

March 23, 2009

Via email at rggiprograms@nyserda.org

Mr. Francis J. Murray, Jr.
President and CEO
New York State Energy Research and Development Authority
17 Columbia Circle
Albany, New York 12203-6399

Dear President Murray,

Congratulations on the near one month anniversary of your appointment as the leader of the New York State Energy Research and Development Authority (NYSERDA). The Members and Staff of the Independent Power Producers of New York, Inc. (IPPNY) look forward to continuing to work with you on many important energy issues, and we wish you all the best for your continued success.

IPPNY appreciates the opportunity to provide these comments on the *Draft Operating Plan for Investments in New York under the CO₂ Budget Trading Program and the CO₂ Allowance Auction Program*, which has been issued for stakeholder comment by NYSERDA. However, IPPNY is disappointed that the majority of our comments on the Draft Concept Paper that preceded this Draft Plan continue not to be addressed, and we enclose a copy of those initial comments, along with those that we submit today. IPPNY and its Members urge NYSERDA to address all of our concerns, in order to create a balanced approach to addressing emissions associated with the electricity sector as the focus of the Draft Plan.

As discussed further in a section of these comments below, IPPNY is concerned with the direction NYSERDA is taking generally. On the one hand, funding obtained by the auction of carbon dioxide (CO₂) allowances under the Regional Greenhouse Gas Initiative (RGGI) will increase costs for all consumers for power. On the other hand, these monies are being shifted to a series of projects outside the electricity sector. Accordingly, consumers will see the cost of and payments for power increase, but they will not see those payments used to better their services received, because the majority of RGGI monies under the Draft Plan are not being reinvested in the electricity sector. RGGI costs will be imbedded in bids and thus affect energy pool prices. At a time when an ever-present outcry says that power costs are too high, any additional cost should be directed to improving that service. Suppliers will draw criticism for these increased costs and prices, when, in fact, they are at best a variable cost pass-through. However, since these increases are providing funding for projects other than improved electricity supply, consumers will receive a confusing price signal. Accordingly, the bulk of the RGGI monies simply and primarily should be returned to electricity consumers and supply sources in the form of investments to improve electricity service, while meeting the goals of the RGGI program.

Additionally, NYSEERDA should align the use of these monies with the upcoming federal program. If the disposition of RGGI funds aligns with the federal program (which has a significant goal of returning funds to consumers or at least certain consumer groups), then perhaps RGGI can be recognized as a federally compliant program in this regard.

IPPNY's Funding Priorities

IPPNY continues to urge NYSEERDA to provide appropriate amounts of funding from the auction of allowances under the RGGI program for the following areas: (1) carbon capture and sequestration technology projects (the inclusion of which IPPNY specifically requested); (2) existing power plant efficiency improvements and conversion to bio-fuels; (3) incentives for wind and low-impact hydro plants and other renewable energy resources as defined by Subdivision 12 of Section 1-103 of the New York State Energy Law; (4) projects that promote the implementation of peak demand management technologies and the reduction of local air quality impacts associated with oil and diesel-fired peaking plants (through options such as repowering) in environmental justice communities (the funding for which has been a major concern in the NYS Public Service Commission's Energy Efficiency Portfolio Standard proceeding and now in the new Demand Response Case), and (5) non-carbon emitting technologies, which have been understood during the RGGI process to include nuclear energy, and, in particular, nuclear up-rates.

Electric Power Supply and Delivery Program

Draft Plan Provisions

Among other proposed uses for the RGGI allowance auction proceeds, the Draft Plan would allocate about \$103.4 million over three years for an Electric Power Supply and Delivery Program. NYSEERDA intends to form an Electric Power Supply and Delivery Task Force, comprised of representatives from generators, the New York Independent System Operator, the electric utilities, and appropriate regulatory agencies.

IPPNY's Comments

IPPNY requests to become a member of this Task Force.

