

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

Proceeding on Motion of the Commission to Implement a Large-Scale Renewable Program and Clean Energy Standard)))))	Case 15-E-0302
In the Matter of the Value of Distributed Energy Resources))	Case 15-E-0751

JOINT UTILITIES’ SUPPLEMENTAL COMMENTS REGARDING ORDER APPROVING PHASE TWO IMPLEMENTATION PLAN IN THE CLEAN ENERGY STANDARD PROCEEDING

On March 21, 2018 the Public Service Commission (“Commission”) requested public comment¹ on the December 18, 2017 *Joint Utilities’ Petition for Clarification Regarding Order Approving Phase 2 Implementation Plan in Clean Energy Standard Proceeding* (the “December Petition”).² The December Petition highlighted concerns that the Value of Distributed Energy Resources (“VDER”) proceeding³ will require utilities to purchase more Renewable Energy Credits (“RECs”) than are needed for compliance with revised obligations approved in the Commission’s *Order Approving Phase 2 Implementation Plan in the Clean Energy Standard Proceeding*.⁴ The December Petition noted that current restrictions on banking and trading of RECs in the Clean Energy Standard (“CES”) proceeding would lead to many RECs expiring

¹ New York State Register. *Trading and Banking of Renewable Energy Certificates*. I.D. No. PSC-12-18-00008-P (issued March 21, 2018), p. 31. Pursuant thereto, comments are due May 21, 2018.

² Case 15-E-0302, Proceeding on Motion of the Commission to Implement a Large-Scale Renewable Energy Program and Clean Energy Standard (“CES Proceeding”); and Case 15-E-0751, In the Matter of the Value of Distributed Energy Resources (“VDER Proceeding”)(collectively, CES/VDER Proceedings”), Joint Utilities’ Petition for Clarification Regarding Order Approving Phase 2 Implementation Plan in Clean Energy Standard Proceeding (filed December 18, 2017)(“December Petition”).

³ VDER Proceeding, Order on Net Energy Metering Transition, Phase One of Value of Distributed Energy Resources, and Related Matters (issued March 9, 2017) (“VDER Phase One Order”), pp. 63-71.

⁴ CES Proceeding, Order Approving Phase 2 Implementation Plan in Clean Energy Proceeding (issued November 17, 2017), p. 4.

before they could be used, effectively raising costs for all customers who would pay for those RECs under VDER tariffs.⁵ Central Hudson Gas and Electric Corporation (“Central Hudson” or “CH”), Consolidated Edison Company of New York, Inc., New York State Electric & Gas Corporation (“NYSEG”), Niagara Mohawk Power Corporation d/b/a National Grid, Orange and Rockland Utilities, Inc. (“O&R”), and Rochester Gas and Electric Corporation (collectively, the “Joint Utilities” or the “Utilities”) file these supplemental comments to the December Petition to support the concerns and recommendations expressed therein and to provide updated information regarding the expected quantity of RECs at risk of expiration and the resulting customer bill impacts. The Joint Utilities note that there is significant uncertainty in the REC projections included in this filing as these projections depend on interconnecting DER meeting their requested and scheduled in-service dates.

The Joint Utilities continue to support New York’s clean energy goals and work collaboratively with New York State Department of Public Service Staff (“Staff”) and other stakeholders in developing and implementing the plans that effect the State’s policy objectives. The Joint Utilities offer these supplemental comments in the spirit of implementing these objectives in the most cost-effective way for customers.

I. Customer Costs Related to the Value of DER Framework Are Increasing

Events since the Joint Utilities submitted the December Petition not only underscore the importance of the issues raised in that petition but also point to a new customer bill impact concern. The Commission’s *Order on Net Energy Metering Transition, Phase One of Value of Distributed Energy Resources, and Related Matters* (“VDER Phase One Order”) requires that

⁵ CES/VDER Proceedings, December Petition, p. 4.

