

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

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

Initial Comments of Nucor Steel Auburn, Inc.

Introduction

By Order issued February 19, 2003, the Commission instituted this proceeding for the purpose of formulating a policy statement on retail renewable portfolio standards in New York. The Order followed on the heels of Executive Order No. 111, which, among other measures, directed state agencies to increase power purchases from renewable resources. The Order noted that, in the 1960's, New York obtained 25% of its electric energy from renewable resources (principally large hydro) and that this percentage had declined to roughly 17%. (Order at 2). The Order further opined that a return to a 25% renewable level would be in the public interest because diversifying the State's electric resource mix could potentially improve energy security, reduce air emissions and spur economic development (at least for developers of renewable technologies).

The proceeding has followed an informal, collaborative process that has examined the 14 threshold issues described in the February 19 Order. That process has served to highlight more fundamental questions concerning how much renewable generation should be pursued, at what cost to New York consumers, whether preferences should be given to certain technologies, and the economic and environmental benefits that should be expected in return. Also, following the August 14 blackout, the stakeholders have recognized the need to assess more closely reliability ramifications posed by various

renewable technologies. Finally, as this process has unfolded, Congress has been considering comprehensive energy legislation that may adopt national renewable portfolio standards. This legislation could dramatically alter the underlying premise for this docket. In these comments, Nucor Steel Auburn, Inc. (“Nucor”) urges the Commission to take a measured approach toward articulating a renewable energy policy that is consistent with a workable and comprehensive energy policy, and that is designed to further New York economic, system reliability and environmental goals.

About Nucor

Nucor is now the largest steel producer in the United States. It has accomplished this feat, while many older domestic steelmakers are struggling or failing, by investing in new electric arc furnace-based technologies that recycle and recast scrap steel. This “mini-mill” process is dramatically more efficient than blast furnace methods employed by traditional integrated steel companies, requires substantially less energy to produce a ton of steel, creates far fewer greenhouse gas emissions than traditional methods, and greatly reduces landfill requirements. Nucor’s Auburn facility is New York’s biggest recycler, and it is also the economic anchor of the Auburn community.

At the same time, electric arc furnace based steelmaking is energy intensive. Electric power costs represent a significant portion of total operating costs, and the Nucor Auburn facility is New York State Electric & Gas Corporation’s largest single load. Reliable and competitively priced electric power is essential to the economic viability of these steelmaking facilities.

Overview

The electric arc furnace, “mini-mill” technology Nucor employs has largely supplanted coke and iron ore blast furnace facilities by making steel more efficiently and more cleanly than older technologies. Embracing this improved technology has been a “win-win” situation for the Upstate economy and the environment. In this same fashion, Nucor supports state policies that encourage economic, job-creating actions that will reduce greenhouse gas (GHG) and other emissions while making electricity supply more affordable and reliable. As explained in the comments below, Nucor urges the Commission to establish an RPS policy in this docket that consonant with that objective.

In this regard, Judge Stein indicated that she would take note of the April 2003 Center for Clean Air Policy “*Recommendations to Governor Pataki for Reducing New York State Greenhouse Gas Emissions*” (CCAP report). That report considered a range of GHG reduction options that New York might unilaterally initiate based on the following six criteria:

1. Potential GHG reductions;
2. Cost-effectiveness;
3. Administrative/political feasibility;
4. Impact on State Economic competitiveness;
5. Security of energy supply; and
6. Ancillary societal benefits.

(CCAP report at page ES-5). The stated intent of that report was to explore emission reduction options that would improve electric system reliability and benefit New York’s economy. With respect to a New York RPS program, the analysis performed by the ICF consulting group for the CCAP accepted several critical economic and environmental assumptions in recommending that an RPS program be implemented. Varying

perspectives regarding those same critical assumptions account in large part for the substantial differences between the DPS staff and the Joint Utility cost studies filed in July. Reliance on such estimates in a dynamic and complex energy and economic climate is the principal source of Nucor's unease with the straw proposals advanced thus far.

Next, given the continued struggling nature of New York's manufacturing sector, especially Upstate, and the demonstrated effect that increasing energy costs have on job losses, the Commission's RPS policy must take to heart the CCAP emphasis on economic competitiveness and demonstrated benefits relative to costs. The Commission must be realistic and shun convenient assumptions that actual practice will quickly disprove. Finally, the Commission's policy must be consistent with a comprehensive electric policy that undoubtedly will address mounting reliability concerns in a post-blackout environment, potential nuclear plant retirements and other pressing matters that must be confronted.

