STATE OF NEW YORK PUBLIC SERVICE COMMISSION

At a session of the Public Service Commission held in the City of Albany on June 26, 2014

COMMISSIONERS PRESENT:

Audrey Zibelman, Chair Patricia L. Acampora Garry A. Brown Gregg C. Sayre Diane X. Burman

CASE 03-E-0188 - Proceeding on Motion of the Commission Regarding a Retail Renewable Portfolio Standard.

ORDER AUTHORIZING MODIFICATIONS TO THE MAIN TIER SOLICITATION CONTRACT TERM

(Issued and Effective July 2, 2014)

BY THE COMMISSION:

INTRODUCTION

In this Order, we consider a petition requesting certain changes to the rules we have established for procuring renewable energy in the Main Tier of the Renewable Portfolio Standard (RPS) program. Specifically, we authorize the New York State Energy Research and Development Authority (NYSERDA) to offer longer term fixed-price contracts, up to 20 years, for renewable energy projects in future solicitations. We also direct NYSERDA to issue one solicitation as soon as practicable in 2014 and no less than one solicitation in 2015.

BACKGROUND

The RPS has been New York's primary policy initiative to promote the development of new renewable energy resources since it was established by the Commission in 2004.¹ The Commission authorized NYSERDA to procure the renewable attributes associated with such renewable energy - "renewable energy credits", or "RECs". The source of funding for the procurements is the System Benefits Charge, paid by New York ratepayers.

The bulk of the energy needed to reach the RPS program target (approximately 10 million MWh) is obtained through competitive solicitations in the Main Tier of the RPS program. These solicitations have been administered by NYSERDA as request for proposals (RFP), sealed, pay-as-bid auctions. Under current rules, NYSERDA pays a production incentive, for a term of 10 years, to renewable generators selected through a competitive solicitation process in exchange for all rights and claims to the RECs associated with each MWh of renewable electricity generated and delivered for end use in New York. To date, NYSERDA has conducted eight Main Tier solicitations resulting in approximately 4.6 million MWh of renewable energy generation.²

SUMMARY OF PETITION

In its December 16, 2013 Petition, Pace Energy and Climate Center, Alliance for Clean Energy New York, Sierra Club, Natural Resources Defense Council, Renewable Energy Long Island, New York League of Conservation Voters, New York Public Interest

¹ Case 03-E-0188, <u>Renewable Portfolio Standard</u>, Order Regarding Retail Renewable Portfolio Standard (issued September 24, 2004).

² New York State Renewable Portfolio Standard Annual Performance Report through December 31, 2013 (issued by NYSERDA, March 2014).

Research Group, Vote Solar Initiative, Citizens Campaign for the Environment, and Environmental Advocates of New York ("Petitioners") request that the Commission remove the 10-year term cap on Main Tier contracts and allow NYSERDA to utilize alternative incentive structures and contracting terms such as standard offers and/or contracts-for-differences (CfD)³ for acquiring renewable energy in future solicitations. The Petitioners also request that the Commission require NYSERDA to issue a schedule to include a minimum of three solicitations through 2015.

The Petitioners note that, since its inception in 2004, the RPS has: been a driver of clean energy investment in the state; helped to create jobs and promote economic development; lowered harmful air emissions; and created energy security and independence for New York residents.⁴

However, the Petitioners assert, while the Customer-Sited Tier has undergone several modifications to its incentive structure⁵, the Main Tier has not kept pace with the evolving wholesale renewable energy market. The Petitioners argue that limiting contracts to 10 years fails to incentivize meaningful

- ⁴ Petition at 1.
- ⁵ The Customer-Sited Tier is also supported by the RPS program and promotes behind the meter self generation technologies, most notably the solar PV program, which has been recently revised in an April 24, 2014 Order in this proceeding.

