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September 26, 2003

Hon. Jaclyn A. Brilling
Acting Secretary
New York State Public Service Commission
Executive Office 14th Floor
3 Empire State Plaza
Albany, New York 12223-1350

Re: Case No. 03-E-0188 – Proceeding on Motion of the Commission Regarding a Retail Renewable Portfolio Standard.

Dear Secretary Brilling:

Pursuant to Administrative Law Judge ("ALJ") Eleanor Stein's *Further Ruling Concerning Schedule and Procedure*, issued on September 19, 2002 ("September 19 Ruling"), please find enclosed an original and one copy of the "Comments of Independent Power Producers of New York, Inc." ("IPPNY") for filing in the above-referenced proceeding.

The September 19 Ruling requested that parties provide responses to a letter filed by the "Joint Utilities"[1] on September 15, 2003 proposing that the collaborative process be reconvened to discuss cost and reliability implications of a renewable portfolio standard ("RPS"). IPPNY supports the Joint Utilities' proposal. IPPNY believes that RPS policy decisions should be made only with a full understanding of how the RPS might impact the reliability of the State's electric system and markets. IPPNY also supports the Joint Utilities' request to reconvene Working Group Four to continue work on developing a renewable credit tracking system.

In addition to holding additional meetings to discuss cost and reliability impacts, IPPNY requests that parties be given the opportunity to file another round of comments once a reliability impact study, and a cost study incorporating the reliability findings, is completed. As discussed in Section V of IPPNY's Comments, the New York Independent System Operator ("NYISO") and New York State Energy Research Development Authority ("NYSERDA") are

[1] The Joint Utilities are Central Hudson Gas & Electric Corporation, Consolidated Edison Company of New York, Inc., Orange and Rockland Utilities, Inc., New York State Gas & Electric Corporation, Rochester Gas and Electric Corporation and Niagara Mohawk Power Corporation.

commissioning a study of the effects of integrating large-scale wind generation into the New York State Bulk Power System. The first phase of the study, which is intended to assist policy development in the RPS proceeding, is expected to be completed by the end of the year.

After the first phase of the NYISO/NYSERDA study and prior to a recommended decision ("RD"), parties must be called upon to comment on whether and how RPS policies affect reliability and cost impacts upon the State. The RD will provide much greater value to the Commission if it has analyzed and discussed thoroughly how its recommendations will maintain and enhance system reliability at the least cost to the State. This cannot be done until the reliability impact study is completed. If ALJ Stein decides to issue an RD prior to the completion of the reliability study, any recommended policies should be flexible enough to accommodate the findings from the study.

Respectfully submitted,

READ and LANIADO, LLP
Attorneys for Independent Power Producers
of New York, Inc.

By: _____
David B. Johnson

cc: ALJ Stein (via hand delivery)
Active Parties (via e-mail)

NEW YORK STATE
PUBLIC SERVICE COMMISSION

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

COMMENTS OF INDEPENDENT POWER PRODUCERS OF NEW YORK, INC.

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Dated: September 26, 2003
Albany, New York

NEW YORK STATE
PUBLIC SERVICE COMMISSION

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

COMMENTS OF INDEPENDENT POWER PRODUCERS OF NEW YORK, INC.

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 myriad of policy, technical and legal issues concerning the development of an RPS.

In a June 25, 2003 letter to the parties, Administrative Law Judge ("ALJ") Stein summarized the results of the collaborative meetings in the context of an outline issued by ALJ Stein on June 9, 2003 to guide the parties' comments in this proceeding. In a September 19, 2003 ruling amending the procedural schedule, ALJ Stein provided that initial comments should be filed by September 26, 2003.

Pursuant to the ALJ's June 19, 2003 Ruling Establishing Comment Procedures, Independent Power Producers of New York, Inc. ("IPPNY") hereby files its comments. IPPNY is a not-for-profit trade association representing the independent power industry in New York State. Its members include more than 100 companies involved in the

development, operation and ownership of electric generators and the marketing and sale of electric power in New York.

