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Hon. Jaclyn A. Brilling
Acting Secretary
New York State Department of Public Service
Three Empire State Plaza
Albany, N.Y. 12223

September 26, 2003

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

Dear Secretary Brilling:

Pursuant to the Commission's Order Instituting Proceeding, issued February 19, 2003, and ALJ Stein's Outline for Comments of June 10 and All Parties letter of July 21, Adirondack Hydro, Inc., Azure Mountain Power Company, Champlain Spinners, Chasm Hydro, Chittenden Falls Hydro Power, Inc., Franklin Hydro, Inc., Kinetic Energy, LLC, North Country Community College, Seneca Falls Power Corporation, the Village of Saranac Lake, Stuyvesant Falls Power Corporation, Tannery Island Power Company, the Town of Wells, Windsor Machinery, and the Village of Potsdam submit an original and three (3) copies of the enclosed Comments.

Copies of these comments have been served on ALJ Stein via electronic mail pursuant to the Ruling Revising Schedule.

Sincerely,

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State of New York
Public Service Commission

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

Comments of Small Hydroelectric Facility Owners

The undersigned are non-utility owners of operating hydroelectric facilities with installed capacities that range from a few hundred kilowatts to less than 5 megawatts. We wish to offer the following comments on Case 03-E-0188 in accordance with the outline circulated by Judge Stein on June 10, 2003:

IV.C. Eligibility

Existing small hydro facilities selling power at market rates are at risk economically because of small size and disadvantageous market rules. Most of these plants were constructed or reconstructed following the passage of PURPA in 1978 but are now facing an uncertain future in the deregulated marketplace, into which they typically sell at spot market rates based on the Day Ahead Market. Those plants which are no longer covered by PURPA power sales agreements should be eligible to participate in the Renewable Portfolio Standard, for the following reasons:

1. Small plants have no economies of scale; per unit of output, major operating expenses such as management, labor, parts, insurance, regulatory compliance/licensing, and, where applicable, taxes are higher. Size and location

make them less likely to have corporate owners able to spread expenses across a number of installations. Some individual owners face a particular management burden because they are not primarily engaged in either the hydroelectric or generating business, both of which are complicated environments.

2. The reinvestment cycle for these small plants tends to be shorter than for large plants; there are 15-20 year old PURPA plants which need investment now. Small machines wear out faster. There are plants currently facing the need for life extension, rehabilitation, or modification, some of which may be necessitated by relicensing.

3. New York's market system disadvantages small plants, by circumstance and design. The large majority of hydro plants are located in the areas of the State having the lowest Locational Based Marginal Prices. Selling into the ISO market is unrealistic or impossible for small plants, so the local utility is the customer. Power sales contracts are short term, with no lower price limit, making reinvestment in a fixed-cost asset very problematical. Some utilities ask for, and get, a discount from the LBMP. There are no installed capacity payments. Under New York's conversion transaction system, the utility, not the plant owner, gets the value of the renewable attributes. Although the power from the (usually) distribution voltage level plant flows directly to consumers without passing through the transmission system, the plant owner is not compensated for the costs avoided. Plants with synchronous generators receive no compensation for voltage support or VAR contribution. One utility, Niagara

Mohawk, compensates hydro (and other renewable) generators under 5 mw for ancillary service charges avoided, but this is a temporary arrangement.

4. Small, dispersed generators have no bargaining power in the marketplace. Given this lack of bargaining power, it is particularly important for government to insure equitable conditions of power sales.
5. The civil works, i.e. dams, impoundments, fish passageways, recreational amenities, etc., often have value to society for reasons other than power generation. If generation is discontinued, the costs of upkeep will be shifted to others.

VI.A. Establishment of a New York-based Credit Trading System

New York needs a credit trading system which will give ownership of renewable attributes to all renewable generators selling at market-based rates, not just new generators or those large enough to sell directly into the ISO market. It is manifestly inequitable to deny ownership of attributes to those most in need of them, as is the case with the present system.

Conclusion

There are dozens of small hydro projects in New York. They are a tiny part of the State's overall energy supply, but are a significant presence in many small communities. Their average size of less than 2 megawatts is small enough that the financial effect on ratepayers of including or not including them in the RPS will be insignificant. Many of these hydro projects were brought back from the dead by above-market PURPA

contracts but are now, we think, being forced to sell their renewable energy for less than its real value under terms which leave the facilities' long term viability in doubt.

The New York Times, in an August 26 post-blackout article (90 Seconds That Left Tens of Millions of People in the Dark), had this to say:

> *"Within New York there was a patchy pattern of regions that made it through the general blackout with their lights on - often areas served by small generating facilities. There are about 200 nongovernment-owned power plants around the state, many quite small hydroelectric facilities.*
>
> *The spottiness of blackouts upstate "had a lot to do with the fact that the hydro plants kept running," said Peter Barden, spokesman for the New York Power Authority."*

These plants in the aggregate contribute to the economic well being of their local communities and the State. They reduce dependence upon foreign sources of fossil fuels, enhance the region's diversity of generation, support the transmission/distribution system in remote areas, provide local employment, and make large contributions to local tax bases. The policy of New York State should be to support the continued operation of these uniquely valuable renewable generators.

Respecfully submitted,

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