eligible Value Stack resources receive the higher of the then current New York State Energy Research and Development Authority (“NYSERDA”) Tier 1 REC Price or the Social Cost of Carbon less expected Regional Greenhouse Gas Initiative (“RGGI”) allowance values.⁶ On March 13, 2018 Staff issued a letter⁷ in the VDER Proceeding updating the 25-year Environmental Value that will be available to eligible Value Stack resources which pay 25 percent of their interconnection costs (or execute a Standard Interconnection Contract if no such payment is required) in 2018 to \$27.41 per MWh. At the same time that this net social cost of carbon is increasing, Tier 1 REC prices are declining in New York, reaching \$21.71 in the most recent NYSEDA large-scale renewables auction.⁸ Moreover, 2018 Tier 1 RECs are being sold by NYSEDA to Load-Serving Entities (“LSE”) at an even lower price of \$17.01 per REC.⁹ Such price declines would generally serve to bring the same environmental benefits to customers at lower costs than the resources brought online in the prior auctions. However, as described below, given current rules, customers do not realize these savings with respect to eligible Value Stack resources.

These prices are creating a growing gap between the Utilities’ avoided costs and the price being paid to eligible Value Stack resources – creating a premium of \$10.40 per MWh (\$27.41 minus \$17.01) in 2018. As shown in Appendix A, this premium alone will lead to excess costs of more than \$208.9 million on a net present value basis over the 25-year life of Value Stack tariffs¹⁰ being recovered through the out-of-market REC component from customers statewide if

⁶ VDER Proceeding, Phase One VDER Order, p. 106.

⁷ VDER Proceeding, Letter from Ted Kelly, Esq., Department of Public Service, to the Joint Utilities entitled *Updated Environmental Value*, dated March 28, 2018.

⁸ NYSEDA 2017 Clean Energy Standard Solicitation Results. At: <https://www.nyserda.ny.gov/All-Programs/Programs/Clean-Energy-Standard/Renewable-Generators-and-Developers/RES-Tier-One-Eligibility/Solicitations-for-Long-term-Contracts/2017-Solicitation> (viewed on May 21, 2018)

⁹ CES Proceeding, NYSEDA Filing Regarding Renewable Energy Standard 2018 Tier 1 Renewable Energy Credit (REC) and Alternative Compliance Payment (ACP) Price (filed on December 1, 2017), p. 3.

¹⁰ See attached Appendix A for the supporting calculations.

this approach is continued for all resources coming into service through 2021. \$36.8 million of these costs would be recovered through 2021 on a net present value basis. When coupled with the \$18.7 million¹¹ in RECs that would be forfeited due to the current banking and trading rules at issue here and calculated in more detail in Appendix B, more than \$55.5 million in excess costs are due to be recovered through the out-of-market REC component statewide through 2021 unless the Commission acts to rectify the situation.

The Value Stack Working Group is scheduled to take up the issue of more refined environmental compensation beginning in July 2018. Throughout the Working Group process, stakeholders have advocated for additional compensation related to environmental externalities in the Environmental Value component of the Value Stack.¹² The Joint Utilities suggest that taken together these factors create the potential for customer bill impacts significantly in excess of the Commission's two-percent limit.¹³

II. The Commission Should Limit these Increases by Allowing REC Trading and Expanding REC Banking

The reduction of compliance obligations under the *Order Approving Phase 2 Implementation Plan*¹⁴ coupled with the requirement that utilities purchase RECs from eligible VDER resources is likely to require utilities to purchase over 1.1 million more RECs than they will be able to use for CES compliance through 2021.¹⁵ Current CES program rules limit REC

¹¹ This number reflects the lower \$17.01 current price of RECs whereas the December Petition calculations were based on the 2017 \$24 REC price.

¹² See, e.g., Matter 17-01276 In the Matter of the Value of Distributed Energy Resources Working Group Regarding Value Stack, Institute for Policy Integrity, New York University School of Law, Valuing Air Pollutant Externality Benefits from Distributed Energy Resources (Filed December 19, 2017).

¹³ VDER Proceeding, Phase One VDER Order, p. 34.

¹⁴ CES Proceeding, Order Approving Phase 2 Implementation Plan (issued November 17, 2017)("CES Phase 2 Order").

¹⁵ CES/VDER Proceedings, December Petition, p. 4.