As directed by ALJ Stein, IPPNY will not repeat its initial comments filed on March 28, 2003. For purposes of its instant comments, however, IPPNY believes it is important to reiterate its fundamental interest is in the continued development and enhancement of reliable and efficient integrated regional wholesale competitive electricity markets. With respect to the RPS proceeding, IPPNY's interest lies mainly in ensuring the RPS is developed in a manner that is consistent with, and does not undermine in any respect, the functioning of reliable, non-discriminatory, competitive energy markets in New York and its surrounding regions.

IPPNY's comments therefore mainly address proposed elements of RPS policy that should be rejected or modified because they will have a detrimental impact on energy and capacity markets, both from a competitive and reliability standpoint. IPPNY's comments also address and support proposed RPS policies that will serve to enhance the competitive market for the procurement of renewable energy.

Consistent with these principles, IPPNY advocates the following herein:

1. All renewable technologies should be valued equally; no tier classification system should be adopted.

2. RETEC's proposed State agency procurement model should be rejected because it will harm the competitiveness and reliability of the State's electricity markets.

3. An individual compliance model should be adopted because it would meet the stated goals of this proceeding while having the least adverse

impact on competitive markets and the reliability of the electric system.

4. There should be no requirement that energy be "deliverable" to the New York electric grid for the attributes associated with that energy to be traded in New York's renewable attribute trading system.

5. Assumptions made in the Department of Public Service staff's Cost Study Report raise reliability and accuracy issues that warrant further review before cost impacts can be adequately assessed.

I. ALL RENEWABLE TECHNOLOGIES SHOULD BE VALUED EQUALLY; NO TIER CLASSIFICATION SYSTEM SHOULD BE ADOPTED.

Some parties have proposed that existing generating facilities should be considered "renewable" for purposes of establishing a baseline of renewable energy in New York but that these existing resources would not be "eligible" to participate in the RPS for purposes of receiving compensation for their environmental attributes. Any benefits or incentives provided to renewable resources by an RPS in New York developed to meet the Governor's goal of generating 25% of the electricity sold in-State by renewable resources must be shared with existing renewable resources. An RPS that only provides benefits or incentives to newly developed renewable resources will do nothing to ensure that existing renewable resources, which are included in the baseline assessment, will continue selling electricity in the State or even continue operating. If the RPS does not recognize the value of existing renewable sources, the State runs the risk of existing resources selling the value of their environmental benefits to markets out-of-State in addition to risking the possibility that these resources will become uneconomic in

the competitive market (i.e. a shutdown could be triggered due to the great expense of relicensing an existing independent hydro plant or the growing cost of fuel for existing biomass plants). If the State is to meet the Governor's goal of 25% by 2013, it is not enough to assume that all existing renewable resources will continue to operate indefinitely.

In addition, some parties have proposed the use of renewable technology tiers. "Emerging," "high value location," "resource criteria" and "maintenance" tier categories have been set forth for comment. Other tier proposals based simply on "environmental attributes" have also been discussed by the parties.

IPPNY believes that the development of a robust, competitive market for renewable energy resources can best be achieved by ensuring that no single type of renewable generation technology is artificially favored to the exclusion of other competitive renewable technologies. Once the policy choice has been made on which technologies should be deemed "renewable" for purposes of the RPS, competitive markets forces, not regulatory mandates, will best ensure that the most cost efficient and beneficial renewable generation technologies and geographic locations are selected. This approach is consistent with the Commission's goal of using market based solutions to public policy issues rather than regulatory intervention.[1]

The variety of tiers proposed by the parties in this proceeding indicates a wide divergence of views on tier preferences. No clear policy benefit for any particular tier has been identified. The Commission instituted this proceeding, in large part, to further

[1] *See* Case 94-E-0952 *et al.*, *Re Competitive Opportunities Regarding Electric Service* (May 20, 1996).

system reliability and fuel diversity in the State's electric supply market and there has been no showing thus far that these policies would be promoted by adoption of renewable tier pricing. There is no merit to a tiered preference or price hierarchy; market competition should prevail to maximize fuel diversity.

In addition, tier categories will add another layer of unnecessary administration, uncertainty and red tape that may only serve to delay the introduction of additional renewable resources. The RPS should strive for simplicity in administration. Moreover, inherent in any subsidized tiered structure comes issues of how long and under what terms such tiers will remain in place. The structure implemented from the outset should be nondiscriminatory and at this time neutral in categorization or product selection of renewable technologies. The Commission should therefore decline to pursue a tier classification scheme.

