STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

Proceeding on Motion of the Commission to Implement a Large-Scale Renewable Program and a Clean Energy Standard	)))	Case 15-E-0302

INITIAL COMMENTS OF PSEG LONG ISLAND LLC

Dated: April 22, 2016
Uniondale, New York

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I. INTRODUCTION

In response to the Notice Soliciting Comments and Providing for Technical Conference and Public Statement Hearings issued by the New York Public Service Commission (the "Commission") on January 25, 2016 in the above referenced proceeding, PSEG Long Island LLC ("PSEG LI"), on behalf of the Long Island Power Authority ("Authority"), hereby submits these initial comments concerning the Department of Public Service Staff ("DPS Staff") White Paper on Clean Energy Standard ("CES White Paper")[1]. PSEG LI manages overall operations of the transmission and distribution system, including promoting, administering, planning, developing and implementing energy efficiency, demand response, load management, and renewable energy programs in the service territory of the Authority. PSEG LI undertakes these responsibilities pursuant to an Operations Services Agreement between PSEG LI and the Authority dated December 31, 2013.

As background, in December 2015, Governor Cuomo directed the Commission to develop a Clean Energy Standard ("CES") framework for achieving an outcome whereby 50 percent of all electricity used in New York State by 2030 would be generated from renewable resources ("50

[1] Case 15-E-0302 - *Proceeding on Motion of the Commission to Implement a Large-Scale Renewable Program and a Clean Energy Standard*, Staff White Paper on Clean Energy Standard (issued January 25, 2016). The Notice of Comment Period for Staff White Paper and Cost Study (issued April 8, 2016) in this proceeding extended the deadline for initial comments on the CES White Paper to April 22, 2016.

by 30 goal"). On January 21, 2016, the Commission expanded the scope of the large scale renewable energy generation docket and directed DPS Staff to develop a white paper describing such a framework and implementation plan. DPS Staff sought to achieve the four following objectives in its CES plan:

- Increase renewable electricity supply to achieve the 50 by 30 goal;
- Support construction of new renewable generation in New York State;
- Prevent premature closure of upstate nuclear facilities; and
- Promote the progress of REV market objectives.

DPS Staff also articulated goals of managing energy costs, protecting consumers and ensuring that no consumer class is left behind, promoting capital and operating efficiencies, driving business model and service innovations, assuring timely and appropriate investment in infrastructure and grid modernization, and achieving greenhouse gas reductions.

II. COMMENTS

A. 50 by 30 Goal, Obligation, and Compliance Mechanisms Calculating the 50 by 30 Mandate

1. The Obligation on Load Serving Entities

In order to achieve these ambitious objectives (*i.e.*, 50 by 30 goal), the DPS Staff has proposed that all jurisdictional Load Serving Entities ("LSEs") share the obligation of the CES mandate in proportion to sales (*i.e.*, each LSE's load ratio share);[2] and recommend that NYPA and LIPA do so as well. Accordingly, PSEG LI, as agent for LIPA, intends on conferring / collaborating closely with the Authority and DPS Staff on this matter, as it develops a recommended strategy for the Authority to meet the CES goals.

In this regard, the Authority and PSEG LI have been consistently engaged in expanding renewable generation as required by the LIPA Reform Act and codified at Public Authorities

[2] CES White Paper at 6.

Law §1020-f(gg). That Act requires PSEG LI, as the Authority's service provider, to "undertake actions to design and administer renewable energy and energy efficiency measures in the service area" and other actions detailed in the statute after it has assured that safe and adequate transmission and distribution service is provided for.[3] PSEG LI must assure that it meets these obligations as it seeks to carry out the vision of the CES.