Advanced Renewable Energy Program

Draft Plan Provisions

According to the Draft Plan, the Advanced Renewable Energy Program will support activities, such as pre-developing specific sites for renewable energy generation (i.e., wind, solar, hydro, landfill gas, biomass). The Draft Plan estimates that the program reasonably can be expected to support the demonstration of up to ten renewable generation pilot projects, several energy conversion and repowering projects, and characterization and evaluation of up to twenty sites for potential development of renewable generating technologies. Specific projects may include a

Large-Scale Central Energy Storage Wind Farms Program to support large-scale energy storage systems with nominal electric power output of 100 to 300 megawatts (MW) that can be integrated with commercial wind farms to stabilize the intermittency characteristic of these renewable resources. The Draft Plan notes that energy storage is critical for increasing market penetration of renewable power systems, including solar, run-of-river hydro, and wind.

IPPNY's Comments

IPPNY supports the Draft Plan's proposal to provide \$29 million over three years for this program as a minimum and urges NYSERDA to consider increasing this amount of funding. Putting additional money into this effort has the greatest potential to stabilize the output of a rapidly growing resource in New York, with a result of increasing the predictability of renewable energy resources and reducing CO₂ emissions overall. Among other uses, IPPNY supports the development of energy storage technologies (such as compressed air energy storage) as an important component of renewable energy. Providing appropriate price signals with targeted funding for this activity is very significant to maximizing the use of renewable energy.

NYSERDA should support the expansion of renewable energy at existing plant sites, where ample acreage and infrastructure exists. Further, New York needs to protect its current communities that depend heavily on the tax revenues from these facilities. The ultimate goal should be to create hybrid energy centers that incorporate baseload facilities, renewable energy, and combined heat and power applications.

At the March 6, 2009 stakeholder meeting in New York City, NYSERDA indicated that the activity proposed for funding involving the pre-development of sites somehow is related to the Authority's work with Deep Water Wind to lay an underwater cable between PJM and New York City, in terms of looking at offshore wind opportunities and associated economic viability, before supporting larger projects. IPPNY supports RGGI funding for offshore and other wind opportunities. However, IPPNY would not support the subsidization of the development of risky sites, development by utilities and public authorities, and development by private companies who simply may lack the resources to fund development on their own.

At the meeting, NYSERDA also indicated that the 100 to 300 MW range limit proposed for the funding of demonstration of storage technologies associated with wind projects somehow is related to NYSERDA's efforts with Beacon Power's fly wheel technology. IPPNY is concerned that the 300 MW cut-off specifically eliminates the Maple Ridge wind farm from potential participation. Further, given the condition of the transmission system in some rural areas of the state where smaller projects can and are being developed, opening this program up to smaller projects potentially would be helpful.

Carbon Capture, Recycling, and Sequestration Program

Draft Plan Provisions

The Draft Plan indicates that the Carbon Capture, Recycling, and Sequestration Program will focus on assessing and demonstrating carbon capture, reuse, compression, and transport technologies, characterizing and testing the state's geological sequestration potential, and supporting development of carbon capture and sequestration demonstration projects in New York. According to the Draft Plan, a major thrust of this program will be to identify and support one or more large-scale demonstrations in New York; however, the Draft Plan acknowledges that \$15 million in funding over three years is not sufficient to finance long-term, multi-year demonstrations and underscores the need for significant public and private funding.

IPPNY's Comments

IPPNY urges NYSERDA to provide well over \$15 million each year for the three years of the plan (at least a total of \$45 million) for a Carbon Capture, Recycling, and Sequestration Program. Given that CO₂ emission control technology is not available commercially in a cost-effective manner, it is essential that substantially more RGGI allowance auction proceeds be allocated to ensure the full successful demonstration and commercialization of this technology. The success of the RGGI program depends on the development of this technology, in order to achieve the required emission reductions. A demonstration project should be accomplished at a coal facility, as well as at a natural gas facility.

Indeed, other sources of funds also will need to be leveraged, and President Obama has proposed monies to advance the development of low-carbon coal technologies and carbon capture and storage technology. NYSERDA must position the state to take advantage of all of these funding opportunities and to ensure that CO₂ emission control technology is developed successfully.

