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VIA E-MAIL to [rggiprograms@nyscrda.org](mailto:rggiprograms@nyscrda.org)

RGGI Programs  
Attn: Dave Coup  
New York State Energy Research and Development Authority  
17 Columbia Circle  
Albany, NY 12203-6399

**Re: Comments on NYSERDA's Concept Paper on How to Spend Regional Greenhouse Gas Initiative (RGGI) CO<sub>2</sub> Allowance Auction Revenues**

Dear Mr. Coup:

Consolidated Edison Company of New York, Inc. ("Con Edison") and Orange and Rockland Utilities ("O&R") [collectively, the "Companies"] respectfully submit the following comments on NYSERDA's November 12<sup>th</sup> Concept Paper, which proposes a foundation for programs to be funded with RGGI auction proceeds in New York under the CO<sub>2</sub> Budget Trading Program and the CO<sub>2</sub> Allowance Auction Program. Matters raised for consideration include: (1) focusing the programs on electric measures because electric customers are paying for these programs; (2) adoption of geographic parity as a funding criterion; and (3) program administration, including an increased role for utilities in the administration of funds. The Companies look forward to an open and transparent process for determining how RGGI auction proceeds will be distributed.

## **INTRODUCTION**

The Companies have supported the development of the RGGI program since its inception. They continue to support the overall goals of RGGI and the development of an environmentally sustainable State and local economy.

The Concept Paper proposes to include a wide spectrum of programs targeted toward residential, commercial and industrial sectors, electric power supply and delivery, and carbon sequestration, but also areas such as transportation, agriculture and forestry, research and analysis, and enhancements of municipal efforts. While a comprehensive approach to climate change initiatives is ultimately necessary, including a national program, the RGGI program is currently applied to the electric sector only and the costs of the program will accordingly be borne by electric customers only. Accordingly, the focus of these auction proceeds should be on the electric sector, which, as recognized by the Concept Paper, will help to reduce carbon emissions in that sector in order to comply with the more stringent cap of carbon allowances that will be available in future years and to reduce the future costs of compliance to be borne by electric sector customers.

In addition, NYSERDA should include geographic equity as a priority criterion to guard against significant locational disparity in program funding, *i.e.*, appropriate funding commensurate with the costs incurred locationally, for example in New York City, should be allocated to that location for programs that will help it to achieve its carbon reduction goals and receive the ancillary ambient air pollution reduction benefits.

The Companies also support a direct role for utilities to develop and administer programs to advance energy efficiency, renewable resources, and new technologies in their service territories that will also benefit all customers by improving the overall efficiency of the grid and providing a reduction in carbon dioxide emissions. RGGI auction proceeds should also be considered to be a potential source of Energy Efficiency Portfolio Standard (EEPS) and Renewable Portfolio Standard (RPS) program funding. Finally, NYSERDA should evaluate the results and impacts of RGGI-funded program achievements in detailed annual reports consistent

with criteria set in other State proceedings, which should include rigorous measurement, verification and evaluation (MV&E) criteria and a comprehensive accounting of program administration costs.

## **DISCUSSION**

### **1. Focus on Electricity Sector Programs Only**

The funds from RGGI CO<sub>2</sub> allowance auction proceeds should be directed toward electric sector programs only. Since the only goal of RGGI at this time is to reduce carbon emissions from the electric power sector by imposing carbon-related costs on that sector, programs and investments should be used to minimize emissions in the electric sector. Electric customers, who will bear the costs of these programs, should not have to subsidize other sectors that are not being required to bear these costs and, accordingly, the proposed all sectors approach should be rejected.<sup>1</sup> While other sectors represent a large source of greenhouse gas emissions in New York State, the Companies believe that programs for these other sectors should not be funded from RGGI auction proceeds that come from the electric sector exclusively. For example, if the State desires to fund programs in other areas such as transportation,<sup>2</sup> it should adopt a program for the transportation sector that will place a price on the carbon emitted by the transportation industry.

According to the Concept Paper, NYSERDA is planning to create a state-based “cost-curve study” similar to the one created by McKinsey & Company that identified cost-effective carbon abatement solutions. In accordance with the view that the auction proceeds should fund electric sector programs only, the proposed study should produce an integrated cost curve for

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<sup>1</sup> The Companies note here that their position that the RGGI funds, as provided for in the original RGGI MOU, should be used to provide rebates to customers if it turns out that the RGGI allowance prices are much higher than expected.

