

October 2, 2019

VIA ELECTRONIC FILING

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

Re: Case 15-E-0302 – Proceeding on Motion of the Commission to Implement a Large-Scale Renewable Program and a Clean Energy Standard – **Comments of the City of New York**

Dear Secretary Burgess:

Pursuant to the August 8, 2019 *Notice Soliciting Comments* issued in the above-referenced proceeding, the City of New York (“City”) respectfully submits these comments on the March 12, 2019 petition (“Petition”) filed by the American Wind Energy Association and the Alliance for Clean Energy New York (collectively, “AWEA”) regarding an Indexed Renewable Energy Credit (“REC”) procurement mechanism. In the Petition, AWEA proposes that the Public Service Commission (“Commission”) apply an indexed pricing mechanism to future Tier 1 REC procurements under the Clean Energy Standard (“CES”), in place of the existing fixed-price REC procurement mechanism administered by the New York State Energy Research and Development Authority (“NYSERDA”).

The City supports the increased development of large-scale renewable generation, and supports measures to reduce the costs to consumers. Development of renewables is a key driver of New York City’s policy goals of ensuring continued prosperity and providing a safe and healthy environment.¹ For the indexed REC approach to be effective in contributing to the City’s policy goals, it is essential to ensure that the potential benefits of lower REC prices are substantial enough to mitigate the added risks to customers that result from moving to an indexed pricing procurement mechanism which shifts project risk away from the developer and onto customers. Given that there are nearly half a million low income families in New York City who are over the State’s

¹ *OneNYC 2050: Building a Strong and Fair City A Livable Climate* (issued April 2019) at 13-14 (stating the goal of sourcing 100 percent of New York City’s electricity needs from clean energy sources by 2040), available at <http://onenyc.cityofnewyork.us/strategies/a-livable-climate/>.

target for spending on energy bills today, it is imperative that customers do not become even more energy cost burdened as a result of a switch in REC procurement methodologies.²

In theory, indexed pricing could drive down procurement costs and lead to lower overall project costs, which could benefit both customers and developers. However, under an Indexed REC procurement mechanism, customers would bear all the risks associated with large-scale renewables development, including but not limited to energy price fluctuations. Under the current CES renewable generation procurement process, developers submit fixed-price bids to NYSERDA to supply RECs. If selected for a REC contract, the developer is paid a fixed price for each megawatt-hour of generated renewable energy (representing the generated energy's clean attributes), with the remainder of the generator's revenues coming from the wholesale markets (including both energy and capacity revenues) or bilateral contracts. It follows that under the current construct, developers bear some risk associated with wholesale market price fluctuations.

Conversely, under an Indexed REC procurement mechanism, developers would be protected against any wholesale market volatility because any return on investment not provided by market revenues would be recovered through the Indexed REC contracts paid for by customers. Put another way, developers with an Indexed REC contract would earn the same amount of total revenues regardless of whether energy prices increase or decrease; where energy prices decrease, however, captive customers would be responsible for paying for the lost revenues associated therewith.

Moreover, the Petition did not provide any quantitative analysis to show the potential impacts of changes to existing market constructs on customers under the Indexed REC construct, beyond the context of carbon pricing discussions currently ongoing at the New York Independent System Operator, Inc. ("NYISO"). The City notes that the Commission recently initiated a new proceeding "to consider how to reconcile resource adequacy programs with the State's renewable energy and environmental emissions reduction goals."³ While the full scope of the Commission's Resource Adequacy Proceeding is unclear at this time, what is clear is that the proceeding may have future implications on, *inter alia*, the current capacity markets administered by the NYISO. For example, if the NYISO capacity markets were to be significantly changed as a result of these proceedings, any lost developer revenues formerly provided by the capacity markets would then be paid for by customers via Indexed REC contracts. Under this hypothetical scenario, the increased costs to consumers could be well beyond the costs that customers currently bear under fixed-price REC contracts.

If the current REC contract structure is to be changed, the City submits that the impact to customers should be fully analyzed. Such analysis must also take into consideration the market uncertainty and potential for market changes as a result of the ongoing Resource Adequacy Proceeding at the Commission and other proceedings. Given the above, the City recommends that

² *Id.* at 13.

³ Case 19-E-0530, Proceeding on Motion of the Commission to Consider Resource Adequacy Matters, Order Instituting Proceeding and Soliciting Comments (issued August 8, 2019) ("Resource Adequacy Proceeding").

if the Commission decides that there is merit to pursuing an indexed pricing for Tier 1 REC procurement purposes, such procurement should first be tested on a limited pilot basis alongside fixed-price REC procurement to confirm the impacts to customers.⁴ The pilot could procure a limited amount of large-scale renewable generation and track developer and project costs for those generation units under the Indexed REC pricing structure. At the end of the pilot period the Commission should compare customer and project costs under fixed-price REC contracts to the Indexed REC procurement to determine whether the indexed pricing structure did indeed result in reduced project costs and that benefits of such reduced costs were sufficiently passed-through to customers. Similarly, the Commission should track the volatility of Indexed REC price fluctuations over time, to determine how customers are economically impacted as compared to what customers currently pay under fixed-price REC contracts. A report of these results (*e.g.*, any net impacts to customer costs as a result of moving to an Indexed REC mechanism) also should be provided to stakeholders for review and comment. The City respectfully urges the Commission to refrain from implementing sweeping changes to the CES, and the methodology with which the State currently procures large-scale renewables, without first fully understanding the potential impacts of Indexed RECs on customers.

The City appreciates this opportunity to provide feedback on the proposed Indexed REC mechanism, and looks forward to working with the Commission, Department of Public Service Staff, NYSERDA, and other stakeholder in this matter.

Respectfully submitted,



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⁴ The City is unaware of any other jurisdiction in the United States that has implemented an Indexed REC procurement mechanism. As such, it is even more prudent to first test the mechanism on a limited basis before broadly implementing it, to ensure that customers are adequately protected.