

PROGRAM PLANNING COMMITTEE
OF THE
NEW YORK STATE
ENERGY RESEARCH AND DEVELOPMENT AUTHORITY

Minutes of the 57th Meeting
Held on September 12, 2005

Pursuant to a Notice and Agenda dated September 2, 2005, a copy of which is annexed hereto, the fifty-seventh (57th) meeting of the Program Planning Committee of the NEW YORK STATE ENERGY RESEARCH AND DEVELOPMENT AUTHORITY ("NYSERDA") was convened at 11:00 a.m. on Monday, September 12, 2004, at the Authority's Board Room at 17 Columbia Circle, Albany, New York, and by video conference in the Authority's New York City office, 485 7th Avenue, 10th Floor, Suite 1006, New York, New York, and by video conference at the offices of KeySpan at 175 East Old Country Road, Hicksville, New York.

The following members of the Committee were present:

Vincent A. DeIorio, Esq., *ex officio*
Parker D. Mathusa, Committee Chair
Robert B. Catell (via video teleconference)
Elizabeth W. Thorndike, Ph. D.

Also in attendance were Peter R. Smith, President; Robert G. Callender, Vice President for Programs; Wendy M. Shave, Vice President for Administration and Secretary to the Board; Roger D. Avent, General Counsel; Jeffrey J. Pitkin, Treasurer; Mitchell Khosrova, Esq., Associate Counsel and Secretary to the Program Planning Committee, and various members of Authority staff.

The meeting commenced with the first agenda item, which concerned the approval of the minutes of the fifty- sixth (56th) meeting of the Committee held on June 10, 2005. Whereafter, upon motion duly made and seconded, and by unanimous voice vote, the minutes were approved.

Committee Chair Mathusa indicated that the next agenda item concerned a review of the Authority's proposed budget for the 2006-2007 fiscal year ("FY"). The review began with a report from President Peter R. Smith who provided a general summary of the budget.

Mr. Smith first stated that at the June 10 Program Planning Committee meeting Robert Catell expressed an interest in knowing more about various alternative fuel technologies for motor vehicles, noting that a number of technologies, including compressed natural gas, have been proposed over the years and many seemed to offer great promise.

A comprehensive assessment of such technologies was last conducted as part of the 1994 State Energy Plan. Mr. Smith reported that he had asked Energy Analysis Director Paul DeCotis to form a staff team to revisit and update the previous analysis.

The team is looking at a host of technologies and fuels, including natural gas (both compressed and liquid forms), methanol, ethanol, propane, electric and hybrid electric technologies, hydrogen and biofuels. The assessment will describe each technology and discuss the status of development and deployment, obstacles to future advancement, advantages and disadvantages, and current Federal and NYS programs. In addition, the team will develop a comparative cost analysis of the technologies. The assessment will also highlight past and current NYSERDA programs and accomplishments in this area as well as recent policy developments such as the renewable fuel requirements found in the Energy Policy Act of 2005.

The team expects to complete its work by the end of the year and will report to the PPC at its meeting in January.

Mr. Smith then turned to the budget. Respective program areas of the budget are reviewed by either the Program Planning Committee or the Waste and Facilities Management Committee. Overall, the FY06-07 Budget is estimated at approximately \$252 million, a slight decrease from the FY05-06 Budget of approximately \$264 million. The decrease is primarily due to reductions in amounts budgeted for the Authority's administration of demand reduction programs funded by the Con Edison Rate Case Settlement, partially offset by increased funding for the Renewable Portfolio Standard program.

The Budget continues to hold the line on controllable administrative costs and keeps staffing levels relatively constant. The Authority continues to exercise fiscal responsibility to deliver its programs in an effective and efficient manner. We live within our means, but State fiscal pressures make this increasingly difficult without some detrimental impact on the Authority's programs and the benefits they provide.

Mr. Smith then called upon Treasurer Jeffrey Pitkin to discuss the details of the Budget.