Non-Carbon Emitting Technologies

IPPNY continues to point out the lack of provisions in the Draft Plan for specific programs involving non-carbon emitting technologies. We are dismayed that our comments on the Draft Concept Paper on this point were not included in the Draft Plan. IPPNY now provides the following program description to be included in the revised version of the plan:

“The Draft Plan should allocate \$29 million over three years for a Non-Carbon Emitting Technologies Program (which is the same funding level provided for the Advanced Renewable Energy Program) to be disbursed via the issuance of Requests for Proposals (RFP) by NYSERDA for both short-term and long-term projects that increase the generation of zero / low carbon dioxide emitting electricity, and NYSERDA should rank project bids submitted in response to the RFP based upon the dollar per ton reduction in greenhouse gas emissions of each proposed project as calculated for a given quantity of electricity generation.”

Climate Research and Analysis Initiative

Draft Plan Provisions

The Draft Plan proposes that a Climate Research and Analysis Initiative be funded at \$9 million over three years. The program will prioritize the assessment of potential new carbon-offset areas and policy initiatives and will address other critical areas and issues relating to climate change.

IPPNY's Comments

As IPPNY's comments on NYSERDA's Draft Concept Paper indicated, this program should be expanded to include a determination regarding what has to be done to ensure that the following policies can be implemented without affecting overall electric system reliability: the reinstatement of a State Energy Planning Process that incorporates greenhouse gas mitigation, the implementation of a Renewable Portfolio Standard (RPS), and the "15 by 15" Program. Although the concepts behind these initiatives are sound, the fact is that New York's electric system was not designed with the energy efficiency, demand-side management, and renewable resources envisioned for these policies in mind. Furthermore, the effectiveness of aggressive implementation of those resources as replacements for specific generating facilities has not been evaluated in sufficient detail to enable confident policy decisions.

However, IPPNY is concerned that the Climate Research and Analysis Initiative is similar to the work already being conducted by the Office of Climate Change Office at the NYS Department of Environmental Conservation (DEC). RGGI monies should not be used for additional research studies and instead need to go to actual applications that reduce CO₂ emissions. Instead, funding for the purposes of the Climate Research and Analysis Initiative should be allocated to the DEC through the New York State Budget process.

Competitive Greenhouse Gas Reduction Bidding Program

Draft Plan Provisions

The Draft Plan states that a Competitive Greenhouse Gas Reduction Bidding Program is proposed to be funded at \$40.9 million over three years. The Draft Plan notes that NYSERDA will design and administer a bidding program for direct and indirect energy and abatement projects that reduce greenhouse gas emissions, and the Authority intends to obtain input from IPPNY and other stakeholders.

IPPNY's Comments

The operation of this program needs to be much better defined, and the purposes associated with the \$40.9 million in funding need to be clearer. In response to a question by IPPNY at the March 6 stakeholder meeting in New York City, NYSERDA explained that the Competitive Greenhouse Gas Reduction Bidding Program will involve disbursing \$40.9 million over three years via the issuance of RFPs for an open-ended range of greenhouse gas reduction projects and

that NYSERDA will rank project bids submitted in response to the RFP based upon the dollar per ton reduction of each proposed project. The wording of the Draft Plan needs to be more focused and specific in this regard, and funding should be directed for projects associated with the electricity sector. IPPNY appreciates that NYSERDA intends to consult with IPPNY further about how this program would be implemented.

NYPA and LIPA Related Program Funding

Draft Plan Provisions

The Draft Plan states that NYSERDA will use RGGI funds to expand a Statewide Photovoltaic Initiative to include customers who do not pay into the RPS program, including customers on Long Island. The Draft Plan indicates that this program expansion is intended to help achieve the state's goal of installing 50 MW of photovoltaic power on Long Island. Additionally, the Draft Plan indicates that the program will install 100 photovoltaic systems at public and private schools in three years.

Furthermore, under the Residential Space and Water Heating Efficiency Program, the Draft Plan indicates that RGGI funds will be used to provide fossil-fuel efficiency programs in areas not currently served by NYSERDA's programs because of funding restrictions, such as on Long Island and in communities with electric service provided by municipal electric providers.

The Draft Plan also proposes that, under the Home Performance with ENERGY STAR, RGGI funding will allow the Home Performance with ENERGY STAR program (HPwES) to target customers using oil and propane for space and domestic water heating purposes. This initiative will expand beyond the System Benefits Charge territory into the Long Island Power Authority (LIPA's) territory in an effort to reach a broader market.

