



July 21, 2016

Hon. Kathleen H. Burgess  
Secretary to the Commission  
New York State Public Service Commission  
Agency Building 3  
Albany, NY 12223-1350

**RE: NGSA Comments on Proceeding on Motion of the Commission to Implement a Large-Scale Renewable Program and a Clean Energy Standard (CASE 15-E-0302; MATTER 15-01168)**

Dear Secretary Burgess:

The Natural Gas Supply Association<sup>1</sup> (NGSA) urges the New York State Public Service Commission (NYPSC) to allow market forces to establish a sustainable, cost effective path for carbon reduction instead of adopting the concepts discussed in both the January 25, 2016 Staff White Paper on Clean Energy Standard (Staff White Paper) and in Staff's Responsive Proposal for Preserving Zero-Emissions Attributes issued on July 8, 2016 ("Staff's Responsive Proposal"). The Staff's Responsive Proposal should be rejected because it is discriminatory by not rewarding other facilities for their contributions to carbon emission reductions, will be costly for consumers and is preempted by the Federal Power Act. The NYPSC should not accept a recommendation that will provide subsidy-style payments for specific sources of generation.

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<sup>1</sup> Established in 1965, NGSA encourages the use of natural gas within a balanced national energy policy, and promotes the benefits of competitive markets, thus encouraging increased supply and the reliable and efficient delivery of natural gas to U.S. customers.

For example, the staff-proposed subsidy for zero-carbon emitting, uneconomic nuclear facilities (“ZEC”) would result in higher consumer energy costs and distort the wholesale electricity market through “out-of-market” payments. Well-functioning markets are vital to the sound, cost-effective energy infrastructure investment that benefits New York energy consumers. Noted on page 27 of the Staff White Paper, “New York’s consumers have benefited from low natural gas prices, helping to lower both retail electric and [natural] gas utility bills.” In contrast, the subsidy would increase consumer energy costs.

The ZEC proposal would impact the operation and development of natural gas generation that is essential to underpinning intermittent renewable generation. Natural gas power generation facilitates greater use of intermittent renewable energy resources by maintaining reliability, and provides clean energy benefits in doing so. The Business Council for Sustainable Energy’s 2016 Sustainable Energy in American Factbook, published by Bloomberg New Energy Finance and available at [www.bcse.org](http://www.bcse.org), highlights the role that market forces and natural gas have played in the record decarbonization of the electric power sector. The Business Council for Sustainable Energy says it perfectly: Achieving climate objectives requires three things – energy efficiency, natural gas and renewable energy.

Staff’s Responsive Proposal’s expectation that “rising natural gas prices will lead to higher forecasted energy and capacity prices in New York”<sup>2</sup> is misplaced. The Energy Information Administration’s 2016 Annual Energy Outlook projects a 0.9 percent increase<sup>3</sup> in Henry Hub natural gas prices between 2015 and 2040. Technological advances, combined with robust wholesale market signals and infrastructure, have transformed natural gas markets and the role

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<sup>2</sup> Staff’s Responsive Proposal for Preserving Zero-Emissions Attributes, July 8, 2016.

<sup>3</sup>Statistic is in 2015 dollars.

that natural gas can play in cost-effectively achieving climate and economic objectives.

The path to affordable clean energy and economic opportunity begins at the New York doorstep. Natural gas and a well-functioning competitive market will allow New York consumers to benefit from the technological advances in energy that are already positioned to differentiate the U.S. from the rest of the world. Over the five year period 2010 to 2015, Lower-48 marketed natural gas production levels increased more than 28 percent. The U.S. emerged as a world leader in natural gas production. Natural gas has positioned the U.S. to lead the world in cost-effective carbon emissions reductions. New York consumers must be afforded the same advantage.

