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September 14, 2015

Honorable Kathleen H. Burgess
Secretary
New York Public Service Commission
Three Empire State Plaza
Albany, NY 12223-1350

Re: Case 15-E-0302 – In the Matter of the Implementation of a
Large-Scale Renewable Program

Dear Secretary Burgess:

Enclosed are the Reply Comments of Central Hudson Gas and Electric Corporation, Consolidated Edison Company of New York, Inc., Niagara Mohawk Power Corporation d/b/a National Grid (“National Grid”), and Orange and Rockland Utilities, Inc. in the referenced matter.

Thank you.

Respectfully submitted,

Anna Chacko

Enclosure

**STATE OF NEW YORK
PUBLIC SERVICE COMMISSION**

In the Matter of the Implementation of a)
Large-Scale Renewable Program)

Case 15-E-0302

REPLY COMMENTS OF THE INDICATED JOINT UTILITIES

Introduction

In response to the *Notice Instituting Proceeding, Soliciting Comments and Providing for a Technical Conference* issued by the New York State Public Service Commission (the “Commission”) on June 1, 2015 (“Notice”)¹ in the matter of the Implementation of a Large-Scale Renewable Program (“LSR Program”), Central Hudson Gas and Electric Corporation, Consolidated Edison Company of New York, Inc. (“Con Edison”), Niagara Mohawk Power Corporation d/b/a/National Grid (“National Grid”), and Orange and Rockland Utilities, Inc. (collectively the “Indicated Joint Utilities”), hereby file their Reply Comments on the initial comments and responses filed by stakeholders on the *Large Scale Renewable Energy Development in New York: Options and Assessment* Final Report (“the LSR Options Paper” or the “Paper”) filed by the New York State Energy Research and Development Authority (“NYSERDA”). The Indicated Joint Utilities appreciate the comments of the other stakeholders and the opportunity to respond.

With more than 25 percent of electricity generated in the State expected to transition to incremental renewable sources by 2030, the Indicated Joint Utilities share the Commission’s and commenters’ sense of urgency in re-establishing large-scale renewable (“LSR”) development in

¹ Case 15-E-0302 – *In the Matter of the Implementation of a Large-Scale Renewable Program*, (“LSR Proceeding”) issued June 1, 2015.

New York to give a clear signal to renewables developers that New York is open for business. The Indicated Joint Utilities continue to advocate for Utility-Owned Generation (“UOG”) as the best option for customers and join other commenters² in noting that the analysis in the LSR Options Paper is incomplete, as it fails to account for the cost to retain the residual value of LSR.³ Under the Indicated Joint Utilities’ proposal, the attainment of interim and final renewable energy goals would be balanced with long-term costs and value to customers, in alignment with the Commission’s Reforming the Energy Vision proceeding.⁴ For example, the Indicated Joint Utilities’ proposal to facilitate voluntary markets would enable customers and/or third parties to develop renewable energy portfolios to suit their objectives and result in a more targeted allocation of cost. In total, the proposal of the Indicated Joint Utilities will best enable all New Yorkers to benefit from a future with more renewable energy at a lower cost.

These Reply Comments are submitted in the interests of furthering the public record on the benefits of UOG in anticipation of moving deliberately to establish a new development program for LSRs. These comments focus on the following points: (1) UOG is the best mechanism to cost-effectively reach LSR targets and captures the long term residual value of LSR projects for customers; (2) UOG reduces risks to customers; (3) UOG does not interfere with markets; and (4) the State’s LSR policy should balance attainment of interim and final renewables targets with managing overall costs to customers.

² *E.g.* LSR Proceeding, Comments of Environmental Defense Fund Regarding the Notice Instituting Proceeding, Soliciting Comments and Providing for Technical Conference (dated August 12, 2015), pp. 8

³ Should the Commission desire further NYSEDA analysis regarding the cost of the LSR residual value as it contemplates its final order, the Indicated Joint Utilities would support working collaboratively with interested parties on this topic or any additional topic as directed by the Commission.

⁴ Case 14-M-0101. Reforming the Energy Vision.

1. UOG Is the Best Policy Mechanism to Achieve the State's LSR Target Cost-Effectively

Contrary to the comments of some stakeholders that suggest UOG will result in overcharges to customers,⁵ analysis by the Indicated Joint Utilities demonstrates that to reach the State's LSR targets, UOG is the most cost-effective approach for customers for every scenario tested, both with and without the federal Production Tax Credit ("PTC") in place. Contrary to NYSERDA's findings, the Indicated Joint Utility analysis finds that even in a no-PTC scenario, UOG saves customers about 38 percent on a total expenditure basis over the 30-year life of a 100 MW wind farm, and these savings can become even greater under other scenarios.

