

March 27, 2003

VIA FEDERAL EXPRESS

Hon. Janet H. Deixler
Secretary
New York State Public Service Commission
Three Empire State Plaza
Albany, New York 12223

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

Dear Secretary Deixler:

Enclosed for filing is an original and six (6) copies of the Initial Comments of KeySpan Corporation ("KeySpan"). KeySpan also served its Initial Comments upon the Presiding Officer and the Active Party List electronically today.

Please date stamp the extra copy of this letter and return it to me in the enclosed, self addressed envelope.

If you have any questions, please do not hesitate to call.

Sincerely,

Cynthia R. Clark
Senior Counsel

CRC/ar
Enclosures

cc: Hon. Eleanor Stein (electronically)
Active Party List (3/14/02 list) (electronically)

bcc: C. Watson
B. McCabe
M. Fabic
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R. Barnett
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R. Teetz
S. Vitale

**STATE OF NEW YORK
PUBLIC SERVICE COMMISSION**

**Proceeding on Motion of the Commission
Regarding a Retail Renewable Portfolio
Standard**

Case 03-E-0188

**INITIAL COMMENTS OF
KEYSPAN CORPORATION**

INTRODUCTION

On February 19, 2003, the Commission issued its Order Instituting Proceeding in this case (“Order”), “to develop and implement a renewable portfolio standard for electric energy retailed in New York State.”¹ The Commission expressed concerns over “the effects on our climate of fossil-fired generation,” the “security implications of importing much of the fuel” needed to supply electricity, and the vulnerability to price spikes and supply disruptions resulting from over-dependence on fossil fuels². The Commission observed that “[o]nly about 17% of the electricity currently used in New York State is provided by renewable resources. This figure reflects a disturbing decline from 25% of four decades ago.”³ Thus, the Commission concluded, “[a] return to the 25% figure would

¹ Order at 2.

² *Id.* at 1.

³ *Id.* at 2.

be in the public interest.”⁴ The Commission seeks from this proceeding a draft policy statement, and to that end, has invited comment on a list of fourteen “threshold issues.”⁵

On February 20, 2003, Administrative Law Judge Eleanor Stein (“ALJ”) issued a ruling (“Ruling”) scheduling a procedural conference in the case for March 4, 2003, as well as initial and reply comment dates leading up to collaborative meeting set for April 7 and 8, 2003.⁶ After the March 4 procedural conference, the ALJ issued a revised schedule on March 6, 2003 (“Revised Ruling”), which set the initial comment deadline at March 28 and eliminated the provision for written reply.⁷

Several entities within KeySpan Corporation, the holding company of the consolidated KeySpan enterprise, including The Brooklyn Union Gas Company d/b/a/ KeySpan Energy Delivery New York (“KEDNY”) and KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island (“KEDLI”) (together “the KeySpan Energy Delivery Companies”), KeySpan Technologies, Inc. (“KTI”), and KeySpan Business Solutions, LLC

⁴ *Id.*

⁵ *Id.* at 3.

⁶ Ruling at 3.

⁷ Revised Ruling at 1.

(“KBS”), collectively (“KeySpan”) hereby submit their responses to the threshold issues identified by the Commission. These KeySpan companies are all involved in a variety of activities and research that uniformly support the Commission’s goals for this proceeding. KTI is working to develop new energy products and services, including renewables (as KeySpan would define the term, discussed below) and green power (power generated from renewable energy sources). KEDNY’s research and development area has performed fuel cell demonstrations and pursued other renewable projects. KBS currently provides installation, system design and maintenance services for natural gas fuel cells both within and outside of the service territories of the KeySpan Energy Delivery Companies. KBS, through a subsidiary, also designs and builds green buildings, which are designed to be environmentally-sound and resource-efficient. A KBS subsidiary has also developed combined heat and power (“CHP”) projects for many years. The KeySpan Energy Delivery Companies anticipate that there may be load growth opportunities for clean-burning natural gas as a result of further development of the renewable market.

KeySpan welcomes this proceeding as a means to set the stage for the market to support the development of renewables. Toward that end, KeySpan urges the Commission to consider development of electric rates that promote distributed generation, including renewables and high efficiency onsite generation (“DG”). High efficiency DG would include, but not be limited to CHP installations. Certain aspects of existing electric rates may impede the development of a more robust DG and renewables market, including high standby rates and unduly high interconnection costs (including lengthy approval cycles for

interconnection).. KeySpan suggests the Commission instead establish streamlined standards, procedures and costs. KeySpan also believes high efficiency DG should be considered part of a renewables portfolio, at least in the shorter term. KeySpan further believes the Commission should consider, for example, that electric generation may be more useful in certain geographic areas of the state. KeySpan also believes that potential avoided costs of electric transmission and distribution upgrades, as well as emission reductions, should be considered when determining the value of DG and renewables. In attempting to encourage renewables and high efficiency DG, the Commission may want to consider making saved energy—the diminished portion of required electric and thermal output created from higher system efficiencies-- or “negawatts” a tradable commodity.