Mr. Pitkin stated that the Board package includes a one-page budget summary which summarizes the budgeted revenues and expenditures of each of the Authority's programs. The package also includes graphs summarizing the sources and uses of NYSERDA's budgeted funding, an analysis which compares budget amounts with the prior year amounts and with actual amounts for the fiscal year ended March 2005, and provides detailed budget schedules for certain expenditure items. The package also includes a draft of the request for State appropriation funding which will be submitted to the Division of the Budget for purposes of formulating the Governor's Executive Budget, anticipated to be released in January 2006. Mr. Pitkin then provided a program-by-program analysis of highlights of the budget.

-New York Energy Smart Program

The New York Energy Smart program, funded with the System Benefits Charge (SBC), includes funding approved through Order of the PSC, anticipated interest earnings on unexpended SBC funds, and third-party program cost sharing funding and administrative fees, mostly from the Long Island Power Authority for their participating in our Small Homes programs.

The Budget assumes that the SBC funding, which currently is authorized through June 2006, will be extended at an annual level of \$150 million. The PSC is anticipated to consider the extension of the SBC programs by the end of 2005 and the Members will be presented a revised Budget at the April 2006 meeting in the event that there are substantive changes to the proposed Budget.

The Memorandum of Understanding with the Public Service Commission for administration of the Energy Smart programs limits the amount of funding which may be used by NYSERDA for program administration. The SBC Operating Plan approved by the PSC provides approximately \$64.5 million, or about 6.7% of total funding, over the 8-year period ending June 2006 for program administration. The SBC Operating Plan for an extension of the SBC will authorize the level of funding available for administrative costs beyond June 2006.

The approved SBC Operating Plan also provides \$9 million in cumulative funding through June 30, 2006 for the New York Energy Smart program's share of the Statewide Cost Recovery Fee paid to the State pursuant to Public Authorities Law Section 2975. For FY 2006-07, the fee is budgeted, in total, at the actual amount which was assessed for FY 2004-05, about \$5.7 million, of which the Energy Smart program's share is about \$3.6 million. The SBC Operating Plan for an extension of the SBC funding will need to include funding for the program's share of the fee.

- Renewable Portfolio Standard (RPS) Program

The RPS program, established by the PSC in 2004, established NYSERDA as the central procurement administrator to provide incentives to increase the percentage of electricity used by retail customers in the State that is derived from renewable resources. The RPS program is funded by a surcharge on electricity bills for all retail customers that pay the System Benefits Charge. The PSC Order established a collection schedule and schedule of annual transfer payments to be made to NYSERDA from 2006 to 2013 which totals approximately \$741 million. The \$28.8 million in funding included in the Budget reflects payments to be received during fiscal year 2006-07.

In early 2005, NYSERDA entered into contracts to provide incentives to 7 renewable projects under the first "fast track" procurement approved by the PSC. These 7 contracts, if fully implemented and attaining the maximum incentive payments available under the contract, would result in payments of approximately \$20 million during FY 2006-07 and approximately \$191 million over a 10-year period through 2015. NYSERDA is working with the Department of Public Service staff on the development of the next main tier procurement to be issued, as well as the development and implementation of programs to provide incentives for customer-sited tier generation sources.

-Energy Research and Development Program

The statutory R&D program is primarily funded by a state appropriation funded through an assessment on gas and electric sales. No change is recommended in the state funding request. The program is also funded by amounts provided by the New York Power Authority (NYPA) and Long Island Power Authority (LIPA) pursuant to funding agreements to provide funding for NYSERDA's statewide R&D program generally consistent with the assessments collected from

other State utility customers. For LIPA, no change is assumed in the funding amount and will require a funding agreement to cover the FY06-07 period. For NYPA, a 5-year funding agreement was signed in 2004 providing \$1.6 million annually in base R&D funding and an additional \$1.5 million for programs of mutual benefit; fiscal year 2006-07 would be the third year of this agreement. The R&D budget also includes revenues anticipated from program cost-sharing, recouplement, and interest earnings on unexpended funds.