IPPNY's Comments

IPPNY is perplexed by the extent to which the Draft Plan breaches a fundamental tenet for the use of RGGI monies, as articulated in the Draft Concept Paper. Indeed, RGGI auction proceeds should supplement and not supplant other monies that are available, or can be made available, for energy efficiency and renewable energy programs, especially given the vast resources and competitive advantages of both the New York Power Authority (NYPA) and LIPA. IPPNY's comments on the Draft Concept Paper underscored that programs being implemented by NYPA and LIPA should continue to be funded with the resources of those entities and should not be eligible for funding with RGGI allowance auction proceeds. Therefore, IPPNY opposes the provision of the Draft Plan that would allow RGGI funds to be used to expand a Statewide Photovoltaic Initiative to include customers who do not pay into the RPS program, including customers on Long Island. IPPNY emphasizes that LIPA should pay to expand this program instead. Recently, LIPA has announced that it is entering into contract negotiations under the RFP the Authority issued to purchase the full output of power and related energy produced by up to 50 MW of photovoltaic solar generating systems. Instead of using RGGI monies in a

duplicative manner, LIPA should complete the award of this RFP to a private independent company willing to provide these services.

IPPNY also opposes the provision of the Draft Plan, which indicates that the Statewide Photovoltaic Initiative will install 100 photovoltaic systems at public and private schools in three years. Section 1005 of the Public Authorities Law already requires NYPA to make energy efficiency services and clean energy technologies available to public and nonpublic elementary and secondary schools throughout the state. Pursuant to this statute, NYPA should issue an RFP for the purpose envisioned by the Draft Plan. Notably, NYPA's website (<http://www.nypa.gov/services/powertoschools/default.htm>) clearly describes the Authority's "Power to Schools" program to improve energy efficiency and utilize clean energy technologies at schools and specifically notes that the program includes the provision of solar photovoltaic panels.

Additionally, IPPNY opposes the provision of the Draft Plan which indicates that RGGI funds will be used to provide fossil-fuel efficiency programs in areas not currently served by NYSERDA's programs because of funding restrictions, such as on Long Island and in communities with electric service provided by municipal electric providers. LIPA already is charged with providing energy efficiency services to its customers (<http://www.lipower.org/efficiency/>), and NYPA is in charge of providing services to customers of municipal electric systems (<http://www.nypa.gov/services/esprograms.htm>). LIPA and NYPA should continue to fund fully these programs with their own resources and should not be allowed to use RGGI monies.

Cross-Subsidization of Funding

Draft Plan Provisions

The Draft Plan contains so many provisions of cross-subsidization that they are too numerous to mention and discuss in detail. For example, the Draft Plan states that, under the EmPower New York Program, in the event that gas funding is not available to supplement the EmPower program in all gas service territories of the state, NYSERDA reserves the right to expand the use of RGGI funds for gas-fired heating systems.

IPPNY's Comments

Notably, IPPNY's comments on the Draft Concept Paper that preceded this Draft Plan stated that, given that the RGGI auction monies ultimately will be collected from electricity consumers and generating sources through reduced gross margin due to lack of full cost recovery in the market, the funds should be limited to use in addressing CO₂ emissions associated with electricity consumption and production, and the use of these revenues for transportation and non-electric uses would be a gross cross-subsidization.

Despite IPPNY's urging and long-standing energy policy and practice, the Draft Plan contains numerous instances of cross-subsidization of funding, not only across economic sectors but also

across fuel types. Indeed, a key provision of the Energy Efficiency Portfolio Standard is that electricity customers pay a charge to fund electricity energy efficiency programs, and a separate natural gas charge was established to fund natural gas energy efficiency programs. Similarly, RGGI funds essentially are produced ultimately by a charge paid by electricity consumers, and RGGI funds so generated must not be made available for natural gas programs or for programs involving any other fuels, such as oil and propane.

IPPNY points out that the other sectors that NYSERDA proposes to benefit by the Draft Plan contribute more greenhouse gas emissions than generators, yet these other sectors are not providing funding to reduce their carbon footprint; instead, generators and electricity customers are footing the bill to address emissions that they are not causing directly. IPPNY's views were echoed by consumer and labor groups present at the March 6, 2009 stakeholder meeting in New York City.