³ A CfD contract provides a variable attribute (REC) payment that is tied to wholesale electric prices. When a renewable generator combines a REC payment with the payment it receives from selling its energy output into the New York Independent System Operator's (NYISO) spot market, the generator receives a combined revenue stream that is stable compared to the revenue stream it would otherwise get from the combination of a fixed-price REC payment with fluctuating whole sale energy prices. When wholesale energy prices fall, the generator gets an increase in his RPS incentive. When wholesale prices rise, the generator's incentive payment decreases.

participation in NYSERDA's solicitations. Petitioners state that, as a result, the New York renewable market is missing out on significant clean energy investments as developers take their business elsewhere. In support of their position, the Petitioners report that for contracts executed through December 31, 2012, Main Tier projects will produce approximately 4.5 million MWh in 2015, less than 50% of NYSERDA's 2015 RPS target.⁶

In an effort to help the RPS program reach its stated target, the Petitioners request that the current 10-year term cap on contracts be increased to 20 years and that NYSERDA be authorized to use alternative incentive structures, such as CfDs, in future solicitations. The Petitioners state that, under current wholesale electricity market conditions, New York's continued reliance on 10-year maximum, REC-only contracts has stifled construction of renewable generation and forced developers to take valuable projects elsewhere. The Petitioners assert that developers prefer stable, longer-term contracts to hedge risk and that such mechanisms will encourage developers to finance, build and interconnect new projects, thereby moving New York closer to meeting its RPS targets while delivering the economic, environmental, and job creation benefits the program has delivered to date.

Additionally, the Petitioners request that NYSERDA be required to issue a 2014-2015 solicitation schedule that is published well in advance so that developers can properly plan their project development in order to meet NYSERDA's procurement schedule. Petitioners assert that NYSERDA's failure to regularly schedule frequent solicitations has caused uncertainty and

⁶ NYSERDA, "Renewable Portfolio Standard Main Tier 2013 Program Review, Volume 1-Program Review Introduction", at page 12 (Sept. 5, 2013).

disruption in the market, which has impaired the achievement of the 2015 target.

NOTICE OF PROPOSED RULEMAKING

A Notice of Proposed Rulemaking (Notice) concerning the petition was published in the <u>State Register</u> on February 5, 2014 pursuant to the State Administrative Procedure Act (SAPA). SAPA comments were due March 24, 2014 and were received from a diverse group of individuals and organizations representing the legislature, municipalities, utilities, renewable developers, and environmental and public interests. A list of commenting parties is attached as Appendix A.

SUMMARY OF COMMENTS

Contract Terms

The majority of the commenting parties made statements in support of longer term contracts as one mechanism that would improve the RPS program.⁷ Nearly all opine that the current 10year contract cap in the program rules should be removed in order to provide long-term revenue certainty to renewable developers, which in turn, would drive down the cost of financing projects invested in New York.

NYSERDA also supports changes to the current Main Tier procurement rules, including longer-term contracts, to attract investment in larger-scale renewable development in the State. NYSERDA reports that neighboring states have responded to market challenges faced by the renewable industry in the wholesale energy market by establishing longer-term contracts that address

⁷ Parties supporting the request are: Assemblyman Blankenbush, Assemblywomen Duprey and Paulin, NYC, Clear Edge, Gerald Delaney, EDPR, ESFPA, EverPower, Franklin County IDA, Franklin County Legislature, Iberdrola, Ivenergy, Lewis County IDA, Lewis County Legislature, NYBA, NextEra, NYPIRG, Own Energy, ReEnergy, Senators Little, Griffo, and Maziarz, TCI, Town of Chateaugay, and the Village of Lyons Falls.

energy price risk. NYSERDA believes that current market conditions make this issue appropriate for reconsideration.

With respect to extending the ten-year contract term, Joint Utilities argue that the Petitioners have not presented convincing proof that longer contracts will result in better pricing and more cost-effective use of the RPS funds. Moreover, Joint Utilities assert that changing the overall contractual approach now will result in developers with existing contracts seeking to renegotiate for better terms. Joint Utilities believe that further evaluation is necessary to determine whether there are benefits to removing or changing the cap on contract terms.

Multiple Intervenors state that longer term contracts would extend the period over which customers must pay for the RPS program without necessarily securing any savings and would require continued administration of the RPS for a longer period. It opines that subsidies should be phased out long before 2034. They also note that long-term RPS contracts could impede the development of a competitive market for renewable energy, a foundational goal for the RPS.

Alternative Incentive Mechanisms

The majority of the commenters support the development of a CfD as another contracting mechanism to improve participation in the RPS.⁸

EDPR comments that a 15- or 20-year CfD offered to developers would drive renewable energy growth in New York.