Natural gas-fired electricity generation is essential to sustainable, cost-effective achievement of electric generation carbon reduction goals. The Staff's proposal discriminates against natural gas-fired generating facilities, as well as other facilities that can contribute to carbon reduction goals. According to the Business Council for Sustainable Energy, 2015 marked the already rapid decarbonization of the U.S. power sector with record coal plant closures, record renewable generation additions and record natural gas production and consumption. In fact, U.S. electric power sector carbon dioxide emissions fell to their lowest annual level since the mid-1990s as prices for electricity and fuel remained low by historic standards and customer choices expanded. The Business Council for Sustainable Energy further notes that many of the key changes seen in 2015 are likely *permanent* shifts, rather than temporary, one-time events.<sup>4</sup>

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<sup>4</sup> Sustainable Energy in America 2016 Factbook, Bloomberg New Energy Finance and the Business Council for Sustainable Energy, p. 1.

Fuel diversity is always essential and smart, recognizing that natural gas remains the most economically and environmentally sound power generation investment available today, and should not be disadvantaged through a market-distorting subsidy. Proven by experience, greater use of natural gas for electricity generation has produced significant reductions in U.S. carbon emissions because, over its lifecycle, natural gas emits only about half the carbon dioxide of other fossil fuels when combusted, whether to make electricity, forge steel or provide heat. With these and additional advantages over other fuels in sulfur dioxide, mercury, nitrogen oxide and particulate matter emissions, natural gas is poised to become an even more important part of energy portfolios.

Market-driven natural gas consumption to generate electricity has already helped the U.S. achieve power sector carbon emissions reductions that were 19 percent below 2005 levels.<sup>5</sup> Considering the big picture, natural gas use reduces carbon dioxide emissions, the most prevalent greenhouse gas, and other pollutants.

The role that natural gas-fired electricity generation has played in achieving electricity generation carbon reduction objectives in New York is clear and has been proven in the market. However, the paths to achieving further carbon reduction goals are varied and complex with cost-effective implementation hinging on a variety of factors. For instance, a viable implementation of any carbon reduction initiative depends on a variety of intertwined factors including economic growth, the speed of technological breakthroughs, infrastructure development, local availability of renewable resources, regional electricity market structures, and decades of prior energy

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<sup>5</sup> *U.S. Carbon Dioxide Emission Trends and the Role of the Clean Power Plan*, by Jonathan L. Ramseur, Specialist in Environmental Policy, Congressional Research Service, April 11, 2016.

investments and policies. Even local weather patterns and energy load profiles are important variables.

Within the control of the NYPSC is the ability to ensure that consumers benefit from competitive market signals. Cost-effective and sustainable implementation of an electricity generation carbon reduction goal requires the availability of compliant electricity resources, adequate affordable capital and workable investment plans.

Energy reliability and affordability will be at the heart of any long-term carbon reduction initiative. Achieving both depends on one thing -- sound competitive market signals. The risk of market distortions that drive inefficient capital deployment is high when policies are changed. In lieu of subsidies to support uneconomic electric power generation, the NYPSC should adopt the following foundational principles essential to preserving competitive market signals while achieving carbon reduction objectives:

1. **Maximize implementation flexibility** to allow carbon reduction goals to be achieved at the lowest long-term cost while minimizing the impact on future economic growth. Paths to achieving the carbon reduction goal vary. A viable compliance path in one state or region may be cost-prohibitive in another. Flexibility in the approach is key to affordability; while affordability is vital to sustainability. Allowing unique market circumstances to drive the lowest cost compliance path will produce the most viable long-term outcome.
2. **Establish fuel-and technology-neutral financial incentives for carbon emissions reducing investments** so that carbon reduction programs evolve over time and respond to technological advances and changing economic conditions. If early action to reduce carbon emissions is rewarded or incentivized, it should not be technology specific. Consumers

benefit when competitive market forces determine the best path for investment needed to achieve a goal.

- 3. Foster the benefits and efficiencies that stem from market interdependencies** when clean energy programs are established. Markets are often interconnected regardless of state boundaries. Consumers benefit when policies recognize the value of operational interconnectedness. To facilitate the lowest long-term cost solution, these operational efficiencies and regional interdependencies must be maximized to reduce costs.

Long-term efficiency in any market stems from sound competitive market signals that deploy resources and capital to where they are needed and consequently valued. This drives both efficiency and technological innovation, which are perhaps the two biggest unknowns that will ultimately determine the consumer impact of carbon reduction objectives. It is imperative for New York's energy consumers and economic health that competitive market forces be allowed to spur technological innovations and compliance solutions.