PSEG LI supports the recommendation that LSEs are given flexibility to demonstrate their ability to comply with CES renewable energy requirements based on Renewable Energy Certificates ("RECs") purchased directly from generators, through intermediaries, or via self-supply.[4] As part of its ongoing Renewable Portfolio Standards ("RPS") commitment, LIPA entered into contracts for energy and RECs from facilities in the PJM and ISO-NE markets, and significant rooftop and utility scale solar. Other renewable resource procurements have resulted in planned additions currently not under contract that would provide additional new resources in the next few years. In addition, PSEG LI has an active solicitation for approximately 210 MW of additional renewable energy resources. The flexibility to self-supply is fundamentally important for entities like the Authority that have actively undertaken initiatives to meet RPS targets through bilateral contracts.

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[3] Pub. Auth. Law §1020-f(gg) provides:

1. The authority in coordination with the service provider, the power authority of the state of New York and the New York state energy research and development authority shall, to the extent the authority's rates are sufficient to provide safe and adequate transmission and distribution service, and the measures herein, undertake actions to design and administer renewable energy and energy efficiency measures in the service area, with the goal of continuing and expanding such measures that cost-effectively reduce system-wide peak demand, minimize long-term fuel price risk to rate payers, lower emissions, improve environmental quality, and seek to meet New York state climate change and environmental goals. Such actions shall also include implementation of any renewable energy competitive procurement or feed-in-tariff programs that were approved by the authority as of the effective date of the chapter of the laws of two thousand thirteen which added this subdivision.
2. The service provider shall consider, consistent with maintaining system reliability, renewable generation and energy efficiency program results and options in establishing capital plans.

[4] As part of the ongoing assessment of CES cost impacts, potential impacts on wholesale market operations should be considered. These may include additional stress on the financial viability of incumbent fossil-fueled generators, as well as a need for increased exemption from buyer-side mitigation rules for renewable energy projects.

2. Treatment of electric vehicles and geothermal heat pump conversions under the CES obligation

The CES White Paper sought comments on the treatment of electric vehicles and geothermal heat pump conversions under the CES obligation.[5] These technologies are examples of market developments and program initiatives that could achieve overall greenhouse gas reductions; however, they also increase electricity demand on the system. PSEG LI suggests that net reductions in emissions realized by the use of electric vehicles or geothermal technology should be translated into RECs and usable as an offset to the additional compliance obligation from the incremental electricity sales.[6]

3. Alternative Compliance Mechanisms

DPS Staff has proposed an alternative compliance payment ("ACP") mechanism, which is permitted for each CES tier to cap REC prices and provide for a flexible alternative means of compliance. The ACP will act as a balancing mechanism for the REC market since LSEs would have no incentive to incur costs for purchasing RECs in any tier at a cost that is greater than the associated ACP. PSEG LI does not object to the ACP concept, but submits that caution must be exercised when the Commission establishes the ACP levels.

The CES White Paper also discussed several options for the disposition of ACP payments collected by NYSERDA from LSEs. PSEG LI agrees with DPS Staff that the ACP revenue should be applied to reducing the costs of in-state renewable development, particularly offshore wind resources. While there is a large potential for producing renewable energy from offshore wind, that resource is at an economic disadvantage when compared with solar PV and land-based wind resources in New York State. It should also be noted that the physical location of new

[5] CES White Paper at 13.
[6] Additionally, the increase in generation need during the recharge cycle for electric vehicles is not necessarily supplied 100% by fossil fuel generation.

renewable facilities is very important in that the energy output of the renewable facilities will displace other generation. In locating new renewable facilities the type and cost of the energy being displaced should be taken into consideration. More specifically, where possible, and all else being equal, the renewable generation should be located in areas that will displace high cost greenhouse gas emitting electricity. Doing so will result in achieving the same amount of renewable energy production while also maximizing the cost and emissions being avoided.

