

JAMESTOWN BOARD OF PUBLIC UTILITIES

PROPOSED 40 MW MULTI-FUEL CIRCULATING FLUIDIZED BED (CFB)

The Jamestown Board of Public Utilities is currently investigating the feasibility of replacing its existing Carlson Generating Station coal fired generation with a new 40 MW multi-fuel circulating fluidized bed (CFB) power plant. The new plant would be operational in 2008 and capable of burning a mixture of coal, petroleum coke, tires, wood, cardboard, and paper. A 40 MMBTU/Hr package boiler would also be installed to provide district heating backup capability.

The Jamestown Board of Public Utilities is your community-owned electric utility that has been providing electric service to the City of Jamestown and the surrounding area for more than one hundred years.

Currently, the BPU receives approximately 80% of its annual energy needs through a long-term contract with the New York Power Authority (NYPA) for hydropower from the Niagara Power Project. The BPU owns and operates a single generating facility, the Carlson Generating Station, which consists of four small coal-fired boilers and one combined cycle gas turbine. On its own initiative, the BPU has also installed an environmentally friendly district heating system, a form of cogeneration, to improve the efficiency of its generating units. Coal-fired generation represents approximately 15% of the BPU's annual needs; 5% of the annual needs are provided through the use of the recently installed natural gas turbine used during peak load periods.

The BPU electric rates are among the lowest in the nation and lower than 95% of the industrial rates available in New York State. In 2001, the average BPU industrial customer paid a rate of 3.95 cents per kWh, compared to average national investor-owned industrial rates of 5.1 cents per kWh and average NY investor-owned industrial rates of 6.0 cents per kWh.

The City of Jamestown has experienced a long-term economic decline over the past decade resulting in dramatic loss of jobs and a significant increase in the number of citizens living below the poverty level. The population of the City has declined by more than 20,000 in the past thirty years. Unemployment in Jamestown is at a current level of 6% and the City and surrounding area have lost more than 1,800 jobs in the past few years. The community's current property tax rate is one of the highest in New York State, with losses of taxable property valued at more than \$1 million a year for the last several years. Declining industrial and commercial property values have created an inventory of depressed competitive sales, driving overall property values and assessments still lower. Last year, HUD designated Jamestown as a national "Renewal Zone" (one of the 40 most economically depressed cities in the United States). The economic, reliable power provided by the BPU for this community is a critical component of the comprehensive plan to create a strong economic base and sustainable growth for the City, its residents, and the greater Western New York area.

Since 1975, the Board of Public Utilities has spent nearly \$65,000,000 on upgrades, alterations and additions for the Electric Division in order to meet regulatory constraints imposed by the United States Environmental Protection Agency (US EPA) and the New York State Department of Environmental Conservation (NYS DEC). Recognizing the importance of emission reductions for New York State, the BPU previously installed a cogeneration district heating system to minimize energy demand and increase energy efficiency per Btu, by utilizing excess steam from the generation of electricity for this system. The BPU has expanded the district heating system over the past few years. This system coupled with additional mitigation measures has reduced the BPU's NO_x emissions by 50% since the mid-1990s.

Significant new air emission regulations will put pressure on the BPU to close its coal units, limiting the BPU's ability to continue to provide low-cost, reliable power to its existing customers. Regulations include NYS DEC's 50% reductions in sulfur dioxide levels from the Federal Clean Air levels (6 NYCRR Part 238) phased in in 2005 and 2008; the Maximum Available Control Technology (MACT) requirement under the federal Clean Air Act for Industrial Boilers (effective 2007); and NYS DEC's application of the summer ozone season NO_x levels year round (6 NYCRR Part 237) effective 2004. For some of these standards, the BPU is the smallest generator covered while the costs of compliance are prohibitively high. Compliance with these standards could cost over \$25 million over ten years, and put significant pressure on the BPU to close its coal units.

The BPU has recently undertaken a comprehensive analysis of a variety of different power supply options to determine what steps should be taken to provide the most economic, reliable and environmentally-compatible future power supply for the BPU ratepayers. Rather than continuing to operate its existing plant, the BPU proposes to build a state-of-the-art new unit.

If the new air emissions regulations and the age of the units were to force closure of the BPU's coal units, it would significantly limit the BPU's ability to continue to provide low-cost, reliable power to its existing customers. The closure would significantly undermine the ongoing efforts to maintain the remaining manufacturing base, as well as virtually eliminate the use of low-cost BPU power as an element in the comprehensive plans for the revitalization of the Jamestown economy.

Immediate results of a Carlson Plant closure include:

- an estimated electric rate increase of 25 % for the businesses and residents of Jamestown.
- an annual loss of:
 - \$2.5 million in payroll and benefits in the Jamestown area
 - \$600,000 in estimated tax payments to the Jamestown area
 - \$600,000 in estimated tax payments to the Jamestown School District
 - loss of a \$7.5 million economic stimulus for the community.

To address its power supply needs, the BPU hired Orbital Technical Solutions to assess long term (20 year) system-wide power supply options. Orbital's study assessed nine different scenarios, including continued operation of the existing plant, construction of a new solid-fuel fired or gas-fired unit, and a reduction in generation combined with increased power purchases.

Orbital recommended the 40 MW CFB as the preferred option, and the BPU's Board recently concurred. The choice of the CFB was based on:

- the need for fuel diversity;
- system and overall grid reliability;
- ICAP and other NYISO costs and constraints;
- a determination that continued substantial investment in the existing plant would not produce a good return on investment; and comparable and better, cost-effectiveness than other alternatives.