The analysis by the Indicated Joint Utilities of a 100 MW wind farm (using assumptions consistent with those in the LSR Options Paper) shows that on a total expenditure basis, UOG is 8 percent cheaper than a PPA over the first 20 years. Once residual value is included over the 30-year lifetime of the asset, UOG is 38 percent less expensive. Even when levelizing these 30-year values over 20 years, for a viewpoint consistent with the Paper's analysis, UOG is 16 percent cheaper than a PPA.

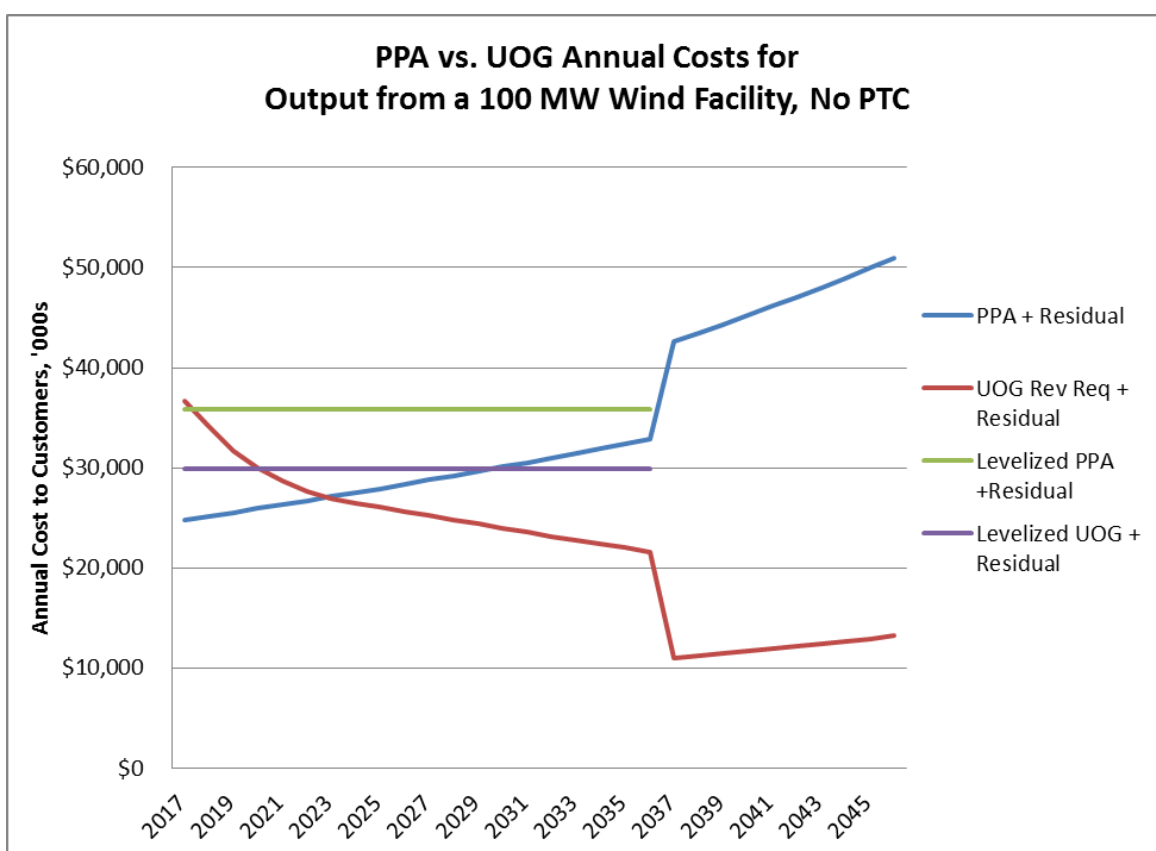
As noted in the Initial Comments of the Environmental Defense Fund, the residual value of the assets is a key consideration. NYSERDA's analysis in the LSR Options Paper is incomplete because it ends at year 20, while the lives of wind assets are now expected to extend to 30 and even 35 years⁶ and associated assets (*e.g.* land, interconnection facilities, and siting authority) can last even longer. That last third of asset life is expected to generate significant

⁵ *E.g.*, LSR Proceeding, Initial Comments of Citizens for Local Power, dated August 12, 2015, ("Citizens for Local Power Comments"), pp. 1-3; LSR Proceeding, Comments of Wal-Mart Stores East, LP and Sam's East, Inc., dated August 12, 2015, pp.3-4.

