

PUBLIC SERVICE COMMISSION

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

INITIAL COMMENTS OF RELIANT RESOURCES, 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 an August 18, 2003, ruling amending the procedural schedule, ALJ Stein provided that initial comments must be filed by September 26, 2003. Pursuant to the ALJ’s June 19, 2003 Ruling Establishing Comment Procedures, Reliant Resources, Inc. (“Reliant”) hereby files its initial comments.

Reliant has its principal place of business at 1000 Main Street in Houston, Texas. Through various subsidiaries, Reliant owns and operates unregulated electric generation facilities; typically either exempt wholesale generators or qualified facilities and is a retail energy supplier throughout the country. Reliant owns over 75 generating facilities in New York State including 71 hydroelectric and four fossil fuel facilities, totaling over 2600 Mw of generating capacity.

Reliant’s interests in this proceeding are several; first, that the RPS be implemented in a manner that is consistent with and not harmful to New York’s competitive wholesale market; second, that Reliant’s own existing hydro portfolio not be put at a competitive disadvantage; third that the adopted RPS treat retail energy providers equitably and finally that new seams not emerge between existing markets as a result of the RPS.

## COMMENTS

Reliant offers the following comments in support of our stated interests. :

1. All consideration in this proceeding should be delayed until the results of the New York State Energy Research and Development Authority (“NYSERDA”) and the New York Independent System Operator (“NYISO”) study of the impact of wind energy systems on system reliability are available.
2. Eligibility- existing hydroelectric facilities should be eligible for participation in the RPS in a manner equivalent to a new resource. New hydroelectric facilities and expansions regardless of size should be included in the RPS.
3. An individual compliance model should be adopted because it has the least adverse impact on competitive markets and the reliability of the electric system.
4. The standard should be based upon Renewable Energy Credits that are tradable.
5. Components of The Department of Public Service staff’s Cost Study Report raise questions.

***1. Delay finalization of an RPS policy until after reliability concerns are known***

While Reliant does not oppose proceeding with the adoption of an RPS in an expeditious manner, it is critical that the impacts of adopting such a standard be well understood. Recent events have reaffirmed the need to ensure that the reliability implications of the implementation of an RPS are known. Currently, a study is being undertaken by the NYSERDA and the NYISO to investigate the impacts of the addition of substantial wind resources in New York. Key issues include transmission adequacy and the impact on system reliability of adding a substantial number of intermittent generating units.

The initial phase of the study will provide a preliminary, overall, screening-type of assessment of the impact of large-scale wind generation on the reliability of the New York State Bulk Power System and will be completed by December 31, 2003. Unfortunately, it is not until the second, detailed phase of the study, to be completed in October of 2004, that there will be a review of existing reliability standards, criteria and rules such as those of the Northeast Electric Reliability Council and the New York State Reliability Council.

Commission approval of a final RPS program design for New York before the results of the study are substantially complete could lead to the exacerbation of a potential reliability problem, the gross underestimation of the cost to consumers and/or the need for rapid revisions in the program. We encourage, to the extent practicable, expediting the study to allow a prompt adoption of the RPS.

**2. *Eligibility - Existing and New hydroelectric generating facilities should be eligible in the RPS***

The working group on eligibility included a sub-group, representing diverse interests, which attempted to reach consensus on what should constitute eligible hydroelectric resources. The sub-group was unable to reach any conclusions. Reliant proposes the following:

**A. EXISTING FACILITIES**

New York benefits from having a large amount of existing hydroelectric capacity with the potential for additions and expansions. The vast majority of the existing facilities are small, under 30 MW in size, and located throughout northern New York.

While there are no significant fuel costs for hydroelectric facilities, there are other substantial costs associated with their stewardship and operation, such as capital costs, operation and maintenance costs and substantial licensing related costs. These costs often

make these smaller units marginally economic in the wholesale competitive market. In addition, these units often serve as the primary, if not sole, industrial taxpayer in many rural upstate towns.

As presented and discussed during the economics working group, one of the impacts of an RPS will be the depression of energy prices in the day ahead market. Given the environment for siting new renewable generation and the availability of wind resources, it is anticipated that the impact on wholesale prices will be greatest in the same Locational Marginal Price zone in northern New York that the bulk of the existing hydroelectric facilities are located. While this is a logical and generally favorable impact, it will make the economic viability of the hydroelectric units more tenuous. In order to maintain these scarce, emissions-free, resources in New York's renewable base line they need to be incorporated in the going forward RPS.