The CFB would provide other important benefits to the municipality, including payments in lieu of taxes, payroll benefits and the associated multiplier effect throughout the Jamestown area. The CFB can also provide environmental benefits through recycling/fuel use of used wood, cardboard, paper and tires. These values, although not addressed in the Orbital study, provide additional support for the CFB.

Based on the Orbital Study, the BPU Board has approved a second phase study, including a more complete analysis of fuel and site options for the CFB.

Jamestown has also been engaged in negotiations with a western New York wind developer to purchase capacity. This effort is part of the BPU's overall objective to diversify supplies and avoid over-dependence on one source of generation.

The BPU primarily relies on local gas production, delivered through a pipeline owned and operated by a small independent utility, to fuel its natural gas generation. The volumes of gas available from local production are insufficient to maintain the pressures required to operate the power plant equipment for more than four hours at a time each day. Using gas from interstate pipelines eliminates some of the gas pressure issues, but causes other operational problems, including significantly increased costs (quadrupling of costs) on the interstate pipeline, and exposure to curtailments, particularly during the winter peak.

Reduced natural gas drilling and production, and increased demand due to wider use of natural gas to generate electric power, have combined to raise natural gas prices to levels that would likely result in a significant increase in retail electric rates if natural gas became the primary fuel for the BPU's electric generation.

The volatility in natural gas prices over the past few years have made it difficult for small entities, such as Jamestown, to obtain fixed price gas supplies to hedge against rising supply costs. The credit risks involved in fixed price contracts are simply too great for parties to bear in the post-Enron environment. In addition, recent Energy Information Administration (EIA) projects suggest consistently high natural gas prices in the coming years. The BPU is also concerned with possible future curtailments. Diversity of supply options is critical for the BPU, the Jamestown area and the State as a whole.

CONCLUSION:

The Jamestown Board of Public Utilities is moving into the second phase of its investigation of the feasibility of replacing its existing Carlson Generation Station coal fired generation with a new 40 MW multi-fuel circulating fluidized bed (CFB) power plant. The BPU aims to have the plant operational in 2008.



RECYCLING IS THE LAW!

Roseann, "The BPU Garbage Queen," wants to know, "Where are your yellow recycling containers?"

Recycling is the law in Jamestown. Please place the recyclable of the week at the curb in your yellow container. If you don't have a yellow container, call Roseann at the Garbage Hotline 661-1651. If you fill your container, the overflow may be placed curbside in a container of your choice, but your yellow container **MUST** be at the curb as well.

BPU LIEN SYSTEM SUPPORTED BY COURT

The Federal District Court recently issued a Report and Recommendation upholding the placement of liens by the BPU against the owner's properties for unpaid utility bills, thereby ending a lawsuit begun by a group of landlords in 2001. The court has found that utility liens are an appropriate method to collect funds owed for utility use.

In 1923, residents of Jamestown included in the new City Charter a lien law making utility charges a lien on the property served if the utility bill is not paid. The alternative to that lien law would be to have unpaid utility charges divided among the bills of all citizens who do pay their bills. Jamestown voters upheld this Charter language and practice through a referendum vote in 1999.

With the help of the lien law, the BPU has been able to hold uncollectible accounts to about 1/3 of those of for-profit utilities. With the opinion of the Court, the lien law will continue to be an effective tool in keeping BPU utility rates low for all customers.

The Fluvanna Avenue Yard Waste Site closed Wednesday evenings
September 24.
 It will continue to be open on Saturdays from 9:00 to 1:00 PM, weather permitting, until November.

Flushing of the BPU Water Distribution System will continue Sunday through Thursday nights from 9 PM to 5 AM until mid-October.

THE BPU IS NOW ACCEPTING MONETARY DONATIONS FOR ITS CUSTOMER ASSISTANCE PROGRAM (CAP)

The CAP program will help qualifying residential customers as soon as sufficient funds have accumulated. Add your donation to the amount of your monthly bill or, if you are on Balanced Billing or Electronic Pay, a separate check made out to BPU CAP (Customer Assistance Program) will be most gratefully welcomed.

EASY PAYMENT PLAN ENROLLMENT

Call the BPU Customer Service Department today at 661-1660 to enroll in the Electronic Payment Program. The amount of your bill will be automatically deducted from your checking account each month on your due date.

Your statement will come each month with a reminder that it will be automatically deducted from your checking account. The transaction then appears on your monthly bank statement.

Call immediately to make your bill paying easier!



BPU BALANCED BILLING

The heating season has begun! Join other BPU customers who have signed up for Balanced Billing to make your bill paying more convenient. Call 661-1660 to sign up.

Pay the same amount monthly for 11 months and true-up the 12th month.

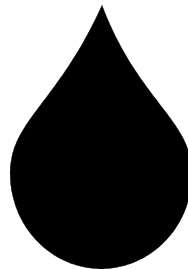
It's new, it's simple and it may be just what you're looking for to make your bill paying more predictable.

The Board of Public Utilities is proud to be a Pacesetter company for the United Way of Southern Chautauqua County.



PURCHASE

4 Lawn Bags for \$10.00 at BPU Customer Service. Fill them with yard waste. Call the BPU at 661-1651 before 4PM on Monday and the BPU will pick them up on Tuesday mornings.



GIVE THE GIFT OF LIFE
 City of Jamestown
 Red Cross
 Blood Mobile

ATTENTION ALL DUAL WATER METER CUSTOMERS!

The trial dual water meter program ended September 30.

Please return your water meter to the BPU Customer Service Office immediately, so calculations can be made regarding your water bill.

Thursday
 November 6
 10:00 AM to 3:00 PM
 BPU BUSINESS OFFICE
 92 Steele Street
 Everyone Welcome
 Drop in or
 call 661-1666 for appointment