

December 1, 2008

Mr. David Coup  
NYSERDA  
17 Columbia Circle  
Albany, NY 12203  
[Via Email](#)  
[RGGIprograms@nyserda.org](mailto:RGGIprograms@nyserda.org)

Subject: NYSERDA RGGI Concept Paper

Dear Mr. Coup:

National Grid is pleased to have this opportunity to provide comments on NYSERDA's draft Concept Paper outlining the Operating Plan for Investments in New York under the CO2 Budget Trading Program and the CO2 Allowance Auction Program under RGGI. National Grid has publicly supported RGGI from its inception and has actively participated in stakeholder meetings and provided comments on the development of the program over the last five years. We commend NYSERDA for the comprehensiveness of the draft Concept Paper and for its adherence to the stated RGGI goal for auction proceeds to be used to "promote and implement programs for energy efficiency, renewable or non-carbon emitting technologies, and innovative carbon emissions abatement technologies with significant carbon reduction potential."

National Grid was pleased to learn that NYSERDA plans to utilize the concepts of the McKinsey carbon abatement cost curve study in helping to prioritize the flow of RGGI auction proceeds toward projects that have the greatest potential to abate CO2 at the lowest possible cost. As a proud sponsor of the McKinsey Study we believe its cost curve approach can be highly effective in ensuring that RGGI auction proceeds will provide significant GHG reductions at low and, as the McKinsey curve demonstrates, possibly negative net cost to the utility customers of NY State.

National Grid serves 3.4 million electric and gas customers in the RGGI region. These and other utility customers in the region will bear the cost of the RGGI program. Accordingly, we strongly urge that auction proceeds focus on tangible programs that will help these customers reduce their energy consumption and consequently their energy bills and carbon footprint. In order to achieve these objectives National Grid offers the following specific comments and suggestions on the NYSERDA Operating Plan:

**At least 90% of NY RGGI auction proceeds should be targeted towards tangible near term energy efficiency and carbon reduction projects.**

The Concept Paper states that “at least 25%” of the auction proceeds will address longer term investment horizons. Such longer term investments would likely focus largely on R&D projects and educational programs which may possibly have some carbon reduction potential many years hence. National Grid believes that targeting “at least 25%” to such endeavors is excessive especially at the beginning of the program when, as pointed out in the McKinsey study, there is so much low hanging energy efficiency and carbon abatement to be harvested near term at low cost. NYSERDA itself suggested at the November 21 public meeting of the Advisory Group that such investments are “high risk”. Therefore, we recommend, at this point in time, that NYSERDA focus on harvesting the abundance of low risk, near term carbon abatement and energy efficiency potential that exists in NY State. In so doing it will provide immediate, tangible and lasting benefit to NY ratepayers. Accordingly we suggest that at least 90% of RGGI funds be targeted to near term tangible energy efficiency and carbon reduction projects.

National Grid further suggests that NYSERDA allocate at least a portion of the RGGI revenues to traditional electric utility companies and perhaps other ESCOs who have significant experience and success in delivering residential and commercial energy efficiency. Such sharing mechanism could supplement or otherwise leverage the value of RGGI, SBC and other revenue streams to maximize the penetration of energy efficiency programs among greater numbers of electric customers throughout the state.

**RGGI auction proceed investment should be focused on creating returns for utility customers who bear the primary RGGI cost burden.**

NYSERDA proposes four investment target areas (aside from the longer Term R&D focus discussed above):

- Residential, Commercial and Industrial energy use
- Transportation
- Electric Power Supply and Delivery
- Agriculture, Forestry and sustainable Bioenergy Initiative

We agree, as stated in the Concept Paper, that the Residential, Commercial and Industrial energy use sectors present the “most significant opportunity to reduce GHG emissions.” Electric customers in this area will bear the primary burden of the cost of RGGI. Accordingly, we believe that not only do the greatest abatement potentials exist in this sector but that customers in this sector will gain the most benefit from, and thus deserve the largest proportion of, the RGGI funding. Such customers will also benefit from energy savings in the Electric Power Supply and Delivery Sector so this area should also have a high priority for investment.