A. Working Renewable Target

Nucor recommends that the Commission continually evaluate the assumptions underlying its annual RPS objectives and revise its objectives and targets accordingly. Further, the Commission should avoid making long term commitments based on estimates (impacts on natural gas prices, net job impacts, ratepayer impacts, etc.) that are to a greater or lesser extent speculative, are contested today, and may change dramatically tomorrow based on actual experience or changed circumstances. It is instructive that New York came to obtain 25% of its electric generation from renewables

in the 1960's by developing available and economic large hydro resources.¹ While the Commission may want to promote cost justified technology-forcing emission reducing actions, a policy that attempts to “back in” to a pre-designated target that is not linked to economically achievable projects would be a mistake. Unfortunately, the straw proposals advocate the latter approach (i.e., achieving a target objective of 25% by 2013 by setting annual targets designed to incrementally bridge the gap between a base line level of renewable energy production and the target renewable energy level). This approach presumes that the annual and overall targets are reasonable and directs stakeholder energies into a lengthy effort to determine what “counts” toward meeting the objective. Thus, the parties held extended discussions to consider, among other matters, what constitutes the baseline level of existing renewables, what technologies are considered “renewable” (even if they consume fossil fuels as a feedstock), whether expanding the output of an existing resource (e.g., the Niagara project) is a “new” renewable, and whether projects not physically located in New York should be eligible.

The Commission has been required in the past to attempt to reconcile rational energy and economic concerns with arbitrarily devised mandates (e.g., the 6-cent/Kwh purchase requirement established by PSL §66-c) (now repealed). This path invariably leads to perverse decision-making that extracts a significant price in terms of dollars wasted and jobs lost. In Nucor's view, New Yorkers will be better served by a Commission policy that promotes the most effective emission reduction strategies rather than one follows a technology-tiered, administratively-fixed target system.

¹ The Niagara and St. Lawrence hydro re-development projects completed in the early 1960's followed a 1956 landslide that destroyed much of the Niagara Schoelkopf facility.

B. Eligibility.

The Commission should embrace the most cost-effective means offered for improving electric system reliability, lowering consumer power costs and reducing emissions. It should not employ a multi-tier approach that reserves payments for specified technologies irrespective of costs or likely benefits. In fact, the Commission should be a technology agnostic in its pursuit of cost-effective emission reductions, and should not confine its program to traditional “renewable” technologies.

Certainly, the Commission should pursue the full development of effective demand response programs, which improve system reliability, impose no environmental burdens, lower power costs system-wide (especially during high demand periods), and may assist in retaining manufacturing jobs. New York has taken a pioneering role in this area through programs implemented by the NYISO, but the economic demand bidding programs are in their infancy. With aggressive Commission support, improved NYISO rules, and convergence with emerging internet-based management technologies, the potential of managed load as a pollution-free resource is just beginning to be tapped. Rather than adopting production quotas in certain technology sectors, the Commission’s policy should pursue the State’s ultimate interests in curtailing air emissions, improving electric reliability, and fostering sustainable economic growth through an expansive view of emission reduction strategies.

C. **Generation Diversity**

In Nucor’s view, it is difficult to evaluate the generation diversity benefits of renewable sources. As the NYISO’s various “Power Alerts”² attest, New York’s prime energy needs concern peaking capacity that can be delivered to load at high demand periods. The CCAP report noted that many renewable technologies, and wind in particular, tend to operate intermittently, in remote locations, and at low availability levels. (CCAP at 66.) While the air quality and other societal benefits of non-emitting, or low emitting, resources should not be discounted, the Commission must recognize that New York’s consumers will be asked to pay for the facilities that actually provide needed reliability and energy security. This is one arena in which policy prerogatives do not trump the laws of physics. The Commission should not base its policy on claims that lack a demonstrated foundation, and should not ascribe to renewables features that they do not possess.

3. **Economic Benefits**

The potential jobs to be created by renewable development projects described in the July Synapse Report sponsored by RETEC seem speculative. Job loss in New York’s manufacturing sector due to high energy costs, however, is a day-to-day reality. Nucor is certain the Commission’s Office of Business Advocate can attest to the negative impact that energy costs have upon the State’s job attraction and retention efforts.

Also, renewable projects constructed in other states will provide no visible New York economic benefits. The cost burden of the RPS program, however, will be

² See e.g., Power Alert III, dated May 22, 2003.

shouldered by New York consumers. Nucor does not believe an RPS program designed in that fashion is in New York's interests.

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