

Position Paper II:
**Ratebasing
Renewable Generation**

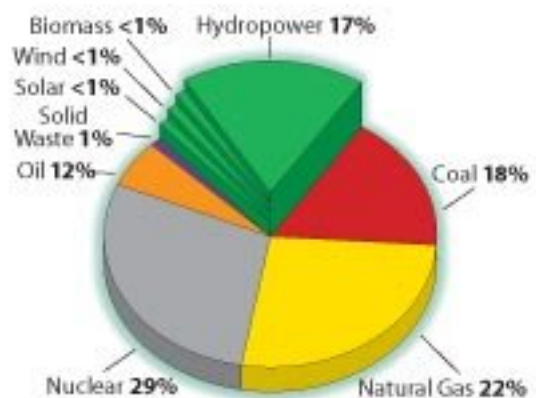
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Of the many energy issues facing New York, none is so critically important as the need to find a mechanism by which to finance and construct facilities that will produce electricity from renewable energy sources – while recognizing that the cost of such projects must not further exacerbate New York’s position as a high-price energy environment. This Position Paper was produced as part of a series to extend Central Hudson’s views on the necessary components of the critically important State Energy Plan now under development in Albany; in this installment: allowing utilities to build and place into rate base renewable generation projects is explored.

Background

By 2013, 25 percent of all electricity used in New York State is to come from renewable sources, according to the Renewable Portfolio Standard; in fact, a recent summary of the program indicated that the target should be raised to 30 percent. The chart at right, prepared by the New York State Public Service Commission, reflects 2003 generation source data (the most recent statewide date made available on the PSC website).



As is noted, the only sizeable renewable source is hydropower, resulting from the foresight of leaders who harnessed New York’s waterways in an earlier era to serve our residents. It is hard to imagine that unless a substantive change is made to the current strategy of incentivizing the

construction of these assets that the State will fail to make meaningful inroads in the creation of renewable energy facilities.

While two wind farm projects have been recently developed in Madison and Wyoming counties upstate, there has been insufficient market response to either constructing the necessary level of these capital-intensive investments and/or their connection to the power grid. Moreover, no sizeable solar PV generation projects have been sited anywhere in New York State. Yet, just across the border in Massachusetts, utilities are developing rate-based solar generation projects to respond to a statewide 50 MW renewable portfolio initiative.

Clearly, NYSERDA's administration of hundreds of millions of dollars in funds *annually* from the Renewable Portfolio Standard has failed to prompt the necessary level of additional construction of renewable generating projects -- during a time when it is estimated that wind power alone is growing by 25-30 percent and has become the fastest-growing source of electricity generation worldwide and that solar PV is being incentivized and is under development elsewhere. Despite generous government subsidies and robust funding through the RPS, renewable-source generating units simply aren't being constructed at the levels necessary to alleviate New York's reliance on fossil fuels.

It's important to recognize that as much as 70 percent of the typical Central Hudson customer's electric bill currently results from the cost of electricity supply. Though utilities have an excellent post-deregulation track record of balancing longer-term contracts and spot-market purchases in order to limit price impacts to their customers, they no longer have the ability to directly contribute toward the greater goal of reducing the price of energy supply because they no longer own generating assets. Allowing these companies to invest in renewable generation projects within their service territories (and to provide the energy produced to their customers) will engage a currently untapped and yet strategically important ally in the State's mission to increase the state's proportion of renewable generation.



What Must Be Done

Public policy makers must realize that New York's investor-owned utilities possess the singular ability to both construct renewable-source generation *and* equitably spread the expense of

these large projects into the future when their full benefits will continue to be enjoyed by succeeding generations of New Yorkers. The electric companies that serve our state have a long, successful history of constructing necessary capacity, of reliably serving customers, and of attracting capital to our state to be deployed in creating jobs and bolstering the energy infrastructure of our communities. The same strengths that built our energy system following World War II must now be harnessed to expend the same attention on creating the electrical infrastructure of the 21st century via renewable energy.