⁸ Parties supporting the request are: Assemblyman Blankenbush, Assemblywomen Duprey and Paulin, NYC, Clear Edge, Gerald Delaney, EDPR, ESFPA, EverPower, Franklin County IDA, Franklin County Legislature, Iberdrola, Lewis County IDA, Lewis County Legislature, NYBA, NextEra, NYPIRG, Own Energy, ReEnergy, Senators Elizabeth Little, Griffo and Maziarz, TCI, Town of Chateaugay, and the Village of Lyons Falls.

EverPower also supports the use of CfDs and asserts that NYSERDA could support twice as many megawatts with a 20-year CfD as it could with a 10-year fixed price REC-only contract, using the same level of funding. It does, however, acknowledge the challenges and complexities in implementing and administering an efficient CfD mechanism. NextEra supports CfDs but also recommends allowing developers to submit bids for alternative contracting structures.

NYSERDA recommends that the Commission revive the discussion of CfDs tabled in its April 2010 Order, regarding the issue of energy price risk.⁹ NYSERDA believes that current market conditions make reconsideration of the issue appropriate, noting that the most recent solicitation was not as robust as previous ones.

In its comments, Iberdrola states that the cost of financing a project is directly tied to the risk associated with a project's revenue streams. It explains that a project that is fully merchant will have the highest level of risk, whereas a project that has both its energy and RECs hedged will have the least risk and lowest borrowing costs. Ultimately, increased financing costs raise the all-in costs of a renewable energy project, increasing the costs borne by electricity rate-payers to meet the RPS goal. Iberdrola and EDPR examined the potential savings to electricity customers from shifting from a 10-year REC-only contract to a 15- or 20-year CfD. Their analysis revealed that the cost to the RPS program of a 20-year CfD for 1,500 MWs of wind penetration could be approximately 57% of the cost of that same level of penetration with a 10-year REC structure, under the assumptions made in their analysis.

⁹ Case 03-E-0188, <u>supra</u>, Order Resolving Main Tier Issues (issued April 2, 2010).

IPPNY, Invenergy, Joint Utilities, and Multiple Intervenors oppose the use of CfDs. IPPNY supports the continued use of a fixed-price process for RPS solicitations and opposes CfDs due to the numerous shortcomings associated with alternative payment processes. IPPNY believes that Staff should be directed to issue a white paper outlining the potential alternatives that may be considered and conduct a technical conference to: 1) ascertain whether circumstances indicate an increased need for a hedge to be provided by the RPS program; 2) evaluate ways to ensure that the most efficient and costeffective resources will be awarded contracts; and 3) determine how any such change could be implemented without harming wholesale electricity markets. IPPNY states under no circumstances should the PSC deviate from a fixed-price process for RPS solicitations unless and until it conducts and concludes the white paper and technical conference process.

Invenergy believes that moving to a CfD structure would shift risk to ratepayers. Invenergy supports NYSERDA's current practice of REC-only contracts, and believes that continued use of the REC-only model will provide new projects a guaranteed revenue stream and ensure RPS funds can be focused on procuring the maximum number of RECs possible.

Multiple Intervenors argues that offering CfDs would improperly allocate the risk of market price variations to customers as opposed to developers. Multiple Intervenors believes that the risk would increase further if CfD structure is combined with an RPS contract term that exceeds 10 years. Accordingly, Multiple Intervenors states that the Commission should not mandate that customers fund CfDs for renewable projects where developers are already being subsidized by RPS.

The Joint Utilities believe that requiring NYSERDA to offer CfDs to renewable energy developers reduces the ability of

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competitive procurement mechanisms to lower costs for customers, and moves risk from developers, who have the sophistication and tools to evaluate and hedge the energy market risk, to customers, who cannot do so. Increased risk has a real cost for customers in the form of potentially higher energy price volatility and loss of certainty regarding RPS charges. The Joint Utilities do not oppose having the Green Bank develop a hedging instrument for purchase by developers, as long as such instrument is explicitly designed to be self-funding and does not shift risks to electric customers.