We believe that the Transportation Sector and Agriculture and Forestry Sectors will provide minimal benefit to electric ratepayers and therefore should receive significantly lower priority for RGGI funding (arguably, Transportation Sector endeavors which are

not directly linked to utility ratepayers should receive no funding). To the degree that the bioenergy initiative aspect of the agriculture target area will have a direct impact in reducing the cost of and emissions from electric generation it could receive a higher priority than other forestry efforts. In this regard, National Grid continues to have high interest in using biofuels for power generation at our own facilities and we renew our earlier request to participate in an advisory capacity in NYSERDA's Renewable Fuels Roadmap and Sustainable Biomass Feedstock Study. If the Transportation Sector were to remain as an investment target, it should be narrow in scope, applying only to electric or natural gas vehicles and their associated infrastructure.

**Project funding should be prioritized based on greatest GHG reduction potential per dollar invested.**

National Grid is encouraged by NYSERDA's program criteria which list as a first priority, cost effectiveness in carbon equivalents reduced per dollar invested. After first considering the customer cost burden as mentioned previously, these criteria should carry the greatest weight in determining which projects get funded and which do not. Projects with high return in target areas having direct benefit for utility rate payers should not be neglected simply because NYSERDA has earmarked a certain percentage of funds to the Transportation of Forestry area. Projects with the greatest abatement cost effectiveness for utility ratepayers should receive highest priority for funding.

**Investment decisions in the Residential, Commercial and Industrial energy use target area should include evaluation of overall carbon efficiency not solely energy efficiency criteria.**

The Concept Paper suggests that oil, gas, and wood heating systems repair and replacement to address building energy efficiency will be eligible for funding. National Grid agrees that this is a high priority. We suggest however that evaluation criterion include the advantages of fuel switching in this category. For example, while replacement of a 40 year old oil fired boiler with a modern high efficiency unit will provide 10% to 20% space heating efficiency improvement, replacement of such unit with an equally efficient modern natural gas fired unit will, because of the lower carbon content of the fuel, also incorporate an additional 30% CO<sub>2</sub> reduction per btu of fuel input making the latter a much more "carbon efficient" choice for relatively little additional investment. Similarly, natural gas fired onsite electric generation combined heat and power equipment can provide significant fuel cycle energy and carbon efficiency benefit especially where grid supplied electricity is derived from coal or oil fired generating sources. Use of natural gas in lieu of high carbon fuels also provides environmental co-benefits including reduced NO<sub>x</sub>, SO<sub>2</sub>, PM<sub>10</sub> and PM<sub>2.5</sub> emissions, decreased reliance on foreign oil and reduced petroleum storage and handling risk.

**NYSERDA should seek to balance the distribution of RGGI auction proceeds to achieve reasonable geographic equity within the state**

While carbon reduction cost effectiveness should be the primary criterion for deciding on which projects are to be funded, NYSERDA should also ensure that all utility customers throughout the state derive reasonably proportionate benefit from the projects chosen. NYSERDA should be cognizant of the relative payment proportions made through embedded allowance costs by the various Load Serving Entities (LSE) in the state and should endeavor to ensure that the projects to be funded will provide a reasonably proportionate share of the benefits to the LDC customers that initially provided the revenues. Within a geographically distribution aimed at benefiting all state ratepayers fairly some special attention for incremental benefit aimed at low income ratepayers should be applied so that these customers are not unreasonably saddled with a disproportionate share of RGGI costs.

I trust you will find our comments constructive. Please do not hesitate to contact me if you have any questions or require clarification. National Grid continues to look forward to working with NYSERDA in achieving the very significant benefits of the RGGI program in a cost effective manner.

*Robert D. Teetz*

Robert D. Teetz  
Director, Environmental Management

Cc : Janet Joseph (NYSERDA)