⁶ <https://efs.iowa.gov/cs/groups/external/documents/docket/mdaw/mju5/~edisp/259801.pdf> -and- <https://efs.iowa.gov/cs/groups/external/documents/docket/mdaw/mju5/~edisp/259802.pdf>.

residual value to the asset owner from its ability to sell merchant energy and renewable attributes at then-market prices, and potentially outside of New York (as is presently occurring with some existing legacy Main Tier projects). By comparison, UOG would be largely depreciated, and would be operated at cost with no market premium, with all of the energy and attributes kept in New York for the benefit of customers.

Figure 1: PPA vs. UOG Annual Costs for Output from a 100 MW Wind Facility, No PTC



Based on the expectation that total adjacent region REC and energy cost would increase modestly from today's levels, a minimum of roughly \$140/MWh would need to be paid to a developer-owner to keep energy and attributes in New York from 2037-2047. The cost to retain this residual value of LSR in New York would add an additional 30 percent to the 20-year levelized cost of the PPA discussed in the Paper. For UOG, the cost to operate the same wind

farm for an additional 10 years, using the same operating cost assumptions in the LSR Options Paper (which includes O&M, property taxes, management fees, and insurance), would amount to a 20-year levelized cost addition of 7.5 percent.

On a total expenditure basis, the cost of all payments over 30 years to a developer/IPP owner for the output of a 100 MW wind farm would be approximately \$1 billion, with an average cost of \$114/MWh, while payments for UOG would total only \$650 million, at an average cost of \$70.62/MWh, a savings of 38 percent. Thus, UOG will help address the significant cost and intergenerational equity issues created by an LSR policy, and introduce declining costs for customers, instead of increasing costs and potential cost surprises many years out under a PPA.

A similar story can be seen for large-scale solar photovoltaics (“PV”), though because NYSERDA did not provide cost estimates for the procurement of LSR solar resources, the Indicated Joint Utilities cannot provide a comparable reference for developer/IPP owned solar generation farms. The Indicated Joint Utilities estimate that UOG would be slightly lower in cost to a PPA over the first 20 years, on a levelized basis. But assuming the developer is free to sell the resources’ output on the market after the conclusion of the PPA, and assuming a cost to operate the solar farm of \$25/kw-yr in 2017 (escalated at inflation), the residual cost to customers for UOG would be 75 percent less than a PPA on a 20-year levelized basis. Considering the residual value of utility-scale solar would again make UOG the least expensive option from every perspective.

As noted above, a significant portion of this outcome derives from UOG’s unique ability to retain residual value for customers’ benefit. No other alternative proposed is as cost-effective

in allowing New York customers to retain the fully-depreciated location, property, plant, and interconnection facilities for as long as the resource is needed.

Several commenters, including the City of New York, highlight the achievement of competitive markets in lowering ongoing operating and maintenance (“O&M”) costs for traditional generation and argue that allowing UOG for renewables would backtrack on this progress. First, these claims have no basis as they pertain to LSR in New York because utility-owned wind and solar resources do not yet exist. Further, the parallel to historic operating experience with traditional generation is tenuous at best as the two generating technologies differ significantly in relative O&M costs. According to a report published by the U.S. Energy Information Administration (“EIA”), while O&M charges account for 77 percent of the 2020 levelized cost of energy (“LCOE”) for an advanced natural gas combined cycle (“NGCC”) unit, O&M accounts for only 17 percent of the 2020 LCOE from an onshore wind plant and only 9 percent of the 2020 LCOE for a solar photovoltaic (“PV”) installation. Conversely, upfront capital expenditures account for only 22 percent of the LCOE of the advanced NGCC unit, while they account for more than 78 percent of the 2020 LCOE of the onshore wind facility and 88 percent of the 2020 LCOE for a solar PV installation.⁷ Further, any efficiencies that could be gained to reduce O&M expenditures through future innovation would be passed through directly to customers under UOG, while those benefits would accrue solely to developers under a PPA model. Moreover, the benefits of UOG in reducing upfront capital expenditures through (i) the use of competitive process to achieve competitive project development, coupled with a transfer that then provides lower financing costs and full retention of the residual value for customers;

⁷ U.S. EIA. Levelized Cost and Levelized Avoided Cost of New Generation Resources in the Annual Energy Outlook 2015. http://www.eia.gov/forecasts/aeo/electricity_generation.cfm

and (ii) the ability to pass O&M efficiencies directly to customers, far outweigh the theoretical arguments made by commenters.

