Outage for May, 2012 which was denied due to lack of sufficient operating reserves.
- More recently a request was submitted for the Cayuga Project and denied on May 24th for a short term maintenance outage. That request was also denied due to the lack of sufficient operating reserves.

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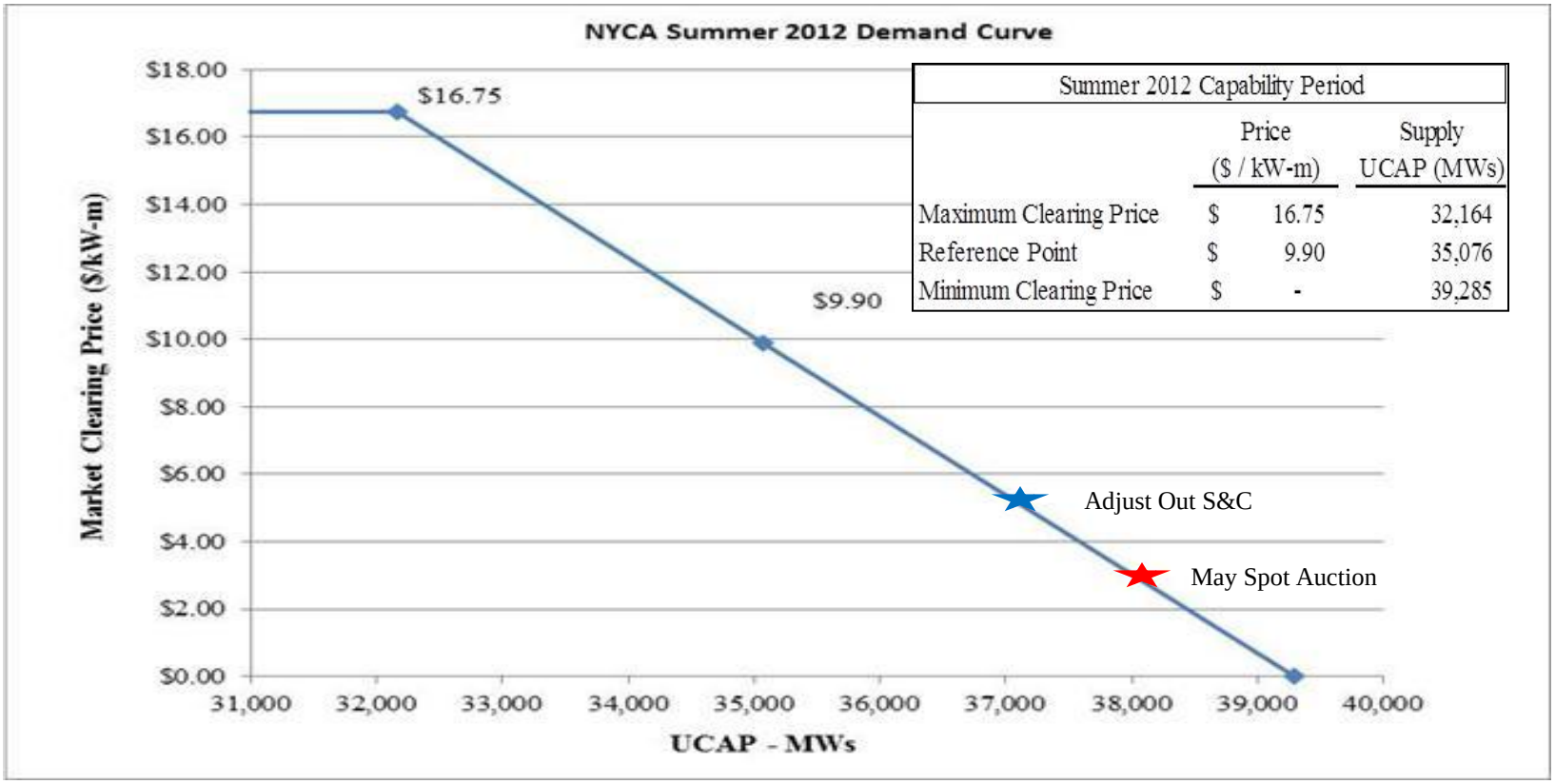
Project Justification

Contribution to Installed Capacity Markets

The existence of The Somerset and Cayuga ("S&C") for the Summer 2012 Capability Period has had the effect of keeping prices relatively low in the New York Installed Capacity markets.