II. A STATE AGENCY PROCUREMENT MODEL, SUCH AS THE MODEL PROPOSED BY RETEC, SHOULD BE REJECTED BECAUSE IT WILL HARM THE COMPETITIVENESS AND RELIABILITY OF THE STATE'S ELECTRICTY MARKETS.

RETEC's State agency procurement model[2] should be rejected because, if adopted, it could harm the reliability of the State's electricity markets. In addition, the proposal will harm the efficiency and competitiveness of the electricity markets by promoting unnecessarily the construction and operation of more costly renewable

[2] RETEC provided its State agency procurement model to the parties in this proceeding as a "discussion proposal" on July 23, 2003. IPPNY understands that RETEC prefers an individual compliance model over a central procurement model.

resources. The State agency procurement model should also be rejected because it will discourage the creation of a robust competitive market for the procurement of renewable energy.

Under RETEC's State agency procurement model, a State agency would solicit bids annually through a request for proposals ("RFP") for the incremental amount of renewable supply required to meet the State's RPS target for total required renewables for the specified future year. The RFP renewable amount would be reduced by any renewable credits that load serving entities ("LSEs") procure outside the RFP process. RETEC explains:

> The State agency would solicit bids in the form of a "total" price for attributes (RECs) and energy in the specified future year. The State agency would enter into a contract committing to pay winning bidders either for their bid price or the "market" (RFP) clearing price (which one is an issue to be resolved at a later date) minus the LBMP. This would essentially be a contract for differences. For example, if the wining bid is for $80/MWh for a supply in year 2006, and the LBMP received by a generator who won a State agency contract through the RPS RFP process averages $50/MWh in year 2006, the State agency would pay the winning bidder $30/MWh.

The fundamental flaw in the State agency procurement model is that it would have the State agency procure the renewable generation on the basis of *total* bid cost. What RETEC appears to be proposing is not a contract for differences, as it states, but rather a fixed contract payment for delivery from the generator. A contract for differences typically is for a set delivery schedule and provides the generator an incentive to run when its output is cheaper than the market value and to meet the contract with wholesale energy whenever its operating costs are greater than the wholesale market value. This is presumably not the intent of RETEC's proposal because its goal is to

ensure the procurement of a specific amount of actual renewable generation irrespective of its relative economics in the market.

The State agency proposal could be disastrous to the electricity markets because renewable resources chosen via the RFP would have no economic interest in following market price signals. The proposal is especially problematic during times when negative market prices are signaling generators to reduce output. Negative price signals are a necessary feature of the competitive market because they are the most efficient method to ensure that generators do not harm the reliability of the electric system by overloading it with their output. Renewable resources chosen via a State agency procurement model would have no incentive to cease operating when the market value is negative because they would still receive their full bid offer from the State agency. For example, if the market price were negative $100/MWh and the generator had been awarded a bid for $80/MWh, the State agency would be required to pay the renewable generator $180/MWh for its output.[3] The result would be that customers would be required to pay generators for output that was not only unnecessary but could cause great harm to the electric system.

The State agency procurement proposal could also harm the efficiency and competitiveness of the electricity markets because it could lead to uneconomic decisions in the procurement of renewable resources. For example, under RETEC's proposal, a resource with a bid of $70/MWh that was only delivered during the spring when the value of its energy on the wholesale market was $30/MWh would be seen as being more desirable than another resource that bid $75/MWh but that delivered its energy in the

[3] In this example, the generator would have to pay the NYISO $100/MWh for its output.

summer with its value on the wholesale market equal to $60/MWh. In the first case the premium for the renewable resource is $40/MWh while in the second case the premium is only $15/MWh. Clearly the second resource is the more desirable resource from an economic perspective yet under RETEC's proposal, the less desirable resource would be chosen because its total bid cost was the lowest.

The State agency procurement model proposal is also flawed because it ignores payments for providing resource adequacy (installed capacity or ICAP) to the NYISO in determining the floating incentive the State agency would pay renewable resources. Some renewable resources may contribute toward reducing loss of load expectation and therefore would be eligible to receive ICAP revenues. Other resources may offer little or no significant contribution to loss of load expectation and therefore would be entitled to little or no ICAP revenues. Since ICAP revenues can be a significant part of a generator's revenues, whether a resource can obtain ICAP revenues can significantly impact the implicit premium in its contract. By ignoring ICAP payments to generators, RETEC's proposal ignores the locational value of generation, essentially valuing resources in the higher value locations of the State, e.g. lower Hudson Valley locations, no more than resources in lower value locations of the State, e.g. the western part of the State.