Solicitation Schedule

The vast majority of the comments support the Petitioners' request for a regularly scheduled solicitation process.¹⁰ All commenters believe that more regularly scheduled solicitations will provide the regulatory certainty that developers need to help create a more robust renewable energy market in New York State. Nearly all support immediate creation and issuance of a 2014-2015 Main Tier solicitation schedule.

Bloom supports the issuance of two solicitations per year. Bloom also suggests that solicitations should adhere to the same calendar every year (e.g., June 1st/December 1st) so that the clean energy industry and its investors can plan around set dates. Bloom also recommends allowing at least a three month time frame between the release of the RFP and the application deadlines and use of a web-based application process similar to that now employed by the Connecticut LREC and ZREC programs.

¹⁰ Commenters who support are: Assemblyman Blankenbush, Assemblywomen Duprey and Paulin, NYC, Clear Edge, Gerald Delaney, ESFPA, EverPower, Franklin County IDA, Franklin County Legislature, Iberdrola, IPPNY, Lewis County IDA, Lewis County Legislature, NYBA, NextEra, NYPIRG, Own Energy, ReEnergy, Senators Little, Griffo and Maziarz, TCI, Town of Chateaugay, and the Village of Lyons Falls.

EDPR believes that regularly scheduled solicitations would help in planning and development of wind farms. Invenergy agrees with the Petitioner's request for regularly scheduled solicitations and a publically-announced procurement schedule. It argues that this would reduce regulatory uncertainty and allow developers to better align their plans with market trends.

Joint Utilities believe that NYSERDA is best equipped to establish the appropriate schedule. Joint Utilities state that the problem with an imprudent acceleration of a solicitation schedule is that it does not allow time for developers to thoroughly plan for a project, resulting in projects where not all the development risks have been thoroughly identified.

Multiple Intervenors believes that the Commission should not mandate a predetermined schedule of solicitations because they see no basis to conclude that more frequent or predictable solicitations would yield more and/or lower-priced bids. Multiple Intervenors states that a rigid schedule could require the issuance of one or more solicitations, when market conditions may not be favorable and could result in inflated bids resulting in more costs to ratepayers.

Eligibility

Extensive comments were received urging the Commission to continue its support for biomass facilities in the RPS program. ESFPA and the NYBEA note that the biomass facilities currently participating in the RPS program have created significant economic benefits to New York State.

Senator Griffo, Assemblyman Blankenbush, the Lewis County Legislature and the Lewis County IDA note the importance of maintaining the operations of the Lyonsdale biomass facility in their districts for the economic benefits it provides for

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upstate communities. It was noted that NYSERDA's RPS contract is due to expire at the end of 2014. 11

Assemblywoman Duprey, the Franklin County Legislature, Franklin County IDA, and Gerald Delaney expressed the same concern regarding the fate of the biomass facility located in Chateaugay, Franklin County. They all request that the Commission continue its support for this facility to ensure its continued operations.

ReEnergy Holdings, the owners of the two biomass facilities noted above, notes that the biomass electricity generators are uniquely vulnerable to the current market of low wholesale energy pricing due to the significant on-going costs of fuel, staffing, and facility maintenance. ReEnergy also urges the Commission to consider the fate of the Chateaugay facility and to provide an adequate mechanism, in the RPS program, to sufficiently monetize the value of renewable attributes of existing biomass facilities.

NYC supports broadening Main Tier eligibility rules, in particular to permit funding for hydroelectric facilities. NYC believes that the Commission should examine all of the eligibility requirements to ensure that they are not overly restrictive or inadvertently excluding meritorious renewable projects. NYC asks the Commission to provide appropriate incentives to hydroelectric developers to pursue the generation opportunities by existing reservoirs and make use of the energy that is now wasted from water spilling over the dams or through the spillways.

¹¹ The RPS Main Tier program includes provision for maintaining baseline resource in operation prior to 2003 (Maintenance Tier) designed to avoid losing baseline renewable resources because they may be financially unable to continue operations.

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Administrative Matters

Invenergy recommends that future solicitations allow projects to sell 100 percent of its RECs to NYSERDA, thereby allowing bidders to offer lower prices and enabling RPS goals be met more rapidly.¹² Invenergy recommends the Main Tier target be maintained but with a new terminus of 2025 instead of 2015. Invenergy also suggests NYSERDA develop a web page to show the percentage of renewable energy consumed in the State and update the page annually.

