

**STATE OF NEW YORK  
PUBLIC SERVICE COMMISSION**

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**Proceeding on Motion of the Commission to Implement a  
Large-Scale Renewable Program and a Clean Energy  
Standard**

**Case 15-E-0302**

**In the Matter of Carbon Pricing in New York Wholesale Markets**

**Matter 17-01821**

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The American Wind Energy Association (AWEA), the Alliance for Clean Energy New York (ACE-NY), and the Natural Resources Defense Council (NRDC) appreciate the opportunity to provide these brief reply comments on an issue of great importance: the use of Index RECs as a means to lower the cost of procuring renewable energy in New York State.

**I. The Commission Should Authorize the Use of Index RECs Without Delay**

As the Commission understands well, meeting the renewable energy requirements of the Climate Leadership and Community Protection Act (CLCPA) will be no small feat. In 2018, fossil fuel-fired generation accounted for over 55,000 gigawatt-hours (GWh) of electric generation in the New York Control Area, or more than eight times the amount generated by wind, solar, and other non-hydro renewables.<sup>1</sup> Getting the needed quantity of resources deployed – and deployed at the best price to ratepayers – will require the Commission to give NYSERDA the best procurement tools available as quickly as possible. Contrary to the suggestions of some commenters, no benefit will come from delaying the decision in this proceeding. The Commission should ensure that Indexed RECs are available to NYSERDA as a tool it can use in time to prepare for its 2020 solicitation.

NYSERDA’s comment in this proceeding demonstrates the value that Indexed RECs hold for New York ratepayers. NYSERDA’s analysis shows that renewable energy projects would see REC prices fall by \$8 per MWh on average – equivalent to more than a third of current Fixed REC costs.<sup>2</sup> For large-scale wind and solar, the REC revenue component under an Index REC procurement mechanisms drops to remarkably low levels: \$2.94/MWh and \$6.97/MWh respectively.<sup>3</sup> Multiplied by the scale of the renewable energy deployment necessary to decarbonize the electric sector, the savings to ratepayers will be profound.

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<sup>1</sup> See New York Independent System Operator, Power Trends 2019 at 27 available at <https://www.nyiso.com/documents/20142/2223020/2019-Power-Trends-Report.pdf/0e8d65ee-820c-a718-452c-6c59b2d4818b?t=1556800999122>.

<sup>2</sup> NYSERDA Comment at 5.

<sup>3</sup> *Id.* at 19.

As we noted in our March 12 Petition and October 2 comment, we have no objection to affording NYSERDA the flexibility to continue to solicit or accept Fixed REC bids alongside Index REC bids. Doing so may be a prudent way to ensure that the selected bids are those that bear the lowest cost to ratepayers, and to demonstrate that fact to stakeholders. More generally, while we agree with the Index REC design choices NYSERDA has proposed in its comment, we think it would be prudent for the Commission to leave NYSERDA the flexibility to make continued adjustments to the Index REC structure as it learns from experience and as market conditions change.

## II. Index RECs Lower Market Price Risks to Both Buyers and Sellers

The only substantive objection raised by commenters opposing the Indexed REC proposal is the frequently-repeated but rarely-explained assertion that indexation will “shift the risk” from developers to ratepayers. This argument misconceives the Index REC proposal in two fundamental ways. First, the “risk-shift” argument appears to take as a premise that market price risk falls entirely on the renewable energy developers under the Fixed REC mechanism, which is incorrect. Renewable energy developers’ costs – including their risk-adjusted cost of capital – are baked into their REC bids. Thus, by lowering the market price risk facing developers, ratepayers will pay *less* than they do now, as NYSERDA’s comment has demonstrated and quantified. Multiple Intervenors has suggested that the savings generated through indexation will not be passed through to ratepayers because NYSERDA’s procurements may not be competitive in the future.<sup>4</sup> There is absolutely no evidence offered to support this assertion. But even if it were true, it would be an equally significant problem for Fixed REC procurements as for Index REC procurements and would not provide a rationale to maintain the status quo.

The “risk-shift” argument also ignores the fact that, when it comes to market price volatility, the risks faced by developers and ratepayers are directionally opposite. Developers have long positions in the NYISO energy and capacity markets and face a risk that prices in those markets will go down. Ratepayers have short positions in those markets and face a risk that prices will go up. The Index REC mechanism takes advantage of these opposing interests to reduce market price risk for both parties.