One possible variation of RETEC's State agency proposal would be to attempt to determine the premiums that are implicit in each of the total price bids and to rank the bids based upon minimizing the premium. This would require the State agency to estimate future wholesale market revenues that would apply to each bidder across the duration of its contract. The State agency would be required to estimate the wholesale

energy market prices and the expected delivery schedule of each of the bidders as well as the capacity revenues for each bidder. This model should not be adopted because it relies on forecasts of energy and capacity prices, which will be, as all forecasts are, incorrect. As a result of incorrect forecasts, the State agency will procure energy from the wrong generators in the wrong locations.

A State agency procurement model should also be rejected because it will discourage the creation of a robust competitive market for the procurement of renewable energy. When the Commission set forth its policy seven years ago in Opinion No. 96-12 to introduce competition to the electric industry in New York, it declared its intent to "encourage competition wherever feasible."[4] The Commission expressed its vision that, to achieve effective competition in the generation and energy services sectors, there must be many buyers and sellers and no single provider of service that could dominate the market as a whole or any part of it or that could limit customer options. The Commission correctly recognized that as customer choice increases, competitive pressures will drive down costs by stimulating innovation and the introduction of new products that could provide customers with tailor-made options.

A State agency procurement model turns the Commission's competition policy on its head because it will allow one body to effectively control the market for procuring renewable energy.[5] While RETEC's proposal provides that an LSE may decide to

[4] Case 94-E-0952 *et al.*, *Re Competitive Opportunities Regarding Electric Service* (May 20, 1996).

[5] IPPNY also opposes a central procurement model that would have the NYISO procure energy from renewable resources and recover costs from market participants through an uplift charge. Not only would such a proposal allow the NYISO to dominate the procurement of renewable energy, it would be inconsistent with the NYISO's role and would violate the NYISO's tariffs.

acquire all or some part of its incremental RPS requirement in private transactions outside of the State agency central procurement process, LSEs would be unlikely to do so because of the increased risk that they would be unable to fully recover their renewable energy costs.

Under RETEC's proposal, the cost of energy procured by the State agency would be collected by the distribution companies directly from LSEs' customers. Thus, LSEs would face no risk for the costs of renewable energy procured by the State agency. If, on the other hand, an LSE procures renewable energy outside of the State agency procurement process, it has no guarantee that it will recover its costs. LSEs subject to rate regulation by the Commission could be found to be imprudent in their purchasing decisions and be disallowed rate recovery for their private procurement of renewable energy. LSEs not subject to the Commission's rate regulation must recover their costs from the competitive market. If their renewable energy costs are higher than the State agency's procurement costs, they may lose customers and suffer economic harm. An LSE's renewable energy costs could also be higher than the State agency's procurement costs due to the State's enhanced creditworthiness, thus making it impossible for the LSE to compete on an equal footing.

Because the State will likely be more creditworthy than many LSEs, bid prices offered to the State will likely be lower than bid prices offered to LSEs. This will make it more difficult for LSEs to compete with the State agency procurement prices, almost

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The NYISO's role is to maintain reliability of the New York State bulk power system and to provide an efficient and competitive market for buyers and sellers to trade energy, capacity and ancillary services. The NYISO does not and cannot have any role in contracting with third parties for energy or renewable attributes.

guaranteeing a monopoly to the State agency for the procurement of renewable energy. With the State dominating the renewable energy market, the market will be unable to benefit from innovative solutions that can only be stimulated by competitive pressures. For these reasons, IPPNY opposes RETEC's State agency procurement model and any other type of central procurement model.

III. AN INDIVIDUAL COMPLIANCE MODEL SHOULD BE ADOPTED BECAUSE IT HAS THE LEAST ADVERSE IMPACT ON COMPETITIVE MARKETS AND THE RELIABILITY OF THE ELECTRIC SYSTEM.

