

MEMORANDUM

To: Robert Callendar and Dave Coupe, NYSERDA

From: James T. Gallagher, Sr. VP for Energy Policy, NYC Economic Development Corp.

Subject: Feedback on NYSERDA's Concept Paper regarding RGGI Fund use

Date: December 1, 2008

I appreciate the opportunity to serve on the Renewable Greenhouse Gas Initiative (RGGI) Advisory Group and provide the New York City perspective on how these funds should be used. The City is pleased that the New York State Energy Research and Development Authority (NYSERDA) is using a public process to help determine how to allocate the RGGI funds in New York State. As end-use consumers will ultimately be paying increased electricity charges as a result of compliance with RGGI, it is appropriate that the representatives of end-use consumers provide input on how those funds are spent.

NYSERDA has helped to lay out the possible scope of projects that RGGI funds might support in its Concept Paper, *Operating Plan for Investments in New York under the CO₂ Budget Trading Program and the CO₂ Allowance Auction Program*. This is a useful starting point to identify the overall universe of potentially eligible projects, and the City appreciates NYSERDA's efforts and expertise on these topics.

The City's priority is that the RGGI funding be used for projects that have a tangible and measurable impact on decreasing CO₂ emissions. Projects should be selected based on their merit and their potential for achieving results. We encourage NYSERDA to be as objective as possible in assessing projects. In particular, we recommend the use of a competitive procurement process with projects competing against one another on a pre-determined set of objective criteria, effectively creating a more market-based approach to project selection.

In addition, the City has comments on three specific areas addressed by the Concept Paper.

1. Regional equity

The City recommends that the Program Criteria be expanded to explicitly ensure that RGGI funding is allocated in a manner that not only is competitive and merit-

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based, but also recognizes geographical equity. New York City customers will ultimately pay a large portion of the total RGGI funds, and deserve to benefit from projects in the metro region that help to reduce greenhouse gases. This is particularly important in light of the miniscule proportion of Renewable Portfolio Standard (RPS) funding that has been spent to date on projects in the New York City area.¹

In the event that NYSERDA has difficulty identifying projects to fund in New York City to ensure a geographically equitable allocation of RGGI funds, one option that NYSERDA should consider is providing funds to supplement New York City's Long-Term Plan to reduce greenhouse gas emissions in municipal buildings, operations, and the City's vehicle fleet by 2017.² This program has already been designed and in the process of being implemented and is consistent with RGGI's goals. New York City government expects to see its energy costs increase by approximately \$3 million to \$10 million per year as a result of RGGI compliance.³ Providing RGGI funding to such a program (or any other similar municipal program) would offset the additional cost of RGGI compliance for municipalities while meeting the program's objectives.

2. Focus

While NYSERDA's Concept Paper identifies a number of compelling technologies and initiatives that warrant funding, the City is concerned that an overly broad and diffuse program will be difficult to manage, risk successful

¹ See the City's November 17, 2008 filing to the Public Service Commission (PSC) in the Renewable Portfolio Standards proceeding for details on this.

² The Long-term Plan was released in July 2008 and details a strategic approach to achieving the City's ambitious greenhouse gas reductions goals. Importantly, the City has committed an amount equivalent to 10% of its own annual energy budget to meet this goal. Over 100 energy conservation projects are completed or underway, including full-building energy audits, installation of energy efficient lighting, motor and sensor retrofits, HVAC upgrades, street lighting and process improvements, and others. Yet, while New York City has made extensive programmatic and fiscal commitments to meet its energy conservation goals, the Long-Term Plan identifies a large funding gap (approximately \$1.3 billion) that will have to come from as-yet-unidentified sources if the reduction goal is to be met.

³ The New York Power Authority (NYPA) estimates it will need to purchase 2.2 million credits annually for its Southeast New York (SENY) load. The City's electricity purchases constitute about 45% of the SENY load, which means that New York City will have to cover the costs of about 1 million credits. Since credits may cost anywhere from \$3 to \$10 a ton or more, the City expects to spend at least \$3 million to \$10 million more in electricity costs a year to comply with RGGI.

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implementation, and compromise opportunities to sufficiently fund high-merit projects.

Rather, the City recommends that NYSERDA fund a few pivotal projects each year, prioritizing those that will help to substantially reduce greenhouse gas emissions and which do not have alternative funding options. Examples of such pivotal projects could include fully funding efforts to capture oil efficiency opportunities (which as of yet have no viable funding source), and oil to gas conversions that will apparently not be covered by System Benefits Charge or Energy Efficiency Portfolio Standard funding; implementing smart grid infrastructure across all of New York State within a relatively short time horizon; investing in an offshore wind project to make such a project more economically viable and provide much-needed clean electricity generation to New York State; and/or creating a revolving fund to guarantee loans for energy efficiency to the private sector.

The City believes that funding a small number of key projects will be more likely to result in timely project completion and successful implementation. Indeed, the City would support the funding of single, large statewide project, such as retrofitting every state building, or placing solar installations on state or municipal buildings across the state. Such an approach would empower New York State to implement, and successfully complete, major energy policy initiatives that may be compromised in the current economic downturn.

3. Accountability

The City seeks a better understanding of how the use of RGGI funds will be monitored and overseen, given that RGGI is not subject to PSC jurisdiction. To that end, the City encourages NYSERDA to specify and quantify its overall goals, as well as specific goals for each project and to delineate specific project milestones as it refines its proposal and develops its Operating Plan. Such information can then be used by stakeholders to determine the success of programs and whether or not changes need to be made to program design and/or funding allocation.

In addition, the City recommends that the Advisory Group serve in some sort of oversight capacity to ensure that these goals and milestones are met in a timely manner, similar to the System Benefit Charge (SBC) Advisory Board structure.

The City looks forward to working with NYSERDA and the entire Advisory Group on further refining these important proposals, thereby creating a transparent, credible, and achievable Operating Plan in early 2009.



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Thank you for the opportunity to submit comments.

CC: Rit Aggarwala, Susan Cohen, Tokumbo Showbowale