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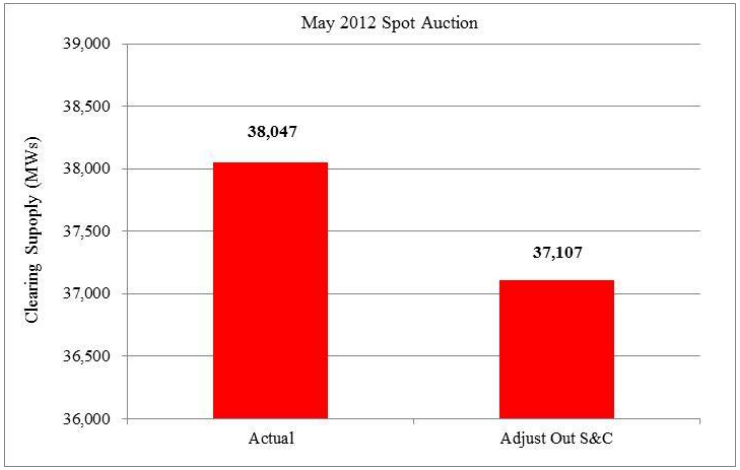
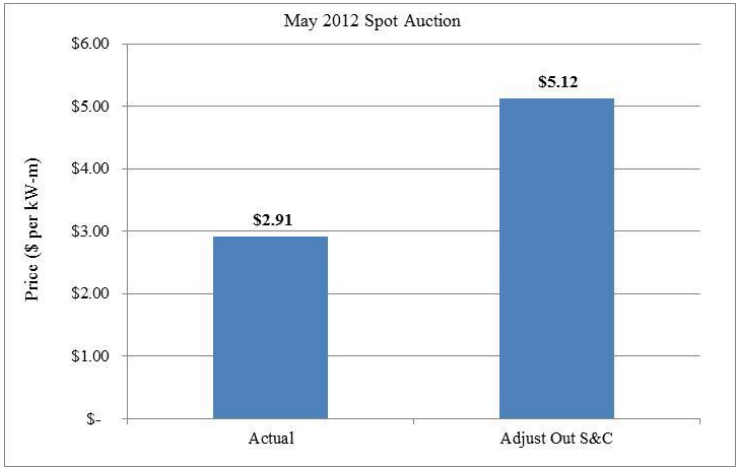
Project Justification

Contribution to Installed Capacity Markets



* S&C – Qualified 940 MWs combined for Summer 2012



* Slope of demand curve $0.2352 per 100 MWs

Assuming all Capacity settles at a level approximating the spot auction price, the monthly impact during the Summer would be approximately $59 million:

	Actual May	Adjust Out S&C	Monthly Impact
Clearing Supply (MWs)	28,861	27,921	(940)
Price ($ per kW-m)	x $ 2.91	x $ 5.12	$ 2.21
Monthly Cost ($ in 000s)	$ 83,986	$ 142,956	$ 58,970

* Clearing Supply excludes 9,186 MWs of Zone J (NYC) supply, which clear at a significantly higher price and would not be impacted by a S&C closure

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Financial

Investors have committed $70 million to operate the facilities over the near term. It seeks a partnership with the state to help meet its fixed cost obligations in the near-term while pursuing a key role in the state's long term energy plan. One short term proposal S6842-A9873, would provide for NYPA to enter into a power purchase agreement to buy power from these facilities over the next three years. The power purchased by NYPA will be available for use as part of the state's Re-Charge NY program providing low cost power to support regional economic development at the same time it provides stability to the Somerset and Cayuga facilities and their employees and neighbors.

The Somerset maintains 16 miles of Class III railroad which is required to provide rail service into the plant. The line has been in service for 29 years and due to deferred maintenance over time the line is currently in need of extensive maintenance to assure it is capable of providing an efficient and reliable heavy haul route for coal, limestone and other commodities required for power generation. As part of the overall state transportation system we would request the State through NYSDOT provide Grant Funding to support a tie and surfacing program over the 15.59 miles of rail line along with funding to upgrade several public road crossing surfaces and replace an aging public road grade crossing protection system.

This rail line could be utilized to service projects in Niagara County as the state continues to expand and search for new economic development opportunities in the area.

