

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

**INITIAL COMMENTS OF GREEN MOUNTAIN ENERGY COMPANY REGARDING A
RETAIL RENEWABLE PORTFOLIO STANDARD**

March 28, 2003

Green Mountain Energy Company (Green Mountain) submits the following comments in response to the Public Service Commission's *Order Instituting Proceeding*¹ and ALJ Stein's procedural rulings in this docket. Green Mountain Energy supports the advancement of a renewable portfolio standard (RPS) in the State of New York. Green Mountain Energy's experiences in other markets shows that a green market can work in conjunction with an RPS in leading to the development of more renewable generation than would occur under a structure that supports either a renewable requirement or green market alone.

The order instituting the above referenced proceeding laid out 14 threshold issues that will be reviewed during the proceeding. Green Mountain would like to focus its comments on six of the threshold issues; however, we respectfully reserve the right to address additional issues as they may arise throughout the collaborative process and the formal proceeding:

- 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.
- The appropriateness of a "renewable attributes trading" system, and the components of any such system that might be developed.
- The appropriateness of including renewable resource energy procured from outside the State, such as hydropower from Canada or wind energy from New England.
- The impact, if any, on the Commission's Environmental Disclosure Label Program, and any modifications that might be needed and appropriate for that program.
- The retail suppliers that should be required to sell energy from renewable resources.
- The types of resources that should be considered as "renewable" for the purposes of a renewable portfolio standard.

¹ Case 03-E-0188 - Proceeding on Motion of the Commission Regarding a Retail Renewable Portfolio Standard, *Order Instituting Proceeding* (Issued and Effective Feb. 19, 2003).

Threshold Issues

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.

Green Markets are a powerful component in the drive to develop renewable generation. In the neighboring PJM market over 200 megawatts of new wind have been developed or are under development solely to serve the demand of consumers choosing renewable power. While the RPS requirement builds a foundation amount of renewable generation, the green market presents an opportunity to build significantly more renewable demand on top of that foundation. Individual choice is at the heart of our market-based economy, and renewables will be well served by thoughtful policies that ensure choice and mandatory requirements complement each other.

The green market is already at work supporting new wind generation in New York. For example, the Niagara Mohawk green pricing program has led to the commitment, by competitive green suppliers, to the output of all the current New York wind facilities. Thus the green market is today supporting some 45 mw of New York wind.

Second, a green market provides a powerful tool to educate the public and bolster support for renewables' policies. Studies have shown that the public is not well informed about its sources of electricity and the environmental insults that result from them. The green power market, through its marketing and public relations activity, has become a broad, powerful, and effective tool for educating consumers about the value of renewable generation and in helping to build public support for renewables.

Third, green markets help to develop renewables. Take, for example, the PJM marketplace. In that region, all of the commercial wind farms have come on line because of consumer demand for renewable energy. In the early stages of the Texas market, customers choosing premium renewable electricity products are already supporting more than 100 megawatts of new wind.

Fourth, a green market can help to reduce the overall costs of renewable supply. Renewable developers may be able to build larger generation facilities if they are built to serve the demand of both the RPS and the green market. This allows the developer to realize economies of scale, thus reducing the cost of generation. If the cost of generation is less, the general public will be paying less to have the RPS instituted.

Fifth, a green market does not impose an artificial limit on the amount of renewables that are developed in a region. In the case of New York, the renewable target is 25%, of which approximately 8% would be new generation. In reality, demand for renewables is likely to be greater. The support of a green market will allow those consumers who are interested in buying a larger amount of renewables to do that, leading to greater renewable generation overall.

In summary, Green Mountain believes that an RPS and green market not only can—but must—go hand in hand.

The appropriateness of a “renewable attributes trading” system, and the components of any such system that might be developed.

A system for tracking and verification of renewable generation and the associated environmental attributes, or renewable energy certificates (RECs), will be needed. The system should provide

transparency for generators, retail providers, and consumers. An attribute system provides several essential functions for renewable supply. First, it provides for the “banking” of the value of renewable generation, providing renewable generators with an improved opportunity to get the full value of their environmentally preferred power. Second, in conjunction with the previous point, an attribute system creates a liquid market, facilitating cost-efficient trading of renewable supply. The adoption of a generation information system (GIS) like that in New England would allow for a regionally integrated system and prevent double counting of renewable generation attributes.

Obviously, the GIS should be compatible with the other systems in the region (i.e., NE GIS and PJM GATS) to ensure that New York renewables will be recognized outside of New York and New England renewables will be recognized in New York, thus meeting the goal of ensuring that the RPS can be met in the most cost-efficient manner possible.

In addition, by moving to a renewable attributes trading system, a more robust forward market for energy should evolve by allowing New York renewable facilities the ability to sell energy forward as well as sell the associated renewable attribute forward. Being allowed to buy and sell both the energy and environmental attributes on a forward basis advantages both generators and retailers. It allows both parties to know with certainty the price that they will receive or pay. Such forward market development will increase price liquidity, making future renewable developers more comfortable in developing and financing new facilities. In short, they will be able to finance additional projects more easily as they can show a forward revenue stream from the renewable attributes.