## B. NEW FACILITIES AND EXPANSION

There have been discussions throughout the working group process about limiting the size of expansions and new hydroelectric facilities. Reliant believes that the licensing process currently being used in the United States by the Federal Energy Regulatory Commission ("FERC") is both thorough and inclusive. Environmental and social impacts are fully weighed and considered in this process. The development of new and incremental hydroelectric generation is a costly and extremely lengthy process, often taking over a decade from concept to operation. Given the previously mentioned economic situation of hydroelectric facilities, putting a limit on these opportunities will deny New York access to a truly emissions free renewable resource.

### ***3. An individual compliance model should be adopted because it has the least adverse impact on competitive markets***

Two basic proposals have been put forward for the design of the RPS compliance model; a state ("NYSERDA") managed centralized procurement and an individual

compliance model put forward by the Renewable Energy Technology and Environment Coalition (“RETEC”).

As stated, Reliant’s interest is to foster and maintain competitive wholesale and retail markets in New York. The individual procurement model proposed by RETEC keeps parties on an equal footing and allows retailers to procure the optimal product to meet their needs. It is a market-based policy with multiple buyers and sellers allowing for the greatest flexibility in implementation for retail providers and renewable generators. This approach will also be administratively simpler than a state run central procurement of resources. This approach also has a track record, and has been adopted as part of an RPS in several other states. Reliant supports many of the features of the RETEC individual compliance model but specifically disagree with the eligibility criteria established therein.

The central procurement model, on the other hand, has the potential to damage the viability of the existing wholesale competitive market and provide sub-optimal solutions. 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 future year. This approach would have the centralized agency procuring a fixed contract payment for delivery from the generator to be offset in part by the wholesale price in electricity received from operation. Under this approach renewable generators would have no incentive to run when the need is the greatest or to hold back in periods when the price signal in the market is to shut down (negative prices). Such operation could have devastating impacts on the competitive wholesale markets.

***4. The RPS should be based on Renewable Energy Credits that are unbundled***

New York has established itself as a regional leader in environmental issues. Most recently, the Governor called upon surrounding states to join New York in proposing a regional carbon cap and trade program. The electricity markets are in themselves regional

in nature and there is a concerted effort by the Commission, the NYISO and FERC to eliminate seams between the markets. There is currently a specific effort by the NYISO with New England to ensure the convergence of real time prices of those markets. The last thing New York needs is to create a new seam with New England over RPS. The proposed virtual regional dispatch system will make it even more difficult to track specific transactions across the borders in the real time.

Energy and renewable attributes should be unbundled so that they can be sold separately. This will provide the proper price signal to run renewable generation when it is most needed in the system. Further, Reliant supports comments filed by the Independent Power Producers of New York on March 28, 2003, stating that "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. The advantage of the adoption of this approach, beyond allowing a separate market price for energy and the Renewable Energy Credit, is that it offers the opportunity to grow to a truly regional renewables market in the future.

**5. *Components of the Department of Public Service staff's cost study report raise concerns***

Staff's study, while more reasonable in approach than the joint utility study (which does not consider imports and requires a fixed percentage of more expensive resources), does not fully consider the cost impacts of the RPS, neglecting certain operational, market and reliability issues.

Wind generation in the north and western part of the state and Long Island is anticipated to be the primary new renewable generation added under the RPS. It does not appear that the study fully considers that the intermittent and unpredictable nature of wind generation may result in maintaining dispatchable resources and incenting peaking

units that would not otherwise be economic. The NYISO currently has difficulty with the persistent dragging of units from their day ahead commitments and is contemplating rule changes to ensure reliability. Additional intermittent units that are not assured of meeting their day ahead schedule will exacerbate the problem, potentially requiring the maintenance of substantial amounts of dispatchable generation at minimum –generation levels and the need for maintenance of additional peaking units in the real time to make up for the shortfall. This potential increase in real time prices does not appear to be addressed in the study. Further, because the bulk of the wind opportunity is in the area west of total east, these dispatchable and peaking resources would need to be similarly located. Currently, there are virtually no peaking resources in that area and they would have to be added. In addition this new demand on the real time market may create the need for additional regulation and reserves, neither of which are fully considered in the study.

The study lists prices paid for installed capacity that appear to be in error. The assumption presented in the study is that the capacity market clears at the top of the demand curve. Currently, the rest of state (outside New York City and Long Island) is clearing at a little over \$20kw/yr while the study assumes \$56kw/yr. Over 1000 MW of new capacity is currently being added in upstate, which should further drive capacity prices downward. Similarly, the price in New York City is positioned to drop well below the demand curve cap of \$127.89 as new resources come on line through 2008.

Finally, the Staff's study assumes that many of the permitted Article X projects will go forward and be constructed by 2013. It is uncertain that, in the face of adding several thousand Mw of renewable resources, all of these facilities will make economic sense or that developers would want to take the risk without a premium, particularly in less congested LBMP zones outside of New York City and Long Island.

Respectfully Submitted,

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