NextEra suggests an increase in the time frame between the RFP and Commercial Operations Date (COD), due to the lead time needed to go through all the regulatory requirements for siting new facilities in New York State. NextEra recommends the implementation of COD on a tiered basis through an option to offer bids that are tiered in implementation over a two to three year period. In addition, NextEra requests that solicitations seeking COD beyond 2015 should have bids evaluated with and without federal tax credits in place.

DISCUSSION

Contract Terms

We are persuaded by the majority of comments that support longer term contracts as a mechanism to reduce the financing costs for renewable energy developers by better matching incentive payments with the expected life of a proposed facility. We concur that the cost and availability of financing, the duration of revenue support, and overall revenue certainty are critical factors to the viability of a renewable energy facility. Actions taken to reduce this financing risk,

¹² Current Main Tier rules limit NYSERDA's purchase of REC from any one facility to 95% of its output in an effort to help build a market for RECs outside the RPS program.

while providing revenue certainty, should translate into more robust solicitations and lower bid prices, thus lowering overall program costs, even after accounting for the longer contract terms.

We are also persuaded by NYSERDA's comments regarding the feedback it has received from market participants, as evidenced by the stalled and cancelled renewable projects in the NYISO queue, that suggest that a business-as-usual solicitation would not be sufficiently competitive. We agree with NYSERDA that activities in neighboring states also create pressure towards a change in our Main Tier solicitation rules in order to attract development in New York State. As NYSERDA notes, both Massachusetts and Connecticut have recently made changes to their RPS programs to mitigate market price risk through bundled (energy and REC) long-term contracts. The increasing availability of long-term agreements, especially in nearby states, makes it more difficult for New York to compete for those projects.

Therefore, we support the use of longer term contracts for the remainder of the RPS program through 2015. We authorize NYSERDA to enter into Main Tier contracts with terms not to exceed 20 years, to keep pace with developing market conditions. However, we are aware that the use of 20-year contracts may not be appropriate for all technologies or for every individual facility. We also grant NYSERDA flexibility, in consultation with Staff, to develop procedures to limit contract terms for specific technology categories. We also encourage NYSERDA, where appropriate, not to enter into contracts for terms longer than the expected useful life of the project.

The action we take here will not impact or adjust the terms of existing Main Tier contracts awarded by NYSERDA. A contract term of up to 20 years will only be awarded in future

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Main Tier solicitations through 2015 and will not extend to existing RPS contracts executed or awarded by NYSERDA to renewable generators in response to previously completed solicitations.

Alternative Incentive Mechanisms

In their comments, several developers supported new contracting mechanisms, particularly CfDs, aimed at maximizing renewable energy development potential and minimizing developer risk.

While we acknowledge that a CfD may be more attractive to some developers and also provide a hedge that could protect rate-payers from volatile energy prices, we are mindful of the complexities of administering such a mechanism with NYSERDA as the central procurement agency. A path to implementing such a structure would entail a major redesign of the solicitation process for a CfD approach that would need to include stakeholder input and final development and implementation. Developing a CfD proposal at this time would further delay the issuance of a Main Tier solicitation in 2014.

Finally, we note two important proceedings that we recently launched; Reforming the Energy Vision (REV)¹³ and the Clean Energy Fund.¹⁴ Both will examine, in varying degrees, the role of utilities and the establishment of markets in procuring and deploying clean energy resources including renewable generation. We believe these proceedings are the proper venue to examine the future of the RPS program beyond 2015, including the use of alternative incentive mechanisms such as CfDs.

¹³ Case 14-M-0101, <u>Proceeding on Motion of the Commission in</u> <u>Regard to Reforming the Energy Vision</u>, Order Commencing Proceeding (Issued April 25, 2014).

¹⁴ Case 14-M-0094, <u>Proceeding on Motion of the Commission to</u> <u>Consider a Clean Energy Fund</u>, Order Commencing Proceeding (Issued May 8, 2014).