The procurement of renewable energy should not cause or contribute to out-of-merit dispatch, or otherwise alter the current practice of operating the electric system on the basis of economic dispatch and reliability concerns. Efficient regional competitive wholesale markets require the existence of many buyers and many sellers. IPPNY therefore agrees with many of the policy proposals discussed in RETEC's June 24, 2003 discussion proposal on Individual Procurement/Compliance Method which advocates that any obligations with respect to the RPS should apply individually to all LSEs (regulated utilities and ESCOs).[6]

New York should develop a renewable energy credit ("REC") trading platform that provides all LSEs with a common and transparent marketplace to acquire RECs. Energy and renewable attributes of eligible generation should be allowed to be unbundled

[6] IPPNY does not agree with the sections of RETEC's proposal concerning Eligible Generation-Resource Type/Vintage and Additional Incentives. Consistent with IPPNY's March 28, 2003 comments, all renewable technologies should be eligible for RPS benefits on an equal basis. IPPNY takes no position on the following sections of RETEC's proposal: Long Term Contracts, Cost Recovery, Interaction with Green Market.

so that the energy and the renewable attribute may be sold, traded, or transferred separately. As IPPNY advocated in its initial comments filed on March 28, 2003, New York should adopt a system similar to the New England Generator Information System ("NEGIS") because it best ensures compatibility with neighboring regions for the tracking and trading of renewable energy attributes.[7] A REC trading platform such as the NEGIS allows the marketplace to determine the price of RECs as a separate product from the generator's energy output. This avoids the problems addressed in Point II with respect to the State agency procurement model.

With an individual compliance model, renewable resources will have no artificial incentive to operate when market prices are signaling generators to reduce output. In addition, by allowing the market place to set the price for RECs, there is little risk that uneconomic decisions in the procurement of renewable resources will be made. Finally, the individual compliance model is consistent with the Commission's goals to create markets with many buyers and sellers so that no single provider of service dominates the market or limits customer options.

[7] Contrary to the suggestion in the June 25 summary of working group discussions, there was not consensus in Working Group 4 that conversion transactions should be continued for environmental disclosure. In addition to tracking tradable credits for purposes of an RPS, a system such as the NEGIS should be used for tracking generator attributes for environmental disclosure. Once a system such as the NEGIS is implemented, there will be no need for LSEs to use conversion transactions to track attributes associated with energy purchased from the spot market.

IV. THE TRADING OF RENEWABLE ENERGY ATTRIBUTES SHOULD NOT REQUIRE DELIVERY OF ENERGY INTO NEW YORK.

Pursuant to the Commission's policies and orders to encourage competition wherever feasible and to develop markets with many buyers and sellers,[8] renewable energy attributes should be allowed to trade in New York without requiring the delivery of the associated energy into the State. An efficient and broad-based market for renewable energy resources can develop more quickly if developers of renewable energy resources have greater freedom to choose sites for their facilities. Broader site opportunities will also surely improve the economic viability of renewable technologies.

A requirement that renewable energy attributes be bundled with energy deliveries from out-of-State resources is also contrary to efficient markets. Such a requirement will make it likely that very few attributes will be acquired from out-of-State resources, due to the higher costs of importing energy into New York.

Pollution does not recognize state boundaries. Renewable technologies across the region, indeed the country, can serve to improve the air and water quality for all. The State's policy should be to encourage renewable resources both inside and outside of the State. New York could see greater environmental benefits from an RPS if there was no market constricting deliverability requirement. New York has vigorously argued that coal-fired generation plants outside of the State need to reduce emissions and invest in state of the art pollution control technologies. To the extent New York seeks to improve air quality by influencing out-of-state generation, it should also seek to encourage

[8] Case 94-E-0952 *et al.*, *Re Competitive Opportunities Regarding Electric Service* (May 20, 1996).

renewable generation by free and open regional trading of renewable attributes without deliverability requirements. While renewable resources may not sell electricity directly into New York, their output, made economic by the revenues they receive from selling their attributes in New York, may displace the output from other generators that New York and other adjacent states are attempting to clean-up.