2. *UOG Reduces Risks to Customers*

Certain commenters suggest that UOG would transfer risk to customers.⁸ In fact, to the contrary, UOG significantly reduces risk to customers when compared to other ownership alternatives. Renewable projects are generally broken up into two lifecycle phases from a project financing perspective: pre-operation (*i.e.* development and construction), and operation. Each phase carries different risk weights over different periods of time, which lead to different and discrete financing costs.⁹ Both costs are baked into a PPA but only the pre-operation charges would be paid to a developer under UOG. In the Paper, NYSERDA follows convention by including developer fees as part of the installed cost, which is then capitalized over the 20-year term of the PPA or utility ownership revenue requirement. The Indicated Joint Utilities also follow this practice in their analysis.

When considering early-stage development risk, the model proposed by the Indicated Joint Utilities is designed so that development risk remains with the developer during the development, design, and construction phases of the project. As the Indicated Joint Utilities would contract for these services, and only make payments for acceptable performance, customers bear the same risk during this phase of renewable project development as they would under a PPA. While the pre-operation phase risk-based rate of return would be priced into the development and construction contract a utility would sign with a project developer under the

⁸ LSR Proceeding, Comments of Independent Power Producers of New York, Inc. (“IPPNY Comments”), dated August 12, 2015, pp. 6-7; ACE-NY Comments, pp. 9-11

⁹ Deloitte Consulting. Establishing the Investment Case: Wind Power. April 2014.
<http://www2.deloitte.com/content/dam/Deloitte/global/Documents/Energy-and-Resources/gx-er-deloitte-establishing-the-wind-investment-case-2014.pdf>

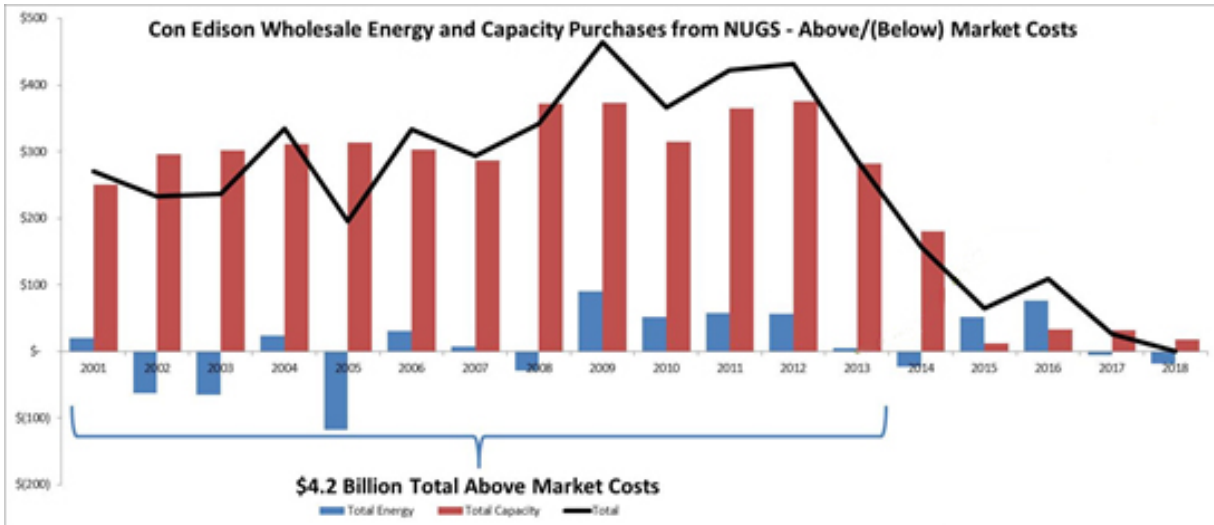
UOG model, the same as in any alternative model, the post-operation risk-weighted financing costs would be assumed by the utility owner at a lower cost than under a PPA due to utilities' lower costs of capital and retention of the residual value for customers.

