AMERADA HESS CORPORATION

ALYSSA D. WEINBERGER
Director of Regulatory Affairs
Energy Marketing

1 HESS PLAZA
WOODBRIDGE, NJ 07095-0961
(732) 750-6024 Phone
(732) 750-6670 Fax

March 24, 2003

VIA OVERNIGHT MAIL

Hon. Janet Hand Deixler
Secretary
New York State Public Service Commission
Three Empire State Plaza
Albany, NY 12223-1350

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

Dear Secretary Deixler:

Pursuant to Commission Rule 3.5(f), Amerada Hess Corporation respectfully submits comments in the above captioned proceeding.

A copy of these comments has also been sent to Administrative Law Judge Eleanor Stein and the service list in this matter via email.

In order to assist in our record keeping, please file stamp the additional copy of this packet and return to me in the self-addressed stamped envelope included for that purpose. Thank you for your attention in this matter.

If you have any questions, please do not hesitate to contact me at (732) 750-6024.

Sincerely,

Alyssa D. Weinberger
Director of Regulatory Affairs

Enclosure

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

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

Comments of Amerada Hess Corporation

Introduction

Amerada Hess Corporation ("Hess") appreciates the opportunity to comment on a Renewable Portfolio Standard (RPS) in New York State as outlined in the Public Service Commission's February 19th order. As both a natural gas and electric marketer in New York State, Hess has participated in many proceedings addressing policies that affect the competitive market including the collaborative proceeding in Case No. 00-M-0504 involving the Commission's fostering of the competitive market. It is from that background and with that experience that Hess makes these comments. Hess will address the issues enumerated in the Commission's February 19th order; however, it is first important to highlight Hess' primary position in this matter.

Hess appreciates the Commission's multiple goals in this proceeding of reducing air emissions, addressing energy price volatility and improving system reliability. However, Hess is concerned that establishing a Renewable Portfolio Standard for electric energy retailed in New York is likely to conflict with the Commission's goal of developing competitive retail electricity markets in the State. Requiring electric suppliers to purchase and/or generate renewable sources of energy for inclusion in their overall portfolio will increase wholesale costs thereby raising costs for all customers regardless of their level of interest in purchasing green energy. Moreover, these increased wholesale costs would be unduly burdensome on marketers, particularly smaller ones who have not yet had an opportunity to establish a strong market presence and who cannot benefit from the economies of scale associated with larger purchases. The result would be an almost certain competitive disadvantage for ESCOs and further hindrance of the competitive market. In addition, Hess believes that it may be premature for the Commission to promulgate an RPS in light of certain policy uncertainties identified by the New York State Energy Research and Development Authority (NYSERDA).

Hess is concerned about NYSERDA's tentative conclusion that implementing an RPS can be accomplished "in a manner that is consistent with the wholesale and retail marketplace in New York."[1] NYSERDA states, in its Preliminary Investigation into Establishing a Renewable Portfolio Standard in New York[2] (Preliminary Investigation), "Pursuing an RPS is likely to have minimal impact on the operation of the current wholesale market for electricity and could be an important component in the emerging retail electricity market." [3] However, Hess notes that the competitive retail electricity market in New York has not been robust (last year, the number of customers declined 3%, and the presence of and competition between ESCOs, outside of the Con Edison service territory, is difficult to discern). The conclusion that an RPS is "likely to have minimal impact…" on the market is unsupported by any current data. Rather, it appears more likely that imposing an RPS requirement on marketers at this time would dissuade potential new entrants from entering the market, due to the increased costs it would impose on existing marketers. Finally, an RPS requirement for ESCOs would represent a major increase in the regulation of these relatively unregulated entities. Such a step toward re-regulation will reverberate throughout the ESCO community causing many to reconsider their decision to participate in the New York electric market.

For these reasons, Hess believes that the Commission should reconsider imposing an RPS on ESCOs at this time. While NYSERDA or the NYS Energy Planning Board resolve the uncertainties identified in the Preliminary Investigation, the Commission

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[1] Order Instituting Proceeding, Issued and Effective February 19, 2003, page 2
[2] See February 14, 2003 letter from NYSERDA's acting President Peter Smith to Members of the NYS Energy Planning Board
[3] Preliminary Investigation, Page 1

could begin its implementation of RPS by restricting it to utilities, by far the dominant providers of electricity in the State. The Preliminary Investigation itself points to the relative effectiveness of RPS implementation in states that are not trying to institute competitive markets.[4] This proceeding, thus limited, could resolve some of NYSERDA's uncertainties, and the Commission could proceed with implementing an RPS without threatening its incipient retail competitive electricity market.

It is Hess' belief that it is premature to impose an RPS on ESCOs and instead recommends that any such requirement be placed on utilities alone at this time. In addition, Hess recommends that, as other states such as New Jersey have done, New York State agencies should be required to purchase a minimum amount of green energy for use at State facilities and that this requirement should be made a part of any RPS program established in New York.

Attached are Hess' responses to the individual threshold issues outlined in the Commission's order.

[4] "The three states that have developed an RPS under a traditional regulated utility setting (Iowa, Minnesota, Wisconsin) are all considered on track or fully compliant in meeting their respective RPS requirements." Ibid, page 4

Comments on Threshold Issues

1. **The types of resources that should be considered as "renewable" for the purposes of a renewable portfolio standard.**

   Hess believes that the type of resources that should be considered as renewable for purposes of the RPS should be as broad as possible. Therefore, in considering the 25% of electricity sold in New York target, not only should existing hydropower facilities be included, but also biomass, waste to energy and natural gas fuel cells.

