

Working Group #3 – Centralized Procurement of RPS
April 15, 2003 Meeting Notes

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Action Items for April 30th meeting

- Report from NYPA, LIPA, and NYSERDA on jurisdictional authority to procure renewables under a centralized option, share information by 4/28/03 and make presentation at 4/30/03 meeting
- Two Breakout Groups formed to do the following:
 - Flesh out centralized RFP and explore whether FERC approval is required (Warren Meyers, Bob Glasser and LSEs (participation is needed), exchange information by 4/28/03 and make presentation at 4/30/03 meeting
 - Flesh out ISO option (Saul Rigberg, Wes Yeomans, Larry Dewitt, Gerry Deaver and Steve Wemple), exchange information by 4/28/03 and make presentation at 4/30/03 meeting

Summary of Meeting Discussion

Ground Rules –

- Working Group is to assume that a Central Procurement Model will be required for compliance and to develop the best Central Procurement model possible.
- All information is public – no confidentiality
- All views are welcome
- One person speaks at a time
- Keep to time schedule
- Notes of each working group meeting to be circulated within 3 days. Changes / omissions to be brought to the next meeting.

Concept of Centralized Procurement – A central entity would procure incremental renewables (in sufficient quantity to achieve desired target) on behalf of retail suppliers.

Threshold issues

- There are two possible approaches to centralized procurement: 1) have pooled responsibility where entire State requirement is met or 2) a pooled procurement function where individual supplier requirements are procured. Working group is proceeding on first tack.
- Need to consider the role of non-jurisdictional entities (NYPA, LIPA, some munis and coops). Under some constructs, their participation could be voluntary in which case they can't commit to participating until they review proposal with and get approval from their Boards.
- Central procurement would be for incremental needs. Then there's a separate issue of whether the procurement should only be for new units or for existing renewable generation – that will be addressed in the eligibility working group.
- What is being procured, renewable energy or "attributes"? Could be either but purchase cost would be less if it was just the renewable attributes that were procured.

Group observed that NYPA is the biggest renewable supplier in NYS

Determine Participating Entities

- Defined as entities that join in procurement and then have renewable power for sale to their retail customers. Use of the ISO term Load Serving Entities (LSE) encompasses ESCOs, utilities selling commodity, direct customers, etc.
- May or may not include NYPA and LIPA because of their non-jurisdictional nature. Some Municipals and coops that take full requirements from NYPA are also non-jurisdictional. Models might have to consider two cases of participating entities:
 - All LSEs (including non-jurisdictional entities)
 - All LSEs (excluding non-jurisdictional entities)
- Except for non-jurisdictional entities, participation can not be optional, need to know who's in and who pays.

Group identified 4 Procurement Mechanisms to explore

- ISO administrated procurement
- Procurement by central organization / Coop of buyers
- Private contractor procurement
- State agency procurement

And Multiple Funding Mechanisms to pay for the procured renewables

- Collection by ISO from all LSEs
- Use of SBC funds
- Direct payment by LSEs
- Tax or general State funds
- Bonding by State (e.g. the LIPA model)
- Carbon tax
- Tradable emission / renewable credits

Discussion of how does Central Procurement interacts with voluntary programs. An LSE purchasing renewables to support their voluntary efforts would not be excluded from and would have a full share of any Central Procurement responsibility (subject to decisions in Working Group #1).

Group identified several criteria for evaluating the different procurement options

- How does model interface with regional trading
- Does it need outside approval (e.g. legislature, Federal, etc)
- Does it accommodate long term contracts
- Does it accommodate customer-sited renewals
- Implementation cost and administrative efficiency

Discussion of Options

Option 1 - ISO Option

- Requires NYISO Board to file an OATT Tariff amendment and approval by FERC
 - ISO Board can file either under Section 205 filing with 58% approval from market participants or under Section 206 without market participant approval but the latter is typically more contentious at FERC
- ISO conducts auction (could be for a future delivery) and collects funds from market participants to pay suppliers when renewable product is "delivered".

- Group discussed whether recovery should be through an uplift like charge or through an adder to the energy charge. Consensus was that it should be through uplift but 1 participant wants to research alternatives and may ask the working group to revisit it.
- By going through ISO, participation would include all LSEs including non-jurisdictional ones.

Option 2 - Centralized RFP Option

- Commission would have to mandate jurisdictional entities to participate and non-jurisdictional entities could opt in with an agreement
 - Need rules for non-jurisdictional entities that opt-in, can't have revolving door.
- Commission order and/or LSE input needed to determine rules for
 - Cost allocation
 - Funding mechanism
 - RFP process
 - Needs to address credit-worthiness of both suppliers and LSEs
- Administrative entity running the auction is collectively all the jurisdictional entities as well as the non-jurisdictional entities that opt in.

Option 3 - Centralized RFP Option

- Same as Option 2 but with an independent entity as the auction administrator under a set of prescribed rules.

Option 4 - Centralized State Agency Option

- Working group is not sure if legislation is needed to authorize a state agency to pick up this responsibility. NYPA has a very specific mandate that may not be able to purchase renewables statewide.
- NYSERDA currently uses R&D component of SBC funds to promote renewable power, both in terms of direct wholesale supplies (e.g. Fenner project) and to foster retail marketing efforts.
- There is the potential for NYSERDA to conduct an auction and pay for attributes with SBC funds.
 - Question on who gets the value of the attributes? Could be allocated to payers of SBC funds or credited to entire state mix. Staff expressed preference to credit it to SBC payers.
- Requires further study from NYSERDA and NYPA on what they can and can't do. If this option requires a legislative change, it may not be practical to pursue.

Enforcement Mechanisms ISO Auction

- Should there be a penalty if there is not enough supply?
 - Consensus was no, but NYISO can conduct supplemental auctions to fill the void and there are FERC remedies if ISO fails to conduct a required auction.
- Should there be a price cap?
 - UK and Mass have a \$50/MWH cap on the renewables
 - Need an objective standard for how much to procure and what are acceptable / appropriate prices from suppliers.
- If there is not enough procured, proposal would still charge LSEs for the full volume (even it was not fully subscribed). Question is what to do with extra funds, options include:
 - Use it to pay for supplemental RFPs that the ISO would conduct

- Give to NYSERDA or some other entity for public benefit like an alternative compliance / market transformation mechanism.
- Issue of non-performance from suppliers to be addressed in Contracting Standards (Group 5).
- Enforcement for options not fleshed