

**Otego Microgrid Ratepayers**

238 Main Street, Otego, NY 13825

607-434-3586

[Andersonboatworks@gmail.com](mailto:Andersonboatworks@gmail.com)

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Hon. Kathleen H. Burgess, Secretary to the Commission

New York State Public Service Commission

Empire State Plaza, Agency Building 3

Albany, NY 12223-1350

VIA EMAIL: [secretary@dps.ny.gov](mailto:secretary@dps.ny.gov)

**Re: 14-M-0101: Reforming the Energy Vision**

**15-E-0302: Large Scale Renewables and the Clean Energy Standard**

**Introduction**

As a novice in the world of utility finance, I found the LSR staff Options Paper both enlightening and overwhelming. Only after attending the LSR technical conference and reading the subsequent rounds of comments and responses by various parties, and attending several other REV conferences and proceedings, have I begun to grasp some of the relationships of parties, policies, practices, and objectives, with the new energy paradigm which the CES is beginning to more definitively frame out. At the risk of bringing up an issue which “everyone else” already knows has been addressed, I’d like to make an observation and pose a few questions.

**Observation**

Watching the price collapse of natural gas over the past year or more, and knowing of the preponderance gas-fired generation in our energy supply portfolio, a consumer could be understandably perplexed by the failure of his electricity energy charge to fall in sympathy with gas prices. The complicating factor is, of course, forward pricing; in the interests of long term price stability, much if not most of the energy consumed today was priced many months or even years ago. By the same mechanism, a Power Purchase Agreement (PPA) signed today is locking in the price of energy to be sold years from now.

Long term price stability provides many desirable results. If a consumer's use remains constant, they receive bills that consistently fall within an expected price range, making budgeting more accurate; similarly, electric generators receive regular monthly revenues, so predictable, in fact, that lenders perceive investments in utilities as "safe" and are willing to accept a relatively low interest payment because the likelihood of borrower default is so low.

The benefits of long term price stability are not, however, free. As in the current natural gas spot price depression, forward gas pricing agreements work out very well for forward-priced gas suppliers receiving prices far above the spot market. Gradually, the price decline will benefit gas-fired generators (whose average price of gas may decline as their oldest forward-priced gas contracts expire). The consumer will be the very last participant in this financial system to reap any benefit from declining gas prices. In a rising price environment, of course, consumers are shielded for a period as lower-priced long term supply agreements play out. Obviously the skill with which long term agreements are negotiated (and regulated?) can have major impacts on both generator profitability and consumer protection.

## Discussion

Long term pricing agreements, as evidenced by the volume of responses to the LSR Options Paper on that subject, are of critical importance to prospective LSR developers and investors; by employing PPAs (bundled, or not, with RECs), they will be attempting to hedge various risks associated with investing in LSR capacity. Compared to their counterparts in the gas-fired generation industry, LSR investors are at a significant disadvantage: the market channels for gas-fired generation provide more numerous, and by virtue of their scale, more liquid opportunities for laying off risks by hedging. The gas driller forward prices and hedges his production; the generator forward prices and hedges his gas costs, and he forward prices and hedges his electricity sales—three sets of forward prices and hedges to stabilize the gas-fired pricing chain. In the marketing of renewable energy, there is no portion of the marketing chain analogous to the sales of gas to the generator, and thus there is much less opportunity for the renewable generator to engage in forward pricing and hedging—the **renewables investors will be less able to spread and lay off risk than their counterparts in gas-fired generation.**

Because the LSR Option Paper was focused specifically on LSR (or, perhaps, because no one thought of it) there was not nor has there been subsequently, to my knowledge, an analogous discussion of the implications and appropriateness of long term pricing agreements in the evolving gas-fired generation marketplace. The impressive stability of retail electric prices, for decades, is a powerful testament to the importance of forward pricing and hedging in dampening the wide price swings of the fossil energy supply market into virtually imperceptible modulations on customers' electric bills. But as we enter the transition to a new energy paradigm, the delivered price of fossil-fueled-generation, the ultimate market driver, may be a factor that must be adjusted and manipulated in the pursuit of our environmental goals. In such circumstances, **extreme stability in the price of fossil-fueled-generation may become a hindrance rather than an objective.**

As just one example, consider how long a carbon tax similar in construction to the current RGGI system, would take to have an impact on actual carbon combustion. Consumers, paying on the basis of long term contracts plus the newly added tax, would be paying that tax for years to come while the underlying PPAs slowly expired; these will be very unhappy consumers. Unhappy or not, generators could be obligated under long term gas contracts to burn their way through a large quantity of unexpectedly expensive gas, possibly for several years.

In the ongoing debates over if and how to keep some nuclear plants financially viable, the role of price stability will also need to be addressed. As most of the nuclear fleet is well along in its lifecycle, and extension accommodations may be of relatively short duration, adjustments to (and possibly some oversight of) their forward pricing protocols may become necessary. As we evolve into a new energy paradigm, **each type of generation will need individual attention to stability objectives and long term pricing mechanisms.**

### Questions for consideration

1. Is there sufficient data within or available to the DPS to develop a quantified assessment of the value afforded to consumers by forward pricing?
2. How well does forward pricing work, and at what cost to consumers?
3. Can the value that forward pricing delivers to consumers be divided and ascribed to various forward price agreement attributes, looking, for example, at perspectives of differing timeframes (short, medium, and long term pricing agreements), or at the impact of financial predictability in the current low interest rate environment?
4. Are there mechanisms that could afford consumers some benefits if spot market prices stray beyond some range or percentage of a long term contract price?
5. The Clean Energy Standard objectives are being pursued on a timetable that is very compressed—the State intends to effect major changes in our energy ecosystem in less than 15 years. With so much inevitable turmoil on the horizon, might consumers be better served if limitations were placed on fossil fueled generation forward pricing? If so, what models can be developed and tested to provide some assurance that a new forward pricing paradigm is more likely to help than hinder both consumers and our pursuit of our environmental objectives?
6. If/when a carbon tax is imposed, what effects might result as parties to fossil fueled PPAs find their financial positions suddenly disadvantageous? Will purchasers find means to avoid delivery of now uneconomical generation? Or will consumers find “inescapable” hi-priced energy pushed on them for years as PPAs unwind? Might such pricing encourage off-grid migration?

### Summary

While long term forward pricing has in the past provided very stable electric prices, transitioning from a fossil-fueled to a non-emitting electric generation system may be hindered

by unrestricted employment of such mechanisms in the future. Continued focus on stability for fossil-based generation may effectively stifle efforts to reduce our fossil fuel dependence by dampening the very market forces which are supposed to be the primary drivers of change. We encourage the Commission to pursue an investigation of the implications of forward pricing on our energy markets in our transition to a renewable energy economy.

We thank the Commission for this opportunity to comment.

Sincerely,

A handwritten signature in black ink that reads "Stuart Anderson". The signature is written in a cursive, flowing style with a large initial 'S'.

Stuart Anderson for Otego Microgrid Ratepayers