Importantly, economic growth and achievement of environmental objectives are successfully poised to work hand-in-hand. In addition to facilitating emissions reductions, natural gas is spurring economic revitalization. Consumption of natural gas in the U.S. industrial sector now exceeds pre-recession levels, indicating an economic revival of U.S. manufacturing. Consumer demand for natural gas has been steadily growing since 2009, and for all the right reasons: it is abundant, burns clean and it is affordable. Responding to natural gas supply growth, U.S. industry is expected to invest \$111 billion over the next half decade to restart previously shuttered industrial facilities or expand approximately 67 new U.S. facilities in the fertilizer, steel, petrochemical and paper industries, in addition to the \$17 billion already invested for the 39 major

industrial projects built 2010-2014.<sup>6</sup> Access to abundant domestic natural gas has given U.S. industrial companies a competitive advantage over their global competition, leading to the resurgence of natural gas-intensive manufacturing in the United States and the creation of more jobs to construct and staff the resulting new and expanded industrial facilities.

There is more than enough natural gas to accommodate domestic consumers to the benefit of the economy and environment. If the 1966 natural gas resource estimate of 600 trillion cubic feet (TCF) had remained static, the U.S. would have run out of natural gas 10 years ago. Instead, estimates doubled by 2002 and in 2014 grew to over 2,500 TCF.

The ZEC proposal is also complicated by the fact that it intrudes on the exclusive jurisdiction of the Federal Energy Regulatory Commission (“FERC”). The Supreme Court of the United States recently clarified the boundary for state action in relation to wholesale power markets in *Hughes v. Talen Energy Marketing, LLC* (“Hughes”).<sup>7</sup> Like the state of Maryland in the Hughes case, the NYPSC staff does not like the wholesale market outcome, i.e. the fact that wholesale market forces caused certain facilities to become uneconomic, so the NYPSC staff seeks to interpose its own modification to these markets with the ZEC proposal. The ZEC proposal is inextricably intertwined with the wholesale markets and thus preempted by the Federal Power Act under the standard set out in Hughes. As proposed, the ZEC will adjust the wholesale rate that specific nuclear facilities will receive and interfere with energy and capacity market price signals.

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<sup>6</sup> See NGSAs 2016 Summer Outlook available at [www.ngsa.org](http://www.ngsa.org).

<sup>7</sup> *Hughes v. Talen Energy Marketing, LLC*, 136 S.Ct. 1288 (2016).

Clearly, plentiful natural gas is good news for New York energy consumers for a variety of economic and environmental reasons. It means lower GHG emissions, lower household energy bills, lower overhead costs for businesses, and lower costs for products as diverse as pantyhose and fertilizer.<sup>8</sup>

Growth in natural gas supplies, expansive natural gas delivery infrastructure, unrivalled natural gas storage capability, and robust natural gas commodity markets have facilitated increased use of natural gas by U.S. industry and utilities. There is little doubt that natural gas is paving the way for reduced carbon emissions from the electricity generation sector and manufacturing growth. **Achievement of climate objectives and economic revitalization can and should go hand-in-hand.** It is the competitive market that makes this possible.

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<sup>8</sup> See NGSAs "Stuff of Everyday Life- Understanding the Uses of Natural Gas in Industrial Processes" issue paper illustrating consumer products made from natural gas available at <http://www.ngsa.org/download/issues/factsheets/the%20stuff%20of%20everyday%20life.pdf>.

Both climate objectives and economic revitalization hinge on environmentally sound and efficient natural gas production and infrastructure growth. Today, energy consumers and policymakers have at their fingertips, the most cost-effective source of carbon emissions reductions – natural gas. We owe it to New York’s energy consumers to begin the work toward a lower carbon environment by building on the most cost-effective source of carbon emission reductions -- natural gas.

Sincerely,

/s/ Jennifer Fordham

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I, Jennifer Fordham, do hereby affirm that the contents of this document are true to the best of my knowledge.

Signed: */s/ Jennifer Fordham*

Date: July 21, 2016