The concern that the lack of a deliverability requirement will harm the development of renewable resources in New York is narrow-minded and unfounded. Allowing attributes to be traded without a deliverability requirement in New York will encourage other states to allow renewable resources sited in New York to sell unbundled attributes into their states. IPPNY believes that this could be achieved if the New York RPS includes a reciprocity provision that would permit out-of-state attributes to be sold in-state without a deliverability requirement only if the other state allows New York attributes to be sold within its borders without a deliverability requirement. The development of renewable resources in New York could also be encouraged when other states down-wind from New York recognize the environmental benefits of renewable resources operating in New York.

V. ASSUMPTIONS MADE IN THE DEPARTMENT OF PUBLIC SERVICE STAFF'S COST STUDY REPORT RAISE RELIABILITY ISSUES THAT WARRANT FURTHER REVIEW BEFORE COST IMPACTS CAN BE ADEQUATELY ASSESSED.

In its order instituting this proceeding, the Commission stated that "renewable resources represent a significant potential energy reserve which (if properly developed)

could lower air emissions and increase system reliability."[9] IPPNY agrees with this assessment but for proper development to be achieved, further study of the impacts upon system reliability and the emerging wholesale competitive electric markets is needed before substantial amounts of new renewable generation should be solicited and brought on-line. The blackout on August 14, 2003 has demonstrated the critical importance of understanding reliability impacts on the State's electric system.

Recently, the Department of Public Service staff issued the "*New York Renewable Portfolio Standard Cost Study Report"* (July 28, 2003) (*"Cost Study Report"*) in the RPS proceeding. The *Cost Study Report* demonstrates the need to address reliability issues before making major policy decisions in this proceeding. As discussed below, some major assumptions made in the *Cost Study Report* are likely to have adverse reliability impacts on the State's electricity system.

The *Cost Study Report* provides an assumed level of RPS resource development with most RPS resources expected to be developed in Megazone 1 which comprises the NYISO zones that are west of the Total East transmission constraint. The table below shows the assumed development by zone for 2013.

	Zone 1 West of Total East	Zone 2 Hudson Valley	Zone 3 NYC & Long Island	TOTAL
RPS Energy Delivery (MWh)	13,997,567	821,708	1,833,735	18,273,328
RPS Capacity (MW)	3,948	189	612	4750
RPS Average Capacity (aMW)	1,598	94	209	1901

[9] Case 03-E-0188 – *Order Instituting Proceeding* (February 19, 2003) at 2.

Under this assumption, the vast majority of the energy and capacity will be added in the West of Total East zone. This assumption cannot be reconciled with an RPS that is largely driven by statewide load growth because much of the load growth will be *east* of the Total East transmission constraint. The result is that the additional generation assumed to be sited in the western zones will probably greatly exceed the load growth in those areas. The western part of the State currently receives most of its generation from over 3,000 MW of nuclear capacity, over 3,000 MW of coal capacity and over 4,000 MW of hydroelectric capacity. Additionally, there has been a history of transmission congestion between the West of Total East zone and the remainder of the state.

The siting of an average of 1,600 MW of energy delivery in these zones raises numerous and serious reliability and economic questions that are not adequately addressed in the *Cost Study Report*. In particular, it is difficult to see how as much as 3,900 MW of generation in this area could be accommodated under most system conditions without causing energy prices to collapse and, given the minimum generation requirements of the traditional generation in the western zone, possibly causing significant reliability problems and negative prices.

The *Cost Study Report* also references the possibility of reliability related costs in several other places. For example, page 8 references a possible increase in the amount of regulation service required by the NYISO and an increase in the State's capacity reserve requirement. The *Cost Study Report* has not provided any estimate of the cost impacts of these potential increases.

The *Cost Study Report* makes assumptions about the addition of a substantial quantity of new gas-fired generation capacity in eastern New York that could also

adversely affect reliability.[10] These assumptions may be flawed as the RPS may drive capacity prices below levels necessary to encourage investment in gas-fired facilities in eastern New York. If the RPS encourages the siting of renewable resources in the west of the State while the need for new generation capacity grows in the east, the failure to encourage development of traditional gas-fired generation capacity could leave New York dangerously short of capacity in the future.