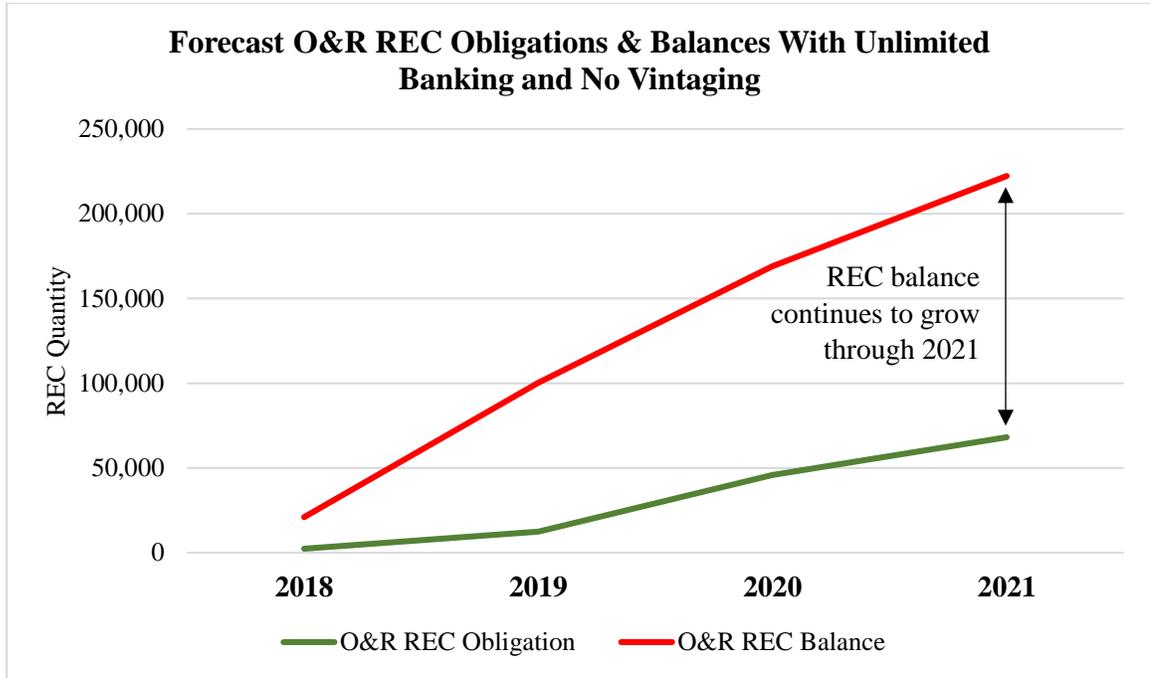
banking and do not allow LSEs to trade RECs,¹⁶ meaning that these excess RECs would expire unused under current rules. Costs paid for these RECs would be flowed through the out-of-market environmental recovery mechanism, as established in the VDER Phase One Order.