The suggestion that indexation will make bundled energy, capacity and REC costs less stable – or interfere with the ability of LSEs to offer fixed-price contracts – is not credible for the same reason. As energy and capacity prices rise, Index REC prices will go down, and *vice versa*. This relationship will make bundled prices for energy, capacity and Index RECs more stable than for bundled energy, capacity and Fixed RECs. For the same reason, and contrary to the suggestion of Multiple Intervenors,<sup>5</sup> LSEs should have an *easier* time offering fixed bundled pricing under an Index REC system because the REC value and the energy and capacity value will move in opposite directions.

Based on their comments, it would seem that Multiple Intervenors has a preference for Fixed REC contracts, even if those Fixed RECs would have a one-third higher cost. In that

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<sup>4</sup> Comment of Multiple Intervenors at 13.

<sup>5</sup> *Id.* at 8.

regard we note that under the Clean Energy Standard, there is no requirement to purchase RECs from NYSERDA.<sup>6</sup> Across the country, corporate end-users have played a leading role in procuring renewable energy, and have done so in ways that hedge their exposure to market price volatility. Multiple Intervenors' members could, through ESCOs or otherwise, enter physical power purchase agreements (PPAs) with renewable developers. Or, as many corporate purchasers have done, they could enter virtual power purchase agreements or proxy revenue swaps with renewable projects. Each of these mechanisms would allow the corporate end-users to hedge their short positions in energy and capacity markets while also obtaining RECs under a pricing scheme they prefer.

### **III. The Commission Should Allow NYSERDA Flexibility in Procurement Design**

AWEA/ACE-NY/NRDC agree with NYSERDA's proposed design choices in its October 2 comment. Nevertheless, we respectfully request that the Commission preserve NYSERDA's flexibility to alter program design details in response to its ongoing experience and changing market conditions. For example, NYSERDA has proposed that Index REC solicitations be structured to allow negative REC payments.<sup>7</sup> AWEA/ACE-NY/NRDC do not oppose this suggestion. But, it is also easy to see how changing market conditions might counsel for establishing a zero dollar price floor on Index REC prices. NYSERDA's analysis shows that, under an Index REC mechanism, large scale wind and solar could be viable with REC revenues of \$2.94/ MWh and \$6.97/MWh respectively. As wind and solar costs continue to decline, it is possible to foresee Index REC bids submitted that carry a negative expected value to the developer, but which are nevertheless justified by the benefits of indexation. Under those market conditions, NYSERDA may find that it can achieve better-priced bids and enter more easily-administered contracts if it sets the minimum REC price in any settlement period at zero.

With respect to the one design issue that NYSERDA did not decide – treatment of negative LBMPs<sup>8</sup> – AWEA/ACE-NY/NRDC suggest that this issue could be resolved with a simple rule that would put a zero dollar floor on the energy reference price for any settlement period. To be clear, the Index REC price in this scenario would still be lower than the strike price because the capacity price would always have a positive value. This option would avoid the possibility of an uncapped upward REC price effect from negative LBMP pricing.

Finally, we agree with NYSERDA's suggestion of using as-submitted UCAP production factors for weighting the capacity reference price. We note, however, that NYSERDA should have the flexibility to solicit both Winter and Summer UCAP production factors, as it has done in the offshore wind context.

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<sup>6</sup> See CASE 15-E-0302, *Proceeding on Motion of the Commission to Implement a Large-Scale Renewable Program and a Clean Energy Standard*, Order Adopting a Clean Energy Standard, issued Aug. 1, 2016, at 106 – 07.

<sup>7</sup> NYSERDA Comment at 12.

<sup>8</sup> NYSERDA Comment at 14.

Respectfully submitted on the 15<sup>th</sup> day of November 2019.

Anne Reynolds  
Executive Director  
Alliance for Clean Energy New York  
119 Washington Ave., Suite 1G  
Albany, NY 12210  
[areynolds@aceny.org](mailto:areynolds@aceny.org)

Cullen Howe  
Senior Renewable Energy Advocate  
Natural Resources Defense Council  
[chowe@nrdc.org](mailto:chowe@nrdc.org)

Gene Grace  
General Counsel

Gabe Tabak  
Counsel  
American Wind Energy Association  
1501 M St. NW, Suite 1000  
Washington, DC 20005  
[GGrace@awea.org](mailto:GGrace@awea.org)  
[GTabak@awea.org](mailto:GTabak@awea.org)