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Permit/Approval Process

The Somerset and Cayuga projects are fully permitted. The Cayuga Project as follows:

- Water/Chemical Permits:
  - State Pollutant Discharge Elimination System (SPDES) Permit
    - Water standards for discharge from site
    - Renewed every 5 years (12/2014)
  - Spill Prevention Control & Countermeasure (SPCC) Plan
    - Spill Thresholds and Reporting Measures for chem. and pet. Products
  - Environmental Monitoring Plan/Site Analytical Plan (EMP/SAP)
    - Groundwater monitoring Standards and monitoring well network specs
- Air Permits:
  - Title V
    - Air Compliance Standards (Opacity, NOx, SO2, Particulate, Fug. Dust)
    - Renewed every 5 years (10/2013)
  - Title IV
    - Acid Rain program permit
- Solid Waste/By-Product Permits:
  - 360 Permit/O&M Manual – Renewal in 2012
    - Comprehensive landfill management plan
    - Regulations for solid waste handling
  - Beneficial Use Determination (BUD) Permit
    - Fly ash, Bottom Ash, & Gypsum

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Permit/Approval Process con't.

The Somerset project has invested significant financial resources in advanced technology and environmental controls (i.e. SCR, Trona, FGD upgrades) to make it the cleanest and most efficient coal facility in New York State.

Permitting/Licensing Status of the Somerset Project:

- Title V Operating Permit issued on April 26, 2011. The permit expires on April 25, 2016
- Title IV Acid Rain Permit issued on April 28, 2011, The permit expires on April 26, 2016
- PSD Permit issued by USEPA as amended March 6, 2002. Good for the life of the plant
- SPDES Permit issued January 1, 2009. Expiration December 31, 2013
- SWDA governed by Certificate of Environmental Compatibility and Public Need issued by the NYS Siting Board in 1984 as amended June 6, 2007. Good for the life of the plant

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Projected In-Service Date and Project Schedule

The Somerset and Cayuga projects are in commercial operation.

Somerset

The plant commenced commercial operation in 1984 and currently sells electricity and ancillary services into the NYISO wholesale power market.

Cayuga

The facility has two operating units. Unit 1 is 150 MW and commenced commercial operations in 1955. Unit 2 is 156 MW and commenced commercial operations in 1958, and also sells electricity and ancillary services into the NYISO wholesale market.

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Interconnection

The Somerset and Cayuga projects are interconnected with New York State Electric & Gas ("NYSEG"). The Somerset project is located in Zone A and is connected to the main 345 kV, East/West transmission corridor with NYSEG at the Kintigh Switchyard. The Cayuga project is located in Zone C and is connected with NYSEG at the Milliken Switchyard at a voltage level of 115 kV. Both projects have rights to deliver the full amount of their generating capability.

Project	NYISO PTID
Somerset	23543
Cayuga Unit 1	23584
Cayuga Unit 2	23585

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Operational

The Somerset and Cayuga project have historically had high levels of availability and low levels of force outage rates. Investors plan for maintenance spends to sustain these high levels of performance.

Somerset

	5-Yr Average
Availability Factor	89.50%
Capacity Factor	81.60%
Output (GWh)	4,828
Forced Outage Rate	2.42%

Cayuga

	5-Yr Average
Availability Factor	89.20%
Capacity Factor	75.80%
Output (GWh)	2,025
Forced Outage Rate	5.04%

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Socio-Economic

The success of the Somerset and Cayuga project will assure the continuation of significant benefits to their local economies by

- retaining well paying jobs,
- continuing payments to local taxing authorities,
- continuing charitable contributions to local organizations,
- providing significant rail traffic into the future and
- supporting local business and industry for supply of goods and services.

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Respondent Information

Jerry Goodenough
Chief Operating Officer
Upstate New York Power Producers
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Lansing, NY
14882

607.533.7913 ext. 2245

Mr. Goodenough was an employee of New York State Electric and Gas (NYSEG) for 12 years prior to the sale of the generation assets owned by NYSEG to AES in 1999. With AES, Mr. Goodenough held various positions at AES Cayuga, including 11 years as the Plant Manager. Mr. Goodenough's current position includes oversight for both Somerset and Cayuga operating plants. He has a BS in Physics and an MSEE.