This model has been successfully adopted in other states, including Oregon, which conduct solicitations among independent developers for both wind and solar projects. Companies like Renewable Energy Systems Americas Construction, Inc. and Orion Energy Group LLC specialize in renewable project development and their "build-transfer" business model is based on selling projects upon completion.

Moreover, as many commenters pointed out,¹⁰ PPAs themselves create significant risk for customers. New York State has already used long-term PPAs to achieve a public policy goal. The results were disastrous at the time, nearly bankrupting Niagara Mohawk Power Corporation, and inflating energy prices for customers across the State. As a result of legacy PPAs signed prior to the full establishment of organized markets in New York, Con Edison customers' energy costs were increased \$4.2 billion above market costs, shown in the chart below.

¹⁰ LSR Proceeding, Initial Comments of the City of New York City (dated August 12, 2014), pp.12-13; LSR Proceeding, Comments of Environmental Defense Fund Regarding the Notice Instituting Proceeding, Soliciting Comments and Providing for Technical Conference (dated August 12, 2015), p.7; LSR Proceeding, Initial Comments of Multiple Intervenors (dated August 12, 2015) ("Multiple Intervenors Comments"), p.11; LSR Proceeding, Comments of NUCOR Steel Auburn, Inc., dated August 12, 2015, pp.3-4; LSR Proceeding, Comments of the New York Power Authority (dated August 12, 2015) ("NYPA Comments"), pp.7

Figure 2: Con Edison Wholesale Energy and Capacity Purchases from NUGS – Above/(Below) Market Costs



As previously noted in our comments, the Indicated Joint Utilities strongly oppose entering into mandatory long-term contracts for these reasons. Should the State choose to pursue PPA-based approaches despite this history, the State should designate a State entity to be the counterparty. However, designating a State entity as counterparty would not eliminate the additional costs borne by customers to retain the residual value of the LSR. Only UOG provides this value.

The long-term offtake arrangements proposed by the New York Power Authority (“NYPA”)¹¹ would have the same negative effect as a PPA directly with utilities. The Indicated Joint Utilities oppose such an approach for the same reasons they oppose PPAs.

¹¹NYPA stated: “Protections would be essential. For example, for bundled or unbundled power purchase agreements entered into by NYPA with developers of LSR projects, there would need to be pre-existing offtake agreements with the State’s investor-owned utilities, or similar contractual protections, such that NYPA would not be left with above-market obligations or unhedged risks to its financial detriment.” NYPA Comments, p.7.

3. UOG Does Not Interfere with Markets

The Independent Power Producers of New York, Inc. (“IPPNY”) claims that UOG is contrary to the Commission’s pro-competition policies. IPPNY further states that generation ownership and electric transmission and distribution (“T&D”) companies should be separated to eliminate the exercise of market power to the detriment of wholesale competitive markets.¹² In support of its position, IPPNY relies on prior Commission orders governing the mergers between utilities with T&D assets and companies with generation assets. However, IPPNY’s claims take the Commission’s rulings out of context. IPPNY does not recognize the different nature of renewable energy in competitive markets premised on development of least cost marginal generation assets that are able to meet all system product requirements, including provision of all reliability and ancillary service needs, in ways that renewable energy assets do not. Moreover, IPPNY fails to recognize that renewable energy is more costly and non-competitive when compared to traditional generation, and therefore requires supplemental support to achieve State policy goals.

For example, IPPNY relies on the Commission’s ruling in the National Grid/Key Span merger as evidence that the Commission set a precedent prohibiting utility ownership of generation. When the Commission considered the National Grid/KeySpan merger,¹³ the Commission’s concern was that the acquisition of competitive merchant electric generation by National Grid would undermine New York’s competitive wholesale electric market. The Commission was also concerned that, after the acquisition of this merchant generator, National

¹² IPPNY Comments, p.3.

¹³ CASE 06-M-0878 - *Joint Petition of National Grid PLC and KeySpan Corporation for Approval of Stock Acquisition and other Regulatory Authorizations*, Order Authorizing Acquisition Subject to Conditions and Making Some Revenue Requirement Determinations for KeySpan Energy Delivery New York and KeySpan Energy Delivery Long Island, (issued September 17, 2007) pp. 34, 35

Grid would have a disincentive to build or upgrade transmission facilities or might operate its system so as to restrict imports and thereby increase prices and revenues for its downstream generator. Specifically the Commission determined that it could not assure mitigation measures would be sufficient to prevent National Grid from raising energy prices to the benefit of its 2,400 (MW) gas-fired Ravenswood Generating Station. In order to ensure the utility did not favor its competitive merchant generation asset over its transmission, the Commission ordered the divestiture of Ravenswood as a condition of the National Grid/KeySpan merger.