Action Plan

The State Energy Plan must contain provisions to allow New York’s investor-owned utilities, acting independently and in cooperation with investment partners, to propose the construction of renewable energy projects inside their regulated service territories. From every indication, Central Hudson’s customer base in the Hudson Valley would welcome the development of solar generating projects in contrast to traditional fossil fuel sources; the solar community in our region, through efforts such as those of The Solar Energy Consortium (TSEC), has been particularly anxious to support efforts to build and operate solar PV projects. Such projects can be located near the load center, reducing the need to expand transmission facilities and the losses inherent in transmitting electricity from remote locations to where it is needed.

Just as the agreements that resulted from the Competitive Opportunities Proceeding of the late 1990s allowed utilities to retain ownership of small, existing renewable units (e.g. Central Hudson’s Sturgeon Pool hydropower facility), so too, must the state now recognize that utilities can and should invest in new, small-scale renewable projects for the greater good.



(Most of these investments are typically smaller in project size than would be conventional generating facilities; this allows utilities to participate without holding the type of market power or capacity that deregulation was designed to eliminate.)

Utilities have existing facilities, rights-of-way, and relationships within their long-established, regulated service territories. They are the logical choice to expedite the construction of renewable energy projects given their strong track record and their inherent familiarity with their customers’ energy needs.

Furthermore, stringent oversight by the Public Service Commission ensures that such projects would receive the type of scrutiny unavailable in private business transactions. Of course utilities should be allowed to earn a reasonable rate of return on these investments, and should be allowed to place the cost of these worthwhile public benefit projects within their rate structure for recovery from the customers who will share in their long-term contribution to our state’s energy future.

A National Perspective

Although absolutely necessary to our national future, it must be recognized that renewable energy is not only expensive but is also significantly more expensive than conventional generation. For that reason, some form of direct or indirect government support remains necessary to facilitate development. Even in the most favorable operating regions in the United States, in states such as California and Arizona, solar photovoltaic systems are estimated to be several years away from “grid parity,” that point at which the price of solar electricity is on a par with that of conventional sources of electricity available.



(However, solar PV power, particularly from thin film solar PV, is becoming increasingly cost competitive and could offer opportunities here in New York, especially given the positive indications regarding potential manufacturing interest here.)

To cite one example of how a regulated electric utility is successfully fostering new sources of power, consider PPL Electric Utilities of nearby Pennsylvania.

During the last few years, it has built new power plants fired by clean-burning natural gas, increased the number of hydroelectric dams in its generating portfolio, entered a partnership with the developer of a wind farm in Pennsylvania, and promoted and installed fuel cells that produce clean energy from hydrogen. These concrete, results-driven developments occurred while neighboring New York’s energy supply portfolio continued to age and experienced no substantive capacity additions.

Customer Impacts

Recognizing the economic downturn has recently occurred, it is difficult to justify raising electricity prices for most reasons. Yet, the global impacts of Climate Change and rising fossil fuel oil prices have convinced the general public that meaningful change must occur if we are to have a sustainable energy future. New York must not suffer the short-term memory that followed the OPEC Oil Embargo Crisis of the 1970s; it cannot shed its responsibility to act decisively now to change our energy future even though it will impact customer bills.

Allowing trusted, financially stable utilities to rate-base the cost of renewable energy investments will allow the cost of these public benefit projects to be spread out over the life of the asset in a fair and equitable way. Allowing economically healthy utilities to absorb the carrying costs of these assets relieves the state of having to incur additional debt at a time when State Government is reportedly struggling beneath its current obligations. Allowing regional utilities to plan, construct and maintain these facilities will minimize their expense and maximize their potential for expeditious completion -- and in the end, that is the most important customer impact.

Summary

New York needs clean, reliable, renewable energy. Results driven by the market, governmental subsidies and State-sponsored agencies have been insufficient to date. Time is running out, and other states are eclipsing New York in meaningful progress to reduce greenhouse gas emissions from the electric sector.

New York's electric utilities, when provided the opportunity to earn a reasonable rate of return, offer the answer through their ability to plan, finance and construct these projects to benefit their customers. The cost of these usually small-scale projects can be incorporated in rate base, and carefully scrutinized through the oversight of the Public Service Commission. These companies possess proven track records of fiscal responsibility and construction expertise, and they are currently an untapped advantage in New York's effort to produce electricity from renewable resources. They should be given that chance in order to benefit all New Yorkers through involvement in rate-based, renewable energy projects.