



N A T S O U R C E

March 28, 2003

Secretary Janet Deixler  
New York State Department of Public Service  
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:

Pursuant to the March 6, 2003 Ruling Revising Schedule by Administrative Law Judge Eleanor Stein, please find enclosed herewith three copies of Natsource LLC's Comments on Selected Legal and Policy Issues Concerning a Retail Renewable Portfolio Standard. This document is being served on all active parties in the above captioned case.

Very truly yours,

//s//

Matt Williamson

**March 28, 2003**  
**Case 03-E-0188**  
**Natsource LLC**

**Initial Comments on Threshold Issues Identified by the Public Service Commission**

**Introduction**

Natsource is pleased that the Public Service Commission has undertaken to encourage renewable energy generation in New York State. Building on our expertise as an over-the-counter energy commodity broker, Natsource is an industry leader in what has come to be called the environmental commodity market, a concept that was first widely implemented through the US Environmental Protection Agency's Acid Rain Allowance market and which has evolved to include renewable energy certificates and other "green tag" products. Natsource has been intimately involved in the development of this market since the first bilateral transactions occurred in 1994. As such, we are pleased to share our thoughts and participate in this program development process. Our responses to the PSC's threshold questions follow.

**Responses**

**[Threshold issues identified by the Public Service Commission numbered and italicized.]**

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

Given that each generation technology has its unique attributes, Natsource notes that it would be quite possible to take a highly inclusive approach that ascribes different weights to different sources based on their desirability from the State's perspective. Whether effectuated through use of different classes of renewables as in New Jersey's system or a differential rate of generation of renewable certificates as in New Mexico's system, this need not be a black and white issue.

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.*

The RPS should be designed and implemented primarily to stimulate growth in the generation of electric energy produced by renewable resources within New York State, but should be compatible with other renewable resource energy initiatives, and should not penalize purchases of energy from renewable resources outside of the State.

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

All retail electric service providers subject to the jurisdiction of the Public Service

Commission, including Energy Service Companies (“ESCOs”), and NYPA and LIPA, should be required to meet the RPS requirements. ESCOs should be required to meet the same standard with respect to their loads as is required of the utilities within whose service territories the ESCOs are serving retail customers. Municipal utilities and co-operatives that do not purchase power on a requirements contract from NYPA or LIPA should be strongly encouraged to meet the RPS requirements.

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.*

Natsource has no comment at this time.

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

The RPS should be designed to be implemented through a certificate program, such that certificates of ownership of sufficient attributes of generation from renewable resources would satisfy the requirements of the Renewable Portfolio Standard. Certificates representing renewable resource attributes, often described on an energy basis, should be separable from and not bundled with the actual electric power produced by any particular generator. This approach would produce the greatest potential benefit for the State in several critically important respects:

- Certificates prevent the double counting of generation sources.
- Certificates are most conducive to the establishment of a liquid market, that would allow for State-wide implementation of the RPS, and would best provide the market with price discovery for the various attributes of energy from renewable resources. They are simple, scalable, and divisible, such that, among other things, small retail service providers may acquire only what they need, at a price reasonably equivalent to that which would be paid by a utility with a larger nominal requirement.
- The generation facility should be certified by the appropriate regulatory bodies and then generation from that certified facility should be translated into serialized certificates. It is essential that the certification process is simple and its costs minimal to ensure adequate participation.
- A certificate system may be arranged to have a differential rate of renewable certificate generation that preferentially reward new facilities, generation that follows particular load characteristics, generation that exists in geographic proximity to load centers, has desirable characteristics from an environmental impact perspective or employment perspective or other legitimate public policy

goal. In creating an economically efficient system, the commission should limit the numbers of different commodities created to avoid liquidity problems which would negatively impact the overall economic benefits. For this reason, varying the rate at which different renewable generating facilities create renewable certificates (perhaps a commodity which is not necessarily denoted in MWh but rather in Renewable Compliance Units) rather than creating multiple classes of credits or restricting the transfer of credits would be preferable. It is important to note, however, that use of a compliance unit other than a standard MWh or multiple classes of renewables complicates compatibility with other states and potential federal renewable energy programs.

- Certificates are entirely compatible with private long-term bi-lateral transactions in the purchase and sale of power from renewable resources.

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

Natsource has no comment at this time.

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

Natsource has no comment at this time.

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.*

Natsource has no comment at this time.

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

A mandatory goal is critical to creating a meaningful RPS market. Without strong incentives to achieve the goal or avoid failing to reach the goal on a regular basis, there will be no systemic demand and consequently little assurance that incremental efforts to install renewable energy generation will be profitable and financeable. Of critical importance is establishing a program that provides some surety of demand over a reasonably long time horizon.

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 offers the flexibility to achieve the State's public policy objectives in the most cost effective manner. A trading system allows those participants and facilities best placed to create renewable energy to take action and effectively creates a market signal that indicates the value associated with installing incremental renewable generation and enables the transfer of risk exposure and responsibility for action to those most able to bear them.

From this vantage, we see several key features that a trading system should include:

Sufficient **Commoditization** is perhaps the most critical feature to efficient market operation. The extent to which each transaction involves a unique product is directly correlated with the expense of transacting. There is an additional trade-off between simplicity and environmental specificity and integrity. A standard product is helpful for markets but, to some extent, blurs potentially meaningful distinctions. In the case of renewable energy certificates, a centralized REC creation and registry system, detailing title and enabling transfer would be the most effective way to implement a tradable credit system and demonstrate goal achievement.

A structure that encourages entry of market intermediaries that help supply sufficient **liquidity**. This may be achieved through a system in which title may be transferred in more than one direction (ie generator to intermediary to end user in addition to generator direct to user) often called a secondary market.

A functioning market would yield two particular high value outcomes: price discovery and risk management. All of these together would enable effective planning and minimize costs in achieving the State's 25% renewable energy goal.

Given that each generation technology has unique attributes, Natsource notes that it would be quite possible to have a certificate trading system which ascribes different weights to different sources based on their desirability from a public policy standpoint. Whether through use of different classes of renewables as in New Jersey's system or a differential rate of generation of renewable certificates as in New Mexico's system, this need not be a black and white issue. In this type of configuration, particularly a system that has a differential rate of renewable certificate generation, would be able to tends to reward generation that follows particular load characteristics, exists in geographic proximity to load centers, has desirable characteristics from an environmental impact perspective or employment perspective or other legitimate public policy goal. However, in creating an economically efficient system, the commission should limit the numbers of different commodities created to avoid liquidity problems that would negatively impact the economic benefits of a tradable credit system. Varying the rate at which different renewable generating facilities create renewable certificates (perhaps a commodity which is not necessarily denoted in MWh but rather in Renewable Compliance Units) rather than creating multiple classes of credits or restricting the transfer of credits is a possible alternative way to achieve the PSC's public policy goal.

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.*

It is imperative that the timeframes for the Environmental Disclosure Label program and

RPS compliance periods are harmonized. Mismatched deadlines for disclosure and certificate transfer, as is the case in Massachusetts has already resulted in significant market distortions. For instance, banking provisions under any RPS could cause conflicts with a disclosure label's need for finality. The most straightforward solution would be to roll the disclosure program into the RPS system, or at minimum, to match the generation, transfer and use timeframes for renewable energy with those of the 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.*

Natsource has no comment at this time.

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.*

Natsource has no comment 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.*

Natsource has no comment at this time.