KeySpan hereby submits these Initial Comments to provide, in the context of this collaborative proceeding, an overview of its principal positions on the threshold issues identified in the Order.

RESPONSES TO COMMISSION’S THRESHOLD ISSUES

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

KeySpan believes a broad definition of “renewable” is consistent with the Commission’s goal of development of the renewable market and should therefore be adopted in this proceeding. Therefore, it urges that the definition of “renewable” for the purpose of establishing any portfolio standard should build upon and be consistent with the provisions of 6 NYCRR Part 204 Section 1-2, which defines “renewable energy project” as

“[a] power generation technology that produces electricity from wind energy, solar thermal energy, photovoltaics, methane waste, or sustainably managed biomass, but not the combustion of pyrolysis of solid waste.”

Additionally, fuel cells have been identified as a critical component in several long-term energy plans, including the Governor’s Executive Order No. 111⁸ and the President’s goal of developing hydrogen fueled economy. The first step in making the transition to hydrogen will be the development of a distribution system. Fuel cells can easily and inexpensively be switched from natural gas to hydrogen. Therefore, KeySpan believes that encouraging the development of fuel cells will also encourage the development of a hydrogen distribution system. For these reasons, KeySpan urges the Commission to include fuel cells in its definition of “renewable”, regardless of the current fuel supply.

Further, the Commission also should include in its definition “hybrid” generators that combine a source traditionally viewed as renewable like wind or solar, with a high efficiency DG unit. Including such a product would not only encourage the further development of the renewable market, but also encourage increased efficiencies in the DG area. Such a hybrid unit would also address the reliability issues raised by renewables which might otherwise operate only intermittently.

⁸ The Executive Order defines “Renewable Sources” as “wind, solar thermal, photovoltaics, sustainably managed biomass, tidal, geothermal, methane waste and fuel cells.” Governor George E. Pataki’s June 10, 2001 Executive Order 111 at IV.

Finally, KeySpan believes it would be beneficial to include very high efficiency DG units in the definition of “renewable,” because improvements in efficiency in that market reduce fossil fuel consumption.

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

KeySpan believes it would be best for New York State or some reasonably contiguous region ultimately to be self-sufficient in meeting any renewable portfolio standard. A requirement that any renewable portion of the portfolio be generated in the region, or that would give greater credit toward regionally-generated purchases, would aid in renewable resource market development as well as job creation and retention within the region. The absence of such a requirement could lead to fewer renewable generators and higher prices for their product, as New York and other states pursue their product to meet renewable portfolio requirements. Further, as the February 14, 2003 NYSERDA preliminary investigation (“NYSERDA Report”) notes, the concept of regional electricity markets may mean increased importance should be attached to regionally generated renewable purchases.

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

KeySpan reserves comment on this issue at this time.

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.

KeySpan reserves comment on this issue at this time.

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

KeySpan reserves comment on this issue at this time.

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

KeySpan believes the regulated utilities should be able to fully recover the costs of any mandated renewables portfolio. It also believes however, that traditional utility protocols have, to date, had the effect of discouraging entry into the DG and renewables market. They have resulted in high standby rates, high supplemental back up charges, high interconnect costs, and lengthy approval times for interconnects, which also discourage implementation of both renewables and high efficiency DG. While KeySpan recognizes that aspects of these concerns are under consideration in other proceedings before the Commission⁹, it also notes that more may be needed. Staff seems to recognize this as well. For example, while supporting the proposed five-year phase-in of new standby rates for

⁹ E.g., Case 00-E-0005, Proceeding on Motion of the Commission to Examine Costs, Benefits and Rates Regarding Distributed Generation, Opinion and Order Approving Pilot Program for Use of Distributed Generation in the Utility Distribution System Planning Process (October 26, 2001); Case 94-E-0952, In the Matter of Competitive Opportunities Regarding Electric Service, Opinion and Order Adopting Standard Interconnection Requirements for Distributed Generation Units, Opinion No. 99-13 (December, 31, 1999); Case 99-E-1470, Proceeding on Motion of the Commission as to the Reasonableness of the Rates, Terms and Conditions for the Provision of Electric Standby Service, Opinion and Order Approving Guidelines for the Design of Standby Service Rates, Opinion No. 01-4 (October 26, 2001).

environmentally-beneficial technologies in the Con Edison standby rate case¹⁰, Staff also said “[i]f additional measures are needed to promote these [environmentally beneficial] technologies, proposals can be made in proceedings on renewable generation policy.”¹¹

In addition to reducing these barriers, KeySpan also suggests that appropriate cost recovery methodologies should account for certain benefits of high efficiency DG and renewables. For example, any methodologies should consider the societal benefits of avoided utility investment, *i.e.* savings from a reduction in the need for additional construction of transmission and distributions assets which result from DG and renewables. The Commission may want to consider encouraging utilities to consider renewables in their long range transmission and distribution planning. Additionally, consideration should be given to the issue of improving the efficiency of the total generation system, from the input of the fuel into the system to the creation of the system’s power output. If an efficient DG or renewables generator can generate electric and thermal energy at twice the efficiency of the local utility, it

¹⁰ Cases 02-E-0780 and 02-E-0781, In the Matter of the Compliance Filings of Orange and Rockland Utilities, Inc. and Consolidated Edison Company of New York, Inc. In Response to Opinion No 01-4 on Standby Service Rates, Staff Statement in Support of Joint Proposal (March 20, 2003) at 8 - 10.