However, the Indicated Joint Utilities propose to treat utility-owned LSR as a regulated cost-of-service asset, not as a merchant generator. In the same National Grid/KeySpan order, the Commission allowed National Grid to acquire and retain ownership of 4,200 MW of cost-of-service-based generation on Long Island.¹⁴ Because generator compensation was not tied to market prices, the Commission found no risk of market power and that the potential incentive to limit transmission flows to raise prices in the New York Independent System Operator's ("NYISO") zone for that generation asset was eliminated.¹⁵

In yet another instance, when the Commission approved the Iberdrola/NYSEG/RG&E merger, the Commission allowed NYSEG/RG&E to retain its hydroelectric generating facilities in rate base and Iberdrola was ordered to build new wind generation post-acquisition.¹⁶ The

¹⁴ In determining that National Grid could acquire and retain ownership of 4200 MWs of LI generation, the Commission in Case 06-M-0878 relies heavily on Exhibit 24 Direct Testimony of Staff (7/19/2007). Wherein Staff states "As long as the contract does not tie the generation owner's compensation to market prices, then the incentive to limit transmission flows to raise prices is reduced" Page 128 of Exhibit 24

¹⁵ *Id.*

¹⁶ Case 07-M-0906 - *Joint Petition of Iberdrola, S.A., Energy East Corporation, RGS Energy Group, Inc., Green Acquisition Capital, Inc., New York State Electric & Gas Corporation and Rochester Gas and Electric Corporation for Approval of the Acquisition of Energy East Corporation by Iberdrola, S.A.*, Order Authorizing Acquisition Subject to Conditions (issued January 6, 2009). The PSC wrote: "Finally, the impact on vertical market power of continued ownership of these facilities is quite small. First, as long as the plants remain under rate of return regulation, there would be no direct gain to shareholders from an increase in the wholesale market price. As a result, the regulated company has little incentive to raise wholesale prices for these units. Second, the approximately 118 MW at issue is not a large amount. Given these factors, the advantages to customers of keeping the units outweigh the need to divest them." *Id.* at p. 111

Commission stated here that “as long as the plants remain under rate-of-return regulation, there would be no direct gain to shareholders from an increase in the wholesale market price. As a result, the regulated company has little incentive to raise wholesale prices for these units.”¹⁷

The same regulatory treatment that served as the underpinning of the Commission’s rulings in the foregoing National Grid and Iberdrola merger approvals would govern the UOG proposed here. Specifically, as proposed by the Indicated Joint Utilities in their Initial Comments, once the participating utilities take ownership, the capital value of the project would be included in utility rate base, where the assets would earn a regulated return, with recovery of annual O&M expenses and depreciation. Tax credits, energy and capacity market value, and any other project earnings would be recognized for the benefit of customers, further reducing the revenue requirement and total cost of ownership.¹⁸

For the reasons stated above, prohibiting utility ownership of LSR would be inconsistent with prior Commission orders.

Other commenters¹⁹ make the claim that the Commission’s policy on Vertical Market Power (“VMP”) applies. This argument is misplaced. By its express terms, the VMP policy only applies to utility *affiliate* ownership of generation and does not preclude a utility from owning generation.²⁰

Further, the Federal Energy Regulatory Commission (“FERC”) has specifically found that it is reasonable for States to apply different policy approaches to renewable resources than to traditional generation,²¹ and that market power concerns are reasonably applied differently to

¹⁷ *Id.*

¹⁸ LSR Proceeding, Comments and Responses of the Indicated Joint Utilities, dated August 12, 2015, at p.5.

¹⁹ IPPNY Comments, pp.11-12; Multiple Intervenors Comments, p. 23.

