

Large-Scale Renewables Policy Recommendation



New York has set an ambitious goal to generate 50 percent of the state's electricity using renewables by 2030, roughly twice the amount generated in the state now. While customer-generated renewable energy will grow in the coming years, meeting the ambitious 2030 goal will require developing large-scale solar and wind generation projects.

There are two options for building and operating large-scale renewable projects. One option is granting the rights to a third-party developer, who would establish long-term contracts, known as Power Purchase Agreements (PPAs), to sell the commodity to a utility or state agency. Alternatively, private developers would engineer and build large-scale renewable projects, and then the utility would purchase and operate the project. In essence, it is the difference between renting and owning the assets. Con Edison's position is that regulated utilities can better protect the interests of its customers by owning large-scale renewable assets.

Con Edison's analysis shows utility ownership of large-scale renewables is the best option for customers for several reasons. First, utilities have access to low-cost capital. We estimate that utility ownership of generation would translate to a 30 percent reduction in customer bills for solar and a 20 percent reduction for wind compared to private developer ownership of the same assets. Second, utility ownership of large-scale renewables reduces financial risks and delivers long-term value for all electric customers. And third, regulated businesses, like utilities, have a great allegiance and accountability to the state and its policies.

An important aspect of the plan is for utilities, or an independent third party, to solicit bids from renewable developers to take advantage of their experience in designing, developing, and constructing large-scale renewable projects. Utilities, or a third party, would oversee the solicitation and select the most competitive bidder to commission the projects. Once complete, the utility would then purchase and operate the renewable projects on behalf of customers.

Access to Lower Cost of Capital Means Lower Costs for Customers

Utilities have access to low-cost capital. Securing the lowest possible financing for renewable projects should be a primary goal because costs are ultimately borne by the customer. Based on the investment-grade credit ratings of the utilities in New York State, utilities can raise equity and debt at very competitive costs. Because renewable energy resources have relatively high capital costs and low O&M costs (compared to

conventional generation), low-cost financing is a very significant means of keeping overall project costs down.

The cost of debt for utilities is lower than that of independent renewable power projects, particularly when they are financed project-by-project. Today, Con Edison of New York can borrow money for 10 years at about 3.5 percent interest. A renewable developer would do well to borrow at 4 percent.

The difference in the cost of equity is even more dramatic between independent renewable power projects and what the New York Public Service Commission (NYPSC) authorizes for regulated utilities. The NYPSC currently authorizes just 9 percent on utility equity investments, while competitive project developers in other states can earn returns in the mid-teens. As a result, customers would pay a significant premium with a PPA.

Mitigate Long-term Financial Risk to Customers

Private developers of renewables who rent their assets to utilities through a PPA will profit from the future value of their assets. The value of the project does not accrue to the customer. It's similar to homeowners earning equity in their property over time, whereas renters do not.

The PPA model transfers all risk from the generator to the customer over the course of the contract. Because private developers own the renewable project, they could potentially sell future output to any entity, even one outside of New York, once the PPA ends. Or, the developer could negotiate a second long-term contract with the same utility to earn additional profits, even though customers have already paid significantly, perhaps even fully, for the asset. In essence, with a PPA, a private developer keeps all future benefits of the renewable projects.

PPAs could also create significant regulatory risk for utilities in the eyes of investors, which could result in a higher cost of capital and a weakened credit rating. Lower credit ratings and higher borrowing costs for utilities would increase operating costs for all utility work, impacting all customers.

Finally, New York State electric consumers have already been hurt by a requirement that utilities sign PPAs. In 1981, the state passed a law commonly called the "Six-Cent Law" that required electric utilities to purchase power from certain generators at a minimum of six cents per kilowatt hour. Since the beginning of the wholesale markets in New York, the estimated impact of these contracts on our customers has been about \$5 billion in above-market electricity costs. New Yorkers should get the more certain benefits with utility ownership of renewables rather than risk suffering again because of mandated purchase power agreements.

Long-term Commitment to NYS Policies and Goals

Through the New York Public Service Commission and the regulatory process, utilities are committed to achieving state policies and objectives, which focus on the interest of customers and in keeping costs and risks reasonable. In fact, the utilities' stake in New York State's Reforming the Energy Vision proceeding and our emerging role as Distributed System Platform provider means that our business has a vested interest in finding successful solutions. We understand that our new business model must be responsive to the customer and their desire for greater choice, control, and lower costs. Utilities find success in first meeting customer needs, and then in turn, investor needs.

Conversely, private renewable power producers and the new and unproven YieldCos have a national and increasingly global perspective, and focus on short-term investor needs.

Under the utility ownership model, customers will have access to any and all benefits over the entire life of the project. For instance, if operating costs can be reduced, or debt refinanced, or if the project can be repowered with cheaper technology, those benefits would all accrue to the customer. Utility ownership also is the best approach to ensure that renewable energy from the project remains dedicated to New York State customers for the life of the facility. Renewable energy from these utility-owned projects would continue to contribute to New York's renewable energy goals, and would not be sold to renewable energy markets in other states.

Since deregulation, some have raised concerns about the ability of the utility to favor its own generation. However, renewable energy is generated only when the sun is shining or the wind is blowing. And that energy will be integrated into the bulk power system by the New York Independent System Operator, eliminating concerns that the utility will or can favor renewable assets.

Lastly, consideration of the value of the renewable energy experience of utility affiliates should not be overlooked. Their experience in large-scale renewable energy projects has the potential to benefit New York State customers. Of course, any role would be considered through competitive bids and a third party review.

Looking ahead, there is no question: large-scale renewables must be part of our collective energy future. Utility ownership of renewable energy projects will benefit customers because of lower-cost financing, lower long-term risks to customers, and a commitment to meeting customer needs. Leveraging the capabilities of both renewable energy developers and utilities will help New York meet its renewable goals at the most favorable terms for customers.