The *Cost Study Report* further acknowledges the significant role played by voltage support in ensuring that electricity can flow through the transmission lines. The *Cost Study Report* recognizes that large wind farms actually consume large amounts of VARs and that variable VAR controllers may be required to reduce the consumption of VARs. It is not sufficient, however, to merely limit the consumption of VARs. A reliable system requires the ability to have units actively providing VARs to compensate for the consumption of VARs by the loads on the system and the transmission system itself. If there is a reduction in the number of units operating that can provide VARs, then the system transfer capability will be reduced.

Additionally, VAR support does not travel well across long distances. Consequently, the NYISO may require VAR support in specific areas. One example of this phenomenon is that on numerous occasions the NYISO has been required to issue Supplemental Resource Evaluations to get additional VAR support in the mid-Hudson valley. During the spring and early summer of 2002 this resulted in the Roseton Unit being turned-on several times to provide VAR support. Paradoxically, the *Cost Study*

[10] *See* DPS Staff Response to Joint Utility Questions, dated September 12, 2003.

Report appears to assume that the Roseton Unit will be retired as a result of the RPS. Such an outcome under present conditions would compromise system reliability.

The *Cost Study Report* therefore is incomplete because it does not adequately address major reliability implications and cost consequences resulting from the delivery of a significant amount of new and intermittent electric generation. Before cost impacts can be adequately assessed, reliability impacts must be thoroughly examined.

It is notable that within the last month, the NYISO and NYSERDA released an RFP that would seek to study the effects of integrating large-scale wind generation into the New York State Bulk Power System ("NYSBPS"). The RFP has two principal objectives to be addressed in two phases (December 31, 2003) and (October 1, 2004).[11]

Briefly, the RFP calls for a preliminary screening-type assessment of the impact of large-scale wind generation impacts on the reliability of the bulk power system. The second part of the study calls for a detailed system performance evaluation of large-scale wind generation on the power system leading to recommendations for necessary modifications to existing procedures and guidelines to reliably accommodate the integration of new wind generation. The RFP states that:

> [t]his would include a review of Northeast Electric Reliability Council Northeast Power Coordinating Council and New York State Reliability Council reliability standards, criteria and rules for planning and operation of the New York Power System. To the extent that an aspect of market design could potentially affect the reliable operation of the bulk power system, it should also be addressed as part of this evaluation.

[11] The RFP can be found at the following link http://www.nyserda.org/825rfp.html .

The RFP also asks for cost estimates for changes in the administration, operation, planning and upgrading of the bulk power system to maintain reliability while seeking to significantly expand renewable generation resources.

The NYISO/NYSERDA RFP represents a significant and correct recognition that the introduction of large-scale wind generation will have potential reliability impacts that must be addressed. The RFP also requests identification of NYISO tariffs and market rules which wind generation may find difficult to meet and estimates of the costs of changing these rules to accommodate wind generation.

IPPNY believes that, before an RPS policy is adopted, this proceeding should expressly seek to consider how wind and the intermittent resources may be incorporated into the power system without adversely affecting reliability. Among the reliability issues and associated costs that should be considered are:

- generation commitment and dispatch to maintain system reliability;
- location of large blocks of wind generation west of the Total East transmission constraint and associated costs for transmission upgrades;
- increased amounts of regulation service and VAR support and associated costs; and
- maintenance of ancillary service requirements by generators.

One of the key questions for NYISO operations is whether a forecast of large amounts of wind generation for the next day can be sufficiently accurate to allow for reliable and economic system operation in-day. In particular, if there is 1,000 MW of wind generation predicted for the next day, can the NYISO commit the system assuming that the 1,000 MW of wind generation will exist?

The foregoing comments demonstrate that the costs and reliability impacts of new large-scale and intermittent generation have not yet been adequately identified. In particular, costs related to the protection of system reliability need further study as recognized by the recent draft RFP from the NYISO and NYSERDA. Before major policy decisions are made in this proceeding, the *Cost Study Report* should be revised to recognize the reliability impacts found pursuant to the NYISO and NYSERDA RFP. In addition, if the ALJ decides to issue a recommended decision prior to the completion of the NYISO and NYSERDA reliability study, any recommended policies should be flexible enough to accommodate the findings from the study.

CONCLUSION

As discussed above, the Commission should adopt IPPNY's policy recommendations to ensure that the RPS does not harm the functioning of reliable, non-discriminatory, competitive energy and capacity markets.

Respectfully submitted,

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By: _____
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Dated: September 26, 2003
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