Solicitation Schedule

With respect to a fixed solicitation schedule through the term of the RPS program, we concur with the Joint Utilities and Multiple Intervenors that imposing a strict timetable for future solicitations could force NYSERDA to issue a solicitation at an exact time when market conditions would indicate that no solicitation is warranted. Such a solicitation would not be in the best interest of the ratepayers who support the program. We will however, direct NYSERDA to issue a Main Tier solicitation as soon as practicable in 2014 and at least one additional solicitation in 2015. We will also provide NYSERDA with the flexibility to offer additional solicitations when the market conditions are appropriate to do so, in consultation with Staff. Eligibility

In their comments, several parties request that we act now to provide additional support for biomass facilities in the RPS program that are uneconomic and at risk of ceasing operations. We note that the Main Tier program has provisions to support these facilities, under the "Maintenance Tier", and should seek relief under the rules of that program.

With respect to the City of New York's request to include hydroelectric generation described in its comments, we note that our current rules allow such facilities to compete in the Main Tier program.

Administrative Matters

Other than lifting the 10 year term for Main Tier contracts described above, all other RPS program rules and general procurement methods will remain in place. For future solicitations, we will require NYSERDA to develop a bid evaluation methodology, in consultation with DPS Staff, designed to place bids of different contract lengths and price (\$/MWh) on

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comparable terms using a net-present-value of lifetime contract payments or some similar methodology.

Also, since there is uncertainty in the renewal of the Federal Production Tax Credit (PTC)¹⁵ that expired at the end of 2013, we direct NYSERDA to provide a provision to capture the value of the PTC in future solicitations.

The Commission orders:

1. The New York State Energy Research and Development Authority (NYSERDA) is authorized to increase the maximum length of Renewable Portfolio Standard (RPS) Main Tier contracts to a term not to exceed 20 years. Further, NYSERDA is granted the flexibility to set maximum contract terms of less than 20 years for select types of technologies and facilities.

2. NYSERDA is directed to issue one Main Tier solicitation as soon as practicable in 2014 and at least one additional solicitation in 2015. NYSERDA may issue additional solicitations if it determines, in consultation with Staff of the Department of Public Service, that market conditions are appropriate to do so.

3. This proceeding is continued.

By the Commission,

KATHLEEN H. BURGESS Secretary

¹⁵ The PTC is a per kWh tax credit for electricity generated by qualified energy resources. Originally enacted in 1992, the PTC has been renewed and expanded numerous times, most recently by the American Recovery and Reinvestment Act of 2009 (ARRA) in February 2009 and in January 2013 in the American Taxpayer Relief Act of 2012.

Commenting Parties

Air Energy TCI, Inc (TCI) Ken Blankenbush, New York State Assembly (Assemblyman Blankenbush) Bloom Energy Corporation (Bloom) City of New York (NYC) ClearEdge Power LLC (ClearEdge) Central Hudson Gas and Electric Corporation, Consolidated Edison Company of New York, Inc., |(collectively New York State Electric & Gas Corporation, | Joint Orange and Rockland Utilities, Inc., and | Utilities) Rochester Gas and Electric Corporation Gerald Delaney Janet L. Duprey, New York State Assembly (Assemblywoman Duprey) EDP Renewables North America LLC (EDPR) Empire State Forest Products Association (ESFPA) EverPower Wind Holdings, Inc. (EverPower) Franklin County Industrial Development Agency (Franklin County IDA) Franklin County Legislature (Franklin County Legislature) Joseph A. Griffo, New York State Senate (Senator Griffo) Iberdrola Renewables LLC (Iberdrola) Independent Power Producers of New York, Inc. (IPPNY) Invenergy LLC (Invenergy) Lewis County Board of Legislature (Lewis County Legislature) Lewis County Industrial Development Agency (Lewis County IDA) Elizabeth O'C Little, New York State Senate (Senator Little) George Maziarz, New York State Senate (Senator Maziarz) Multiple Intervenors (MI) New York Biomass Alliance (NYBEA) New York Public Interest Research Group (NYPIRG) New York State Energy Research and Development Authority (NYSERDA) NextEra Energy Resources, LLC (NextEra) Frederic P. Norton, Supervisor Town of Arkwright (Arkwright) OwnEnergy Amy R. Paulin, New York State Assembly (Assemblywoman Paulin) ReEnergy Holdings LLC (ReEnergy) Town of Chateaugay Village of Lyons Falls