New York State
Public Service Commission

Case 03-E-0188 - Proceeding on Motion of the Commission Regarding Retail Renewable Portfolio Standard

COMMENTS OF AES-NY, LLC

INTRODUCTION

The Public Service Commission ("Commission") instituted this proceeding to develop and implement a renewable portfolio standard ("RPS") for retail electric sales. During the spring of 2003, interested parties participated in a series of collaborative meetings through five working groups to discuss the policy, technical, and legal issues concerning the development of an RPS standard.

In a ruling issued on September 19, 2003, Administrative Law Judge Stein provided that initial comments should be filed by September 26, 2003. AES-NY, LLC ("AES"), the owner and operator of over 1,200 megawatts of generating capacity in central and western New York, is concerned primarily that the RPS be developed consistent with the continued development of a competitive and reliable wholesale energy market in New York State.

Consistent with the continued development of a competitive and reliable wholesale energy market, AES advocates the following:

1.) Prior to any major policy decisions in this proceeding, a full evaluation of reliability impacts must be completed**.**

2.) The assumptions made in the Department of Public Service staff's *"New York Renewable Portfolio Standard Cost Study Report"* (July 28, 2003) (*"Cost Study Report"*) may require additional review with respect to both cost and reliability impacts prior to the final development of an RPS policy.

3.) The following policies should be adopted in an RPS:

- All renewable technologies, including biomass co-fired with a fossil fuel, must be valued equally.
- No tier classification system should be adopted.
- An individual compliance model provides the least adverse reliability and competitive market impacts.
- There should be no requirement for energy deliverability to New York for an attribute being traded in New York.

I. A FULL EVALUATION OF RELIABILITY IMPACTS MUST BE COMPLETED PRIOR TO ADOPTING AN RPS POLICY.

On August 8, 2003, the NYISO and NYSERDA released a draft RFP that would seek to study the effects of integrating large-scale wind generation into the New York State Bulk Power System. The first phase of the study is scheduled to be completed by the end of this year. Failure to adequately address the results of this study in the design of an RPS could result in a flawed RPS structure that could cause serious harm to the reliability of the State's electric system and markets. Reliability and cost issues which must be completely addressed prior to a final RPS include:

- How will an influx of wind and other intermittent resources impact NYISO generation commitment and overall system reliability in the day ahead and real time markets?
- What transmission upgrades or additional congestion costs will be incurred by siting a large quantity of wind and intermittent resources west of the total east constraint?
- Will additional regulation, voltage support and operating reserves be necessary to support wind and intermittent resources?
- What impact will wind and intermittent resources have on the overall installed capacity requirement for all load serving entities in New York?
- Have the Commission and NYISO jointly coordinated review of the potential RPS prior to implementation of any final rules?

As demonstrated by the August 14, 2003 blackout, electric system reliability is crucial for the physical, safety, and economic needs and well-being of our society. A rush to judgement prior to a full review of all reliability and cost considerations is not in anyone's interests. Further, while an RPS has many potential benefits, including reduced emissions and broader fuel diversity, those benefits may be offset to some degree by additional reliability and cost concerns if the RPS is poorly designed.

II. THE ASSUMPTIONS IN THE *COST STUDY REPORT* MAY NEED TO BE RECONSIDERED.

Upon completion of the NYISO/NYSERDA reliability study, the findings of that study must be compared to the basic assumptions utilized in the *Cost Study Report* to determine where potential reliability and cost gaps exist. To analyze the total impact of the RPS, the cost study should be redone with the revised assumptions. Only then will stakeholders have adequate information to make recommendations that are in the best interest of the long term health of New York's citizens and energy users.

III. ALL RENEWABLE TECHNOLOGIES, INCLUDING BIOMASS CO-FIRED WITH A FOSSIL FUEL, MUST BE VALUED EQUALLY AND A SINGLE TIER APPROACH ADOPTED.

The development of a robust, competitive market for renewable energy resources is best achieved by ensuring no single type of technology is favored to the exclusion of other available technologies. The benefits of an RPS are best realized by treating equally a diversity of available technologies and allowing competitive markets to bring on the overall percentages of each type of technology. Further, a tier concept will add another layer of unnecessary administration and frustrate simplicity and promotion of the RPS.

IV. AN INDIVIDUAL COMPLIANCE MODEL PROVIDES THE LEAST ADVERSE RELIABILITY AND COMPETITIVE MARKET IMPACTS.

A State agency procurement model could be disastrous to the further development of the wholesale electricity markets in New York because renewable resources chosen via a State-run program would have no economic interest in following wholesale market price signals. If anything, the State would revert back to an energy policy that is reminiscent of the old six- (6) cent law where out-of-market generation resources continue to operate regardless of the current wholesale market pricing. In addition, a State agency procurement proposal would be especially problematic during off-peak periods, when low or negative pricing will occur. The failure for any generation resource to respond will erode pricing, creating an economic hardship for existing generating facilities. The end result is that the State would buy output that is not economic when the same megawatt could be purchased in the NYISO wholesale market at a much lower price.

Further, artificially depressed off-peak pricing will force generators subject to the competitive price off the system and potentially create additional regulation, voltage, and operating reserve issues due to the greater dependence on intermittent or random generation resources. If the full 25% standard is realized, the New York transmission grid will have in excess of 4,000 megawatts of wind and intermittent resources operating during off-peak periods when total peak load averages between 14,000 - 16,000 megawatts.

V. RENEWABLE ENERGY ATTRIBUTES SHOULD NOT HAVE A DELIVERABILITY OF ENERGY REQUIREMENT.

A requirement that renewable energy attributes be bundled with energy deliveries from out-of-state resources is contrary to efficient markets. Such a requirement ignores the reality that New York is not an island but rather part of an overall regional energy marketplace. In addition, it also ignores the fact that energy and environmental markets go hand-in-hand and are regional in nature.

Not accepting this reality will create an even greater dependence on in-State renewable resources and further highlight in-State reliability concerns and negative economic impacts on the wholesale energy market. New York must take a similar approach on free and open regional trading of renewable attributes without deliverability requirements. Failure to maintain symmetry in the wholesale energy and environmental arenas will result in economic hardships for New York wholesale generators and other stakeholders.

CONCLUSION

As outlined above, AES highly recommends that this proceeding be delayed until the final reliability study is completed. Those findings must be incorporated to ensure the best-structured RPS standard is developed. The Commission should adopt policy recommendations that ensures the RPS provides the necessary reliability and fuel diversity benefits expected while still ensuring a vibrant, wholesale energy market that promotes new capital investment in the long term. Any structure to the contrary could have long term detrimental reliability and cost impacts on the New York electrical system.

Respectfully submitted,

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Dated: September 26, 2003