2. **The appropriateness of including renewable resource energy procured from outside the State, such as hydropower from Canada or wind energy from New England.**

   One of the emerging observations of electricity industry restructuring is that wholesale markets are increasingly regional in scope. Moreover, restricting this requirement to procurement of resources within New York State begs the question, are there enough resources available for purchase within New York State to satisfy an increase to 25% of the overall energy portfolio? Hess is concerned that such a requirement, if restricted to in-state resources alone, might be impossible to meet and that the Commission's overall goals of reducing emissions, improving reliability and reducing price volatility would not be achieved. Therefore, Hess believes that inclusion of out-of-state renewable energy resources should be allowed.

3. **The retail suppliers that should be required to sell energy from renewable sources.**

   Hess believes that ESCOs should not be required to meet RPS requirements whereas utilities could be held to an RPS.

4. **The impact, if any, on the ability of energy services companies' (ESCOs) abilities to compete with utilities if they are required to procure renewable resources beyond what their customers request, given the relative sizes of the**

loads supplied by utilities and ESCOs currently, and how such impacts might be overcome.

ESCOs already struggle to compete with utility incumbents; adding an RPS requirement, especially if ESCO customers do not request green energy and are therefore not interested in paying the premium associated with renewable source energy, would place ESCOs at a decided disadvantage in the market. As mentioned in the introduction, ESCOs do not possess the same level of resources available to utilities and would have greater difficulty in financially supporting investment in renewable resource procurement.

5. **The best methods for retail suppliers to procure renewable resources (e.g. construction and ownership versus purchases.)**

Hess does not believe that the State should direct unregulated entities such as ESCOs as to their business strategies, for example by requiring ESCOs to enter the renewable energy generation business.

6. **Methodologies for the recovery of costs by regulated utilities.**

Hess believes that utilities should be able to recover RPS costs through standard fuel cost recovery mechanisms as long as utilities do not offer discounted prices on renewable energy products which would place ESCOs at a competitive disadvantage.

7. **Individual retail suppliers' targets if appropriate.**

While Hess reiterates its belief that ESCOs should not be required to include renewable energy in their portfolios, should the Commission decide to move forward with such a requirement, individual utility company share of the RPS target should be allocated on the basis of kWh sales.

8. **The potential impact on reliability and system operations due to the addition of renewable resources, especially those resources that operate only intermittently (e.g. windmills and photovoltaics), and what, if anything, must be done to ensure that reliability is maintained.**

Hess does not believe that reliability will be detrimentally affected by the inclusion of renewable resources to utility generation mixes. The diversity of sources will mitigate the periodic unavailability of a given resource. However, Hess believes that this issue would be best addressed by the NYISO.

9. **The appropriate means to monitor progress toward meeting the goal and to ensure results, including possible rewards and disincentives.**

Annual reporting should suffice to measure progress toward meeting the RPS goal. Hess is not opposed to the development of financial incentives or disincentives for individual utilities.

10. **The appropriateness of a "renewable attributes trading" system, and the components of any such system that might be developed.**

A system for trading renewable attributes is necessary to any program mandating a renewable portfolio standard regardless of which entities are responsible for meeting this standard. A trading system must be able to track available renewable energy generation as well as any transactions among market participants involving sale of their environmental attributes, particularly if inter-state trading occurs. Hess would support a NYISO run auction process as NYISO already tracks generation sources and MWs per source.

11. **The impact, if any, on the Commission's Environmental Disclosure Label Program, and any modifications that might be needed and appropriate for that program.**

Hess believes it is premature, pending the outcome of this proceeding, to comment on the impacts on the Environmental Disclosure Label Program.

12. **The practicality of installing new renewable facilities in the high load areas of the State. If the targeted renewables are built upstate, the impact, if any, such construction might have on the addition of new resources in the load centers where they are most needed, and the appropriate means to ensure that additional generation and transmission resources will be built where they are most needed.**

The location of renewable resources is indeed important given the nature and extent of the state's transmission system. As the power industry is restructured, and more independent generation is constructed, it is becoming increasingly apparent how closely tied are generation location and transmission adequacy. It may therefore be necessary to establish for some portion of a utility's RPS that renewable resources be constructed within the footprint of that particular utility. Nevertheless, renewable generation facilities are likely to face similar siting difficulties as have traditional fuel source generation facilities, making it equally as difficult to site generation and transmission in high demand locations.

13. **The impact, if any, the renewable portfolio standard would have on existing green marketing programs in the State, and what the State might do to support developers and green power marketers during the process of developing rules to implement the standard.**

Hess believes that the imposition of an RPS will have a detrimental impact on those existing green energy providers as they will no longer have a unique, and voluntarily purchased product to offer. It is possible to assist these marketers by conducting an auction as discussed above, to procure the necessary green energy for satisfaction of the renewable portfolio standard which would offer green marketers an avenue for sale of their products to utilities.

14. Changes needed, if any, by the Public Service Commission and NYSERDA in the SBC-funded renewable energy program to coordinate with the new target.

Hess has no comment to make with regard to the existing SBC-funded renewable energy program.

March 24, 2003
Woodbridge, New Jersey

Respectfully submitted,

Amerada Hess Corporation

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Alyssa D. Weinberger
Director of Regulatory Affairs