²⁰ New York Public Service Commission. Statement of Policy Regarding Vertical Market Power. July 17, 1998. <http://www.energymarketers.com/Documents/DOC4507.TXT>

²¹ *Order on Rehearing and Further Order on Compliance Tariff Sheets*, 124 FERC ¶ 61,301 at p. 12 (2008) (“[FERC] recognizes that the NYPSC may conclude that the procurement of new capacity, even at times when the

renewables.²² For example, utilities would not control the output of wind or solar generation as the units run when the wind blows or the sun shines, such assets would be fully under the control of the NYISO, and would be price-takers on the market. Indeed, utility-owned LSR participate in wholesale energy markets today without concern.²³

Turning to the NYISO's comments with regard to UOG,²⁴ its position that UOG threatens markets and reliability through negative bidding is inconsistent with its existing tariffs²⁵ and both ignores and is at odds with its Wind Integration Study.²⁶ The NYISO's theoretical position that a transmission owner would ignore the design limits of its own transmission equipment in order to sell energy regardless of system conditions is absurd. Negative bidding occurs today, is allowed per the NYISO tariff, and is managed well without harm to reliability or markets. The Indicated Joint Utilities would be willing to work with NYISO to design any tariff or operating standards changes necessary to ameliorate conditions of concern to the NYISO. Further, the NYISO's position regarding the reliability threat from wind resources is completely at odds with the conclusions in NYISO's own Wind Integration Study.²⁷

market-clearing price indicates entry of new capacity is not needed, will further specific legitimate policy goals, such as renewable portfolio standards.”)

²² *Order Denying Rehearing, Providing Clarification and Directing Further Compliance Filing*, 150 FERC ¶ 61,065 at p. 11 (2015)(“[B]ecause renewable resources such as wind and solar can only qualify a fraction of their nameplate capacity, renewable resources are a poor choice if a developer's primary purpose is to suppress capacity market prices.”, citing *PJM Interconnection, L.L.C.*, 135 FERC ¶ 61,022, at page 153 (2011)).

²³ MidAmerican's Commitment to Wind Energy in Iowa. <http://www.iowaenergycenter.org/wp-content/uploads/2013/11/crist-lecture-11.21.13-secured.pdf> p. 22

²⁴ The NYISO claims that “[l]ong-term bundled PPAs, financially-equivalent CFDs and utility-owned generation arrangements may result in adverse market and reliability impacts because such mechanisms effectively insulate LSRs from temporal and location-based wholesale market price signals. These arrangements essentially guarantee that LSRs receive a certain level of revenue for each MWh of output. ... In an effort to ensure that their unit gets scheduled, LSRs would be incented to submit negative offer values to ensure their dispatch regardless of market prices or system conditions.” LSR Proceeding, Comments of New York Independent System Operator, dated August 12, 2015, at p. 11.

²⁵ NYISO Open Access Transmission Tariff (OATT). Attachment F – NYISO Code of Conduct. Effective Date 6/30/2010. <https://nyisoviewer.etariff.biz/ViewerDocLibrary//MasterTariffs/9TariffSections/216.pdf>

²⁶ Growing Wind: Final Report of the NYISO 2010 Wind Generation Study. NYISO. (September 2010). [http://www.nyiso.com/public/webdocs/media_room/press_releases/2010/Child_New_York_Grid_Ready_for_More_Wind_093010/GROWING_WIND - Final Report of the NYISO 2010 Wind Generation Study.pdf](http://www.nyiso.com/public/webdocs/media_room/press_releases/2010/Child_New_York_Grid_Ready_for_More_Wind_093010/GROWING_WIND_-_Final_Report_of_the_NYISO_2010_Wind_Generation_Study.pdf)

²⁷ *Id.*

That study examined the operation and dispatch simulation of 8,000 MW of wind capacity (or 400 percent more capacity than currently exists) and concluded “that the addition of up to 8 GW of wind generation to the New York power system will have no adverse reliability impact.”²⁸

For all of these reasons, the Indicated Joint Utilities believe it is evident that UOG will not interfere with markets.

4. New York State’s LSR Program Should Appropriately Balance Meeting Renewable Energy Goals with Costs to Customers

As previously noted, the Indicated Joint Utilities share the Commission’s and commenters’ sense of urgency in transitioning to a cleaner generation mix and facilitating the continued development of LSR in New York. With the increasing risk of climate change, growing customer interest in clean energy, and approaching federal compliance deadlines under the EPA’s Clean Power Plan, the Indicated Joint Utilities agree that renewable energy projects should be actively pursued. Regardless of the policy mechanism adopted, the State Energy Plan’s goal of obtaining 50 percent of generation from renewable energy by 2030 is ambitious and will require significant investment in LSR, through established energy markets and through the policies under consideration here. The cost of achieving these goals must be a primary consideration.