¹¹ *Id.* at 9 - 10.

will have to purchase only 1/2 as much fuel. While difficult to quantify, emissions reductions and decreased reliance upon fossil fuels are also societal benefits of renewables and efficient DG. KeySpan supports the concept of a “renewable attributes trading” system mentioned in Threshold Issue 10 below.

7. Individual retail suppliers’ targets, if appropriate.

KeySpan does not feel it is necessary, in order to implement a renewable portfolio standard, to require each electricity retailer to purchase a fixed portion of its supply from renewable sources. However, the high load areas of the state, the market for renewable sources and any associated job creation and retention which would derive from the development of that market may all benefit from some regional geographic (*e.g.*, downstate vs. upstate) targets.

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.

Power generation technology that produces electricity from wind energy, and photovoltaics are inherently intermittent. Whenever the wind subsides or the sun sets or is reduced by cloudy weather, the sources of energy become reduced or unavailable. Consequently, any facility relying on these technologies for energy must have a readily available source of alternative energy. Without backup capability these sources of renewable energy are incapable of meeting the energy needs of most facilities.

Recognizing the necessity for reliability, KeySpan urges that generators that combine intermittently available renewable resources with high efficiency DG equipment should be included in the definition of “renewable” for the purposes of any portfolio standard.

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

KeySpan believes third party monitoring of progress toward a portfolio standard is critical to the success of any program. The current PSC Environmental Disclosure program¹² provides a framework under which, with appropriate modifications – e.g., to allow for the purchase and sale of environmental attributes or renewable energy credits -- we could measure progress toward a renewable portfolio standard and assess rewards and/or penalties based on the level of compliance.

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

A renewable attributes trading system is an essential component of any successful retail renewable portfolio program. The Environmental Disclosure program could be successfully modified to measure compliance with a renewable portfolio standard. One

¹² Under this program, the PSC requires electricity providers to include information on utility bills disclosing the percentage of their power coming from biomass, coal, natural gas, oil, hydro, nuclear, solar solid waste and wind. The “label” also provides information on emissions of sulfur dioxide, nitrogen oxides and carbon dioxide, associated with the generation of electricity and how the supplier compares to the statewide average.

modification KeySpan would urge is that electricity sales into the spot market, and not just pursuant to bilateral contracts should recognize environmental attributes.

The Commission may want to include CO2 trading standards as well as the concept of “negawatts,” or electricity saved due to higher system efficiencies as a component in an attributes trading system.

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.

KeySpan favors expanding the Environmental Disclosure Label Program to incorporate the requirements of a renewable portfolio standard. Although it may be premature at this stage of the proceeding to identify specific modifications to the program, it could, as the NYSERDA Report suggests (at footnote 3), be modified to allow for the purchase and sale of environmental attributes and/or renewable energy credits.

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.

As this question contemplates, if a renewable portfolio requirement can be satisfied on a statewide basis, with no geographic component whatsoever, KeySpan believes the efficient DG/renewable market will not develop as quickly or at all in the high load areas of the State. Therefore, as set forth in its response to Number 7 above, KeySpan favors some regional consideration in implementation of a portfolio standard. Additionally, the

reduction of certain pricing barriers to efficient DG and renewables, *i.e.*, unduly high standby rates, inappropriate supplemental back up rates, costly/poorly constructed interconnection standards, would encourage more development in high load areas.

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.

KeySpan reserves comment on this issue at this time.

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.

KeySpan reserves comment on this issue at this time.

CONCLUSION

KeySpan appreciates the opportunity to participate in this proceeding, which it hopes will not only begin to address the concerns identified by the Commission in the Order, but also lead to the development of the efficient DG/renewable market in the State. KeySpan suggests any definition of renewable should include natural gas fuel cells, high efficiency DG and hybrid generation. KeySpan believes electricity satisfying any portfolio requirement ultimately should be generated within the State. KeySpan encourages the Commission to work toward reducing certain utility charges which have become barriers to the development of efficient DG and renewables, including excessive standby rates, high interconnection charges, inappropriate supplemental back up rates, and the recognition of certain benefits of efficient DG and renewables (*e.g.*, avoided costs of T & D upgrades, increased system reliability and emissions reductions).

Dated: Brooklyn, New York
March 27, 2003

Respectfully submitted,

KEYSPAN CORPORATION

BY: _____

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