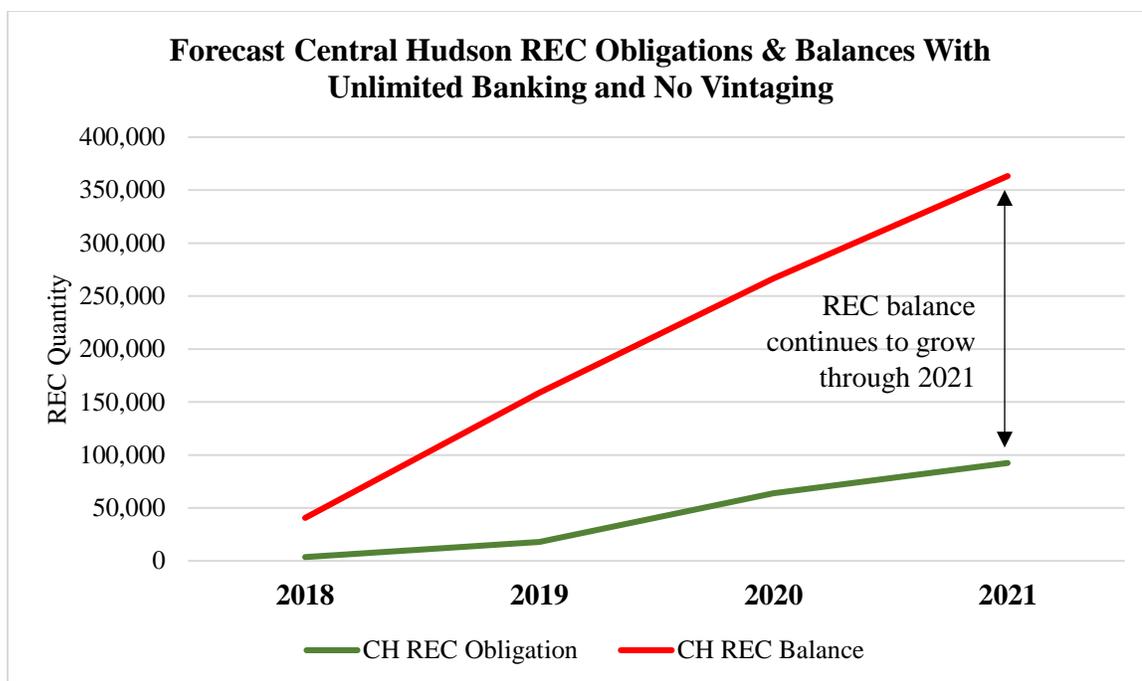
In the December petition, the Joint Utilities sought relief for customers by requesting that the Commission relax current restrictions on REC banking and trading. This would allow the Utilities to better manage REC balances and the variability of DER construction schedules, and avoid the expiration of unused RECs. The Joint Utilities continue to support these requests and emphasize that both REC trading and banking restrictions should be relaxed to fully address this issue. If the Commission were to only extend REC banking rules to allow the Utilities to retain more than 60 percent of their annual REC obligation currently required in the CES Proceeding, hundreds of thousands of RECs would still likely expire before they could be used because of the two-year REC vintage requirement also included therein.¹⁷ Even elimination of REC vintaging falls short of remediating out-of-market costs. For example, O&R, Central Hudson, and NYSEG are likely to continue to experience increasing REC balances at multiples of their compliance obligations through 2021. If the rules remain the same, for O&R, this could lead to a combined REC bank and expired REC balance of more than \$3.1 million as of 2021. It would be unreasonable to expect O&R to carry this balance on its books with no certainty of the future value of these assets, or even necessarily a future use for them. If the DER market continues its robust development in O&R's service territory, O&R's REC balance has the potential to continue to grow in excess of its compliance obligations well beyond 2021. In this circumstance,

¹⁶ CES Proceeding, Order Approving Phase 1 Implementation Plan (Issued February 22, 2017), p. 32. *See also*, CES Proceeding, Staff of the New York State Energy Research and Development Authority and Staff of the New York State Department of Public Service, Clean Energy Standard Phase I Implementation Plan Proposal (Filed October 31, 2016), p. 30.

¹⁷ *Id.*

because the utilities would be unable to sell the RECs in New York, and would need a contract transmission path to sell them for compliance purposes in another state, the only marketable use for these RECs would be to sell them into the unbundled voluntary REC market, where RECs currently trade for less than \$0.50 per REC. The following graphs illustrate the potential situation for O&R and Central Hudson; NYSEG experiences the same issue.





The most effective solution to this issue is to allow the excess VDER RECs a pathway to the broader REC compliance market in New York. As the Joint Utilities noted in the December Petition, this would provide additional liquidity to the REC market, particularly in early years when the output of RECs from Tier 1 eligible large-scale resources is expected to be limited and potentially variable as a result of the low number of eligible resources coming into service since the January 1, 2015 eligibility date.¹⁸ This variability in output is already being experienced by NYSERDA, as requests by the utilities and LSEs to purchase RECs for compliance obligations in 2018’s first quarterly auction were not fully filled.

The Joint Utilities would support early restrictions on REC trading, such as requiring that all RECs be traded at the NYSERDA REC price for each vintage. The Joint Utilities suggest that NYSERDA purchase RECs from the utilities and then re-sell them through its auctions,

¹⁸ CES/VDER Proceedings, December Petition, pp. 2-3.

thereby resolving any market power concerns that may arise. The cost associated with RECs are a pass through for the Joint Utilities with no utility earnings impact. The Joint Utilities believe this proposal more equitably shares the costs to comply with the State's clean energy objectives among all customers and LSEs. Undue restrictions on the market, such as the current restrictions on trading, are placing much higher relative costs on customers of certain utilities than on others.

III. Conclusion

The Joint Utilities respectfully urge the Commission to adopt the suggestions offered in their December Petition and relax restrictions on both REC trading and banking under the Clean

Energy Standard. The Joint Utilities appreciate the opportunity to offer these supplemental comments for the Commission's consideration.

Dated: May 21, 2018

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