Finally, DPS Staff sought comments on a schedule for ACPs and frequency of review. DPS Staff offered that "[c]hanges to the ACP schedule should be reviewed periodically, but not more than once every 3-5 years, and changes should be moderate in magnitude and graduated over time, to provide stability and investor confidence."[7] PSEG LI recommends that the valuation of ACPs for each tier should be done more frequently than proposed. Having the ACP valuation on an annual basis, rather than every 3-5 years, makes sense as cost and financing structures can change often. Review of the ACP valuation on an annual basis also helps balance the valuation of RECs which will be done on an annual basis as well. This annual ACP valuation process could be administered by NYSERDA.

B. Eligibility and Tiers

DPS Staff proposed three tiers to the CES compliance obligation as follows:

- Tier 1: New renewable resources
- Tier 2A: "Competitive" existing renewable resources which qualify for neighboring states' "growth tier" RPS
- Tier 2B: "Non-competitive" existing renewable resources which do not qualify for neighboring states' "growth tier" RPS (such as small hydro)
- Tier 3: Nuclear

[7] CES White Paper at 14-15.

PSEG LI offers the following comments in connection with the various tiers. PSEG LI agrees with DPS Staff's recommendation to include no Tier 1 sub tiers as long as the level of availability of co-incentive programs continues to promote economic viability for higher cost renewables such as off-shore wind. Also, all net-metered solar systems should be eligible for Tier 1 (if installed after January 1, 2015).The Commission should also define resource eligibility under Tiers 2A and 2B more clearly. For example, PSEG LI also recommends that the Commission clarify that all solar systems installed before January 1, 2015, including net-metered systems, be eligible as a Tier 2A resource. Finally, comments on Tier 3, the new energy credit (Zero Emissions Credits or ZECs) in a nuclear tier that would, for the first time, place a monetary value on the zero-emission power produced by qualifying nuclear plants, will be addressed in a separate submittal in response to the *Order Further Expanding Scope of Proceeding and Seeking Comments* (issued February 24, 2016) in this proceeding.

C. The Role of Long-Term Contracting Mechanisms

1. Long-Term Contracting

PSEG LI supports DPS Staff's proposal to allow LSEs the flexibility to demonstrate compliance based on RECs purchased directly from generators, through intermediaries, or via self-supply.[8] On page 38 of the CES White Paper, Staff said:

> [i]n order to achieve the State's renewable development and cost minimization goals, the Commission should ensure that EDCs procure an appropriate portion of the REC target obligations via long-term contracts including energy and/or capacity. To further improve the opportunity for cost containment, Staff also recommends a central procurement that is accomplished by the utilities, as a group, with clear financial responsibility under a long-term PPA to third parties.

[8] "Each LSE will demonstrate compliance through an annual compliance filing. To achieve this, LSEs will be able to purchase RECs directly from generators, or through a myriad of intermediaries (NYSERDA, power marketers, brokers, traders, and aggregators) or even other LSEs as they manage their REC positions." CES White Paper at 14.

Although PSEG LI does not support having a specific percentage of the REC obligations that are required to be purchased under a PPA via a central procurement agent such as NYSERDA or another designated state entity, it would be potentially valuable for the Authority to be able to participate in such a central procurement as part of its compliance plan. Allowing maximum flexibility is essential.

2. Utility Ownership and Self-Initiated Market Development

DPS Staff recommends, in the interest of encouraging competitive entry into NY markets, that the Commission adhere to the principles articulated in the REV Framework Order wherein utility ownership of generation is only permitted in exceptional circumstances where there are demonstrable consumer benefits that could not otherwise be achieved. On the other hand, DPS Staff agrees with the utilities' position that an absolute prohibition of utility participation in the ownership structure may not be in the interests of consumers noting that "[u]tility-owned generation can serve as a correction to a potential failure of the market to develop sufficient levels of instate resources."[9] PSEG LI supports the ownership of renewable resources by public power entities and municipalities because they generally have a lower cost of capital when compared with most competitive businesses, which would inure to the benefit of customers.

III. CONCLUSION

PSEG LI appreciates the opportunity to submit these comments and looks forward to working with DPS Staff and the parties in this matter.

Respectfully Submitted,
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[9] CES White Paper at 44.