<sup>2</sup> Programs funding plug-in hybrid electric vehicles would be an exception to that rule because of the potential benefits that such vehicles may provide to the grid.

electric programs only that includes consideration of the activities being undertaken in the State EEPS and RPS proceedings (and the potential need for additional funding from the RGGI auction proceeds to fund those programs) to identify the cost effective programs that will reduce carbon emissions resulting from electric consumption.<sup>3</sup>

## **2. Geographic Equity and Other Criteria**

The initial funding criteria proposed for selecting and designing programs from RGGI proceeds did not include geographic or locational equity, stating only that “programs generally will be statewide in scope.” Geographic/locational equity should be added as a priority criterion, for example by funding New York City metropolitan area programs commensurate with the dollars paid by New York City metropolitan area consumers. A significant portion of the costs of this program will be paid by downstate electric consumers, and they should therefore be provided with a fair share of the benefits to be provided by this program. While the programs are appropriately geared toward carbon dioxide reduction efforts, as the Concept Paper recognizes (at 11), such efforts will also result in reductions in ambient air pollutants such as nitrogen and sulfur oxides, unburned hydrocarbons, and particulate matter, and downstate electric customers should share in those benefits.

There are also other ongoing State initiatives that could affect NYSERDA’s determination of how to best implement RGGI-funded programs. As the program administrator for the RPS program and one of the program administrators for the EEPS program, NYSERDA is well placed for considering whether the RGGI auction proceeds could be used to fund those efforts. NYSERDA should also coordinate with the State’s energy planning process and the New York Independent System Operator’s (NYISO’s) ongoing planning efforts. In this way,

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<sup>3</sup> The Companies request that NYSERDA provide a draft of this study for stakeholder review.

NYSERDA will be able to develop a more comprehensive and integrated approach to maximizing the effective use of funds that will best serve the interest of the electric customers that will ultimately pay for this program.

### **3. Utility Role**

All of the State's electric consumers should have the opportunity to benefit from RGGI auction revenues. Achievement of this goal will be facilitated if utilities, subject to Public Service Commission oversight, have a prominent role along with NYSERDA in administering programs to advance energy efficiency, renewable resources, and new technologies (*e.g.*, Smart Grid) that will directly benefit customers in their respective service territories.<sup>4</sup> There are significant potential benefits (both from a cost and efficiency perspective) associated with utility-administered programs. Utilities can build on their customer relationships and expertise to provide programs that are better suited to customers and could lead to increased program efficiency. Utilities can also provide outreach and education and awareness of "green" solutions to their customers.<sup>5</sup> Utilities, along with NYSERDA, will be needed to effectively deploy and implement the programs envisioned

### **4. Use of RGGI Auction Proceeds for Short- and Long-Term Purposes**

As currently proposed by NYSERDA, the target funding for near-to-mid term CO<sub>2</sub> reduction investments to long-term (including research and development and other multi-disciplinary initiatives) investments is 75 percent to 25 percent. The Companies propose that the

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<sup>4</sup>NYSERDA should consider how other RGGI states decided to best spend auction funds (*e.g.*, the state of Connecticut, where 69.5 percent of RGGI auction proceeds go to utilities to be used to support the development of energy efficiency measures).

<sup>5</sup> NYSERDA could also enter into memoranda of understanding with the utilities that would govern the use of the funds.

split should be 90 percent (near-to-mid-term improvements) and 10 percent (long-term). This will result in the programs providing more benefits to customers from the outset.

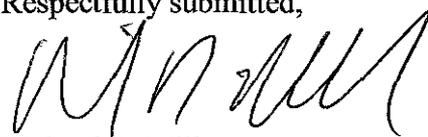
### **5. Program Administration**

The Companies commend NYSERDA for acknowledging the need to prepare annual reports that will include “evaluation of the results and impacts of program activities and accomplishments (*e.g.*, reductions in greenhouse gases)” to ensure a credible evaluation of these programs. NYSERDA, however, should state that it will adopt MV&E criteria consistent with its programs that are funded through customer surcharges. The annual report and MV&E criteria should therefore generally be the same as those in the EEPS and RPS proceedings. In addition, NYSERDA should include a breakdown (on a percentage basis) of the total expenditures of the auction revenues by categories funded. Stakeholders should also be able to request information from NYSERDA regarding regular status updates of its RGGI program implementation. Finally, NYSERDA should also specify an amount for “reasonable administrative costs” (21 NYCRR §507.4(d)).

### **CONCLUSION**

NYSERDA should consider these comments in preparing a draft Operating Plan that is scheduled for release in early January 2009. We look forward to continued participation in the New York State RGGI process and appreciate the opportunity to provide additional stakeholder input.

Respectfully submitted,



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