While a voluntary market may develop in the long term, the Indicated Joint Utilities disagree with commenters who suggest that relying on this mechanism will be sufficient to meet the State’s goals.²⁹ Neither large-scale wind nor solar resources have reached grid parity in New York and *de minimis* renewable resources have been developed outside of state-sponsored subsidy programs to date. While wind projects with high capacity factors and low installation

²⁸ *Id.*

²⁹ *E.g.*, LSR Proceeding, Initial Comments of the City of New York (“City Comments”), dated August 12, 2-15, pp.7-8.

costs are becoming economic in parts of the country, projects in New York continue to require subsidization, evidenced by the premiums that must be paid to incent development under the existing RPS policy. Further evidence of the lack of a voluntary market for these resources can be found in the status of the renewable energy attributes set aside by NYSERDA's current procurement policy: in 2012, the most recent year of data available, only seven percent of the roughly 4.8 million Renewable Portfolio Standard attributes sold in the State were purchased by entities other than NYSERDA and the Long Island Power Authority.³⁰

In the absence of a voluntary market, the State must adopt a policy framework that will provide for the development of renewable resources, as well as allocate the appropriate funding needed to support project economics. The Indicated Joint Utilities share the concerns of parties including EDF, which highlighted the need to balance meeting renewable development targets with customer bill impacts. The high priority of energy affordability is consistent with the Commission's obligation to establish just and reasonable rates and the interest of New York utility customers.

In the Indicated Joint Utilities' initial comments, they indicated a willingness to work with the State and stakeholders to create opportunities for interested customers and entities to purchase renewable power from UOG, which would promote customer choice and provide the basis for a future voluntary market to develop, consistent with the Commission's direction in its Reforming the Energy Vision proceeding.³¹

The strict renewable-energy-target-based policy proposal of some stakeholders has the potential to lead to a "procure-at-any-price" approach without regard to bill impacts to

³⁰ NYSERDA. New York State Renewable Portfolio Standard Annual Performance Report through December 31, 2014. March 2015. –and– New York State Renewable Portfolio Standard Annual Performance Report through December 31, 2012. March 2013. <http://www.nyserdera.ny.gov/All-Programs/Programs/Main-Tier/Documents>

³¹ *Id.*

customers.³² To mitigate this outcome, certain parties advocate for “Alternative Compliance Payments” (“ACPs”), which serve as a price cap to renewable energy markets by channeling funds that could not be spent on cost-effective renewable resources to other clean energy programs. The Indicated Joint Utilities disagree with this approach. While ACPs provide a price cap, they also anchor the renewables market by setting an artificial “price-to-beat,” leading all REC prices to float just below the cap when available RECs are likely to be short of that year’s target, artificially inflating prices paid for renewable attributes, and undermining the very competitive market the policy is intended to support.³³ An alternative cost-containment mechanism should be developed.

Reaching the State’s ambitious 50 percent renewables by 2030 target will require meeting interim milestones and demonstrating steady progress toward final goals. The Indicated Joint Utilities advocate for a blended approach that would base procurements on interim goals established by the Commission. The Commission could reevaluate annual program goals based on progress toward policy milestones, attainments in other clean energy areas (*e.g.* distributed renewables and energy efficiency), costs to customers, and current market dynamics. This approach would help manage overall costs to customers, and would provide a steady stream of development opportunity for developers over time, including new developers that may enter the market. Such an approach would give a clear signal to developers that New York is open for business, and a good place for developers to participate in renewables opportunities. In the UOG

³² LSR Proceeding, Comments of the American Wind Energy Association, Advanced Energy Economy Institute, Solar Energy Industries Association, New York Solar Energy Industries Association and New England Clean Energy Council, dated August 12, 2015, pp. 8-9

³³ Massachusetts Class I REC prices in 2013-2014 have averaged \$60 and \$61 per MWh respectively, compared with ACP prices of \$65.27 and \$66.16 per MWh MWh, respectively. In New York, RPS attributes purchased via NYSERDA’s ninth Main Tier solicitation in 2014 averaged \$22.96, less than half of the price paid in Massachusetts.

model, there would be a stream of development, and upon development completion, transfer of ownership to utilities to provide benefits as described herein.

Conclusion

The Indicated Joint Utilities appreciate the opportunity to submit these reply comments and respectfully urge the Commission to consider the substantial benefits for electric customers of utility ownership of renewable generation, not the least of which is the cost-effectiveness of this model for increasing the portfolio of renewable resources in New York State.

**CONSOLIDATED EDISON COMPANY OF
NEW YORK, INC. and ORANGE AND
ROCKLAND UTILITIES, INC.**

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