

September 26, 2003

NEW YORK STATE
PUBLIC SERVICE COMMISSION

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

Initial Comments Regarding a Cost Cap for the Renewable Portfolio Standard
By CSG Services

The term Renewable Portfolio Standard (RPS) has been used to describe a range of public policy initiatives. While varying in details, all RPS initiatives share the same goal of increasing the portion of the electricity “generation portfolio” beyond the level that has been achieved under the current economic and regulatory scheme. An RPS is by definition going to add visible costs while producing benefits that are often invisible to current accounting methods. The challenge in RPS design is both to capture the maximum “public value or benefit” for any costs incurred and to contain the costs at a reasonable level.

The extensive research and forecasts accomplished during the past several months have done a great deal to frame the range of possible outcomes and costs. These analyses clearly highlight how RPS design decisions such as eligibility, applicability and implementation date may impact both cost and outcomes. The work done by the various parties provides a good understanding of the implications of the enumerable public policy decisions required for RPS implementation. The studies further highlight the magnitude of the impacts of factors that are beyond the control of New York policy makers, including federal tax law and international Kyoto protocols.

Advances in technology change the competitive landscape. Ten years is a long time and it is important for New York, as a leader in supporting renewable energy, to implement an RPS that will be resilient in the face of unanticipated market fluctuations.

An important element of a sound robust RPS policy is a provision to cap the overall cost of the program at a politically supportable level. The administrative mechanisms used to limit costs vary, including both penalties and alternative compliance mechanisms.

Nationally and internationally there is a growing consensus that maximum incremental cost for new sustainable renewable electricity generation goals should be in the range of \$50 to \$55 per Megawatt Hour for the overall portfolio included within an RPS.¹ While similar cost caps have not been defined for maintenance of existing renewable levels, the current premiums paid to existing renewable generators for voluntary “green products” of from \$1 to \$5 depending on technology provide some guidance.

By setting a Cost Cap, New York will address the very legitimate concerns about escalating costs and windfall profits. Once set, a price cap defines the outside limits of the cost of the program and permits all parties to focus on the benefits rather than the costs.

In conclusion, we the undersigned, recommend that the Commission incorporate a Cost Cap mechanism in the RPS. We further recommend that the cost cap set for “Main Tier” as defined by the Public Service Commission staff Cost Study Report be set a level comparable to those set by the adjacent states of Massachusetts and Connecticut.

¹ NY may consider setting different cost caps for different technology tiers as one method of providing additional incentives for currently non-competitive technologies, such as solar power. Another approach would be to support these technologies through SBC funding.