The R&D program budget is consistent with the amounts approved by the Members in June as part of the multi-year Program Plan. It also assumes continuation of the \$750,000 to be transferred to the University of Rochester Laboratory for Laser Energetics, also funded from this assessment.

-Energy Efficiency Deployment

The Energy Efficiency Deployment programs not funded through the SBC are principally funded through formula based and competitive federal energy grants. The amounts budgeted reflect estimates of funding available and anticipated expenditure levels are generally consistent with prior years.

-STEP/Economic Development

The Budget for the Saratoga Technology + Energy Park (STEP) includes anticipated lease revenues provided from current tenants at the existing building. The budgeted expenditures include funding for maintenance and repairs of the existing building, as well as modest contractual expenditures provided primarily for outside legal and consultant support to continue further development at STEP. No other expenditures are budgeted for new facilities at STEP.

-Energy Analysis

The Energy Analysis function is also funded through the R&D assessment, however the appropriation funding has never been sufficient to fully cover the cost of the staffing levels provided to carry out these responsibilities. In addition, some of the Energy Analysis staff involved in the SBC evaluation effort are funded out of SBC funds, in addition to independent evaluation contractors, subject to a limit of 2% of SBC funding.

-Bond Financing Program

The Bond Financing Program budget primarily includes the debt service costs on the State Service Contract Revenue bonds for West Valley issued by the Authority between 1995 and 1999 which are funded with State appropriations. It also includes budgeted revenues for annual administration fees due the Authority for tax-exempt bonds previously issued by the Authority for various utility companies. No fees for bond closings are anticipated and budgeted for fiscal year 2006-07 at this time.

The Bond Financing Program also includes an expenditure of \$913,000 to the State for an offset on the State's debt service costs on the West Valley bonds. This payment was first established in

the FY 2004-05 Budget, was repeated in the current year Budget and is anticipated to reoccur in the FY 2006-07 Budget. This payment is funded from limited unrestricted revenues.

- General Expenses

Salaries and benefits are anticipated to increase about \$1.4 million, providing funding for four additional positions, and to fund performance-based salary increases and for inflationary increases to match those authorized for State Management/Confidential employees. Other administrative costs will decrease slightly from the prior year's budget due to reductions in rent costs for the Authority's former offices with the expiration of these leases in July 2006, and also from certain non-recurring costs included in the prior year's budget.

Based upon the reports and discussions, upon motion duly made and seconded, and by unanimous voice vote, the Committee, for the programs in its areas of responsibility, recommended that the Board adopt the Resolution approving the proposed Budget and the associated fiscal expenditures. A copy of said resolution is attached hereto as Exhibit A.

Mr. Mathusa asked about the status of the \$1.5 million per year funding from NYPA for programs of mutual benefit. Mr. Smith indicated that NYSERDA and NYPA have an excellent working relationship and he did not anticipate any problems in developing appropriate projects. The Committee then discussed the need for the Authority to assess the future role of R&D to address new issues that may effect the electric system, such as the Regional Greenhouse Gas Initiative, known as RGGI, and the increasing difficulty of installing new electric transmission and gas lines.

In addition, in response to comments regarding the complexity of the Renewable Portfolio Standard program, Mr. Smith stated that staff will prepare a brief summary explaining how the RPS program works which will be presented at the Program Planning Committee's January meeting. This summary sheet will also be placed on NYSERDA's website.

Mr. Pitkin responded to a question and stated that the omission of Con Ed Rate Case Settlement funds in this year's budget does not preclude the funds being available in the future. The PSC Order provides that upon reaching certain energy efficiency targets under the SBC, the settlement funds will become available again.

Upon completion of all discussion and upon motion duly made and seconded, and by unanimous voice vote of the Members, the fifty-seventh meeting of the Program Planning Committee was adjourned.

Respectfully submitted,



Mitchell Khosrova
Secretary to the Program Planning Committee