For more information on this topic, please see the comments Green Mountain submitted in conjunction with multiple other active parties focusing specifically on this topic in this same proceeding.

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

In order to ensure that the RPS is met in the most cost-efficient manner possible, renewable generation produced in the broad market region (including PJM and NEPOOL, for example) should qualify for RPS provisions. The development of a regional market for renewable power would be facilitated through a credit trading system that is compatible with the New England GIS and/or the systems that are being designed for PJM and Ontario.

Including renewable resources from throughout the region is an important consideration in promoting the most efficient and lowest cost RPS. Establishing broad boundaries will allow renewable developers to garner economies of scale when siting generation resources. A wind farm built at a scale solely to serve New York could potentially be larger if it also had the opportunity to serve additional states. The economies of scale would ensure that price efficiencies could be realized. By allowing facilities from outside New York State to qualify for the New York RPS market, New York facilities are likely to qualify for other regions’ renewables markets. Reciprocity benefits all. Further, creating a regional market is more likely to avoid tight supply or market power in New York, which could potentially result in high prices.

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

Rules for environmental disclosure and RPS compliance must be matched. For example, if there is a one-year compliance and one year banking option for the RPS, it must be the same for environmental disclosure. Different regimens can result in perverse consequences and gaming.

In order to ensure that the RPS is met in a cost-effective manner, the disclosure protocol in New York should be amended to give renewable energy certificates (RECs) a longer life span than the single-quarter life they currently have. This “banking” will ensure that the seasonality of renewable resources does not drive up the cost of the RPS. In addition, the RPS should be met by replacing the current conversion transactions with RECs and the GIS-like tracking system discussed above.

For purposes of compliance with the RPS and environmental disclosure, RECs should be given a one-year life, at least. We would recommend a 21-month life, as described below, consistent with the practices recommended by Green-e, the national certification body. Allowing “banking” ensures that renewable generators have a reasonable opportunity to receive the full value of their generation.

Under a 21-month regimen, a supplier meeting its RPS or environmental disclosure obligation could use RECs generated in the compliance year, RECs generated in the final six months of the previous year, and RECs generated in the first quarter of the subsequent year. For example, for compliance in 2004, a supplier could use RECs generated from July 1 through December 31 2003, January 1 through December 31 2004, and January 1 through March 31 2005.

The retail suppliers that should be required to sell energy from renewable resources.

In order to ensure that the RPS is competitively neutral, every retailer of electricity (ESCOs, utilities, and default service providers) must be subject to the same RPS requirements and every customer in every customer class must contribute appropriately to the RPS. In other words, the RPS standard should apply to all electricity product offerings, without exception, not merely the overall mix of generation provided by an electricity provider. This product-based standard ensures that all residential, commercial and industrial customers fairly share the cost burden and public benefit of the RPS implementation.

A further crucial point is that a product-based standard also prevents consumer deception and the distortion of the retail market, which could happen with a company-based (or portfolio-based) approach. If to meet its mandatory obligation an electric supplier provides a product with a high percentage of renewables, consumers could be led to believe that they are supporting a higher level of renewables than would otherwise occur. That would not be true, however, if the product were merely created to enable an electric supplier to meet its obligations under the RPS, and consumers would have been misled into making their purchases.

Therefore a product-based approach is essential to protect consumers and to ensure the full benefits of the green market, discussed earlier.

The types of resources that should be considered as “renewable” for the purposes of a renewable portfolio standard.

Green Mountain Energy believes that a goal of an RPS should be to use the market to spur the development of renewable resources, like wind, landfill methane, and biomass generation that are almost cost-competitive in the electric power market. Hence, mature generation technology, like large-scale existing hydro, does not need the market support of the RPS. An RPS can also play a role in supporting emerging generation resources that may not be competitive in the power market, like solar and fuel cells. Provisions to encourage these technologies can be appropriate, but need to be thoughtfully developed so as not to distort the overall cost of compliance.

Recognizing that New York has a large amount of hydro resources, the state has an interest in seeing that its indigenous clean hydropower facilities continue to operate. Consequently, Green Mountain Energy Company believes that the most appropriate structure for an RPS in New York would be to focus on new renewable generation necessary for the state to reach the 25% renewable target.

Green Mountain believes that the sources of new generation qualifying for an RPS should include wind, biomass, solar, geothermal, incremental hydro-power at a certified low-impact hydro facility, wave and tidal. In addition, the definition of renewable sources should not be exclusive in order to encourage the development of additional new renewable technologies.

Summary

Green Mountain fully supports an RPS for the State of New York. At the same time, we believe that the State of New York should implement an attribute tracking system compatible with those in surrounding regions and should continue to support a competitive green market.

Respectfully submitted,

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