The blurred lines of demarcation from the cross-subsidization contained in the Draft Plan will make it virtually impossible to track where and how the benefits of RGGI funding are realized and the ultimate impact on the goal to reduce CO₂ emissions. The program needs simplicity and should focus on the areas of generation CO₂ research and development applications, expansion of renewable energy and non-carbon emitting technologies, and energy efficiency applications. All studies, transportation applications, and cross-subsidy between different programs will lead to program inefficiency and lack of consumer confidence.

IPPNY urges NYSERDA to address our concerns and to incorporate our recommendations into its decision-making process. IPPNY looks forward to continuing to work with you and other interested parties, and we appreciate your taking the time to review and act on our comments. If you have any questions or need additional information, please feel free to contact me.

Sincerely,

Gavin J. Donohue
President & CEO

Enclosure

December 1, 2008

Mr. David Coup
New York State Energy Research and Development Authority
17 Columbia Circle
Albany, New York 12203

Dear Mr. Coup,

The Independent Power Producers of New York, Inc. (“IPPNY”) is part of a new Advisory Group to help the New York State Energy Research and Development Authority (NYSERDA) decide how to use the proceeds of the allowance auctions under the Regional Greenhouse Gas Initiative (RGGI). IPPNY would like to thank NYSERDA for the Advisory Group invitation and provide feedback on the Draft Concept Paper, which provides an initial framework for the development of New York’s RGGI Operating Plan for the funding of individual programs with RGGI auction proceeds.

IPPNY is a not-for-profit trade association representing the independent power industry in New York State. IPPNY’s members are companies involved in the development of electric generating facilities, the generation, sale, and marketing of electric power, and the development of natural gas facilities in the State of New York. The companies generate almost 75 percent of New York’s electricity using a wide variety of generating technologies and fuels, such as hydro,

nuclear, wind, coal, oil, natural gas, and biomass.¹ IPPNY has been an active participant in every aspect of the RGGI rulemaking process.

NYSERDA's rule to implement the RGGI Allowance Auction states that the RGGI auction proceeds are 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." The Draft Concept Paper outlines an initial framework for the Draft Operating Plan regarding the distribution of RGGI auction proceeds for investments in the general areas of energy efficiency, renewable energy, and innovative carbon abatement. Interestingly, the paper does not overtly mention non-carbon emitting technologies as a separate category, which has been understood during the RGGI process to include nuclear energy, and in particular, nuclear up-rates. IPPNY urges NYSERDA to include this category specifically in the Draft Operating Plan.

Additionally, IPPNY suggests that NYSERDA should define more clearly the ultimate goal of the program and whether it is intended to reduce energy use, reduce the total level of carbon dioxide (CO₂) emissions, or reduce the amount of CO₂ emissions per unit of energy used. All consumers are impacted by the price of CO₂ allowances, which will be incorporated into the wholesale energy price. Reducing CO₂ at the source will benefit every consumer in New York State, by reducing overall CO₂ allowance prices and, correspondingly, the energy clearing price. Furthermore, as it now appears that a national CO₂ program is possible in the near term, it is essential to make funding decisions in a manner that anticipates revenues that are based on an

¹ All of the views expressed in IPPNY's comments do not necessarily represent the positions of each of our members. Since IPPNY represents a broad spectrum of companies, we anticipate some of our members also will submit comments on their own. In addition, nothing in these comments should be deemed to waive any rights that IPPNY or any of its members may have to challenge the procedural or substantive legality of the RGGI program or any element thereof.

all-sector-type program as opposed to a generation-sector-only program as designed by the RGGI program.

The Draft Concept Paper proposes programs for funding in the following areas: residential, commercial, and industrial sectors; transportation; an Electric Power Supply and Delivery Initiative; an Agriculture, Forestry, and Sustainable Bio-Energy Initiative; multidisciplinary initiatives; administration; and program evaluation and reporting. Notably, IPPNY's comments on NYSERDA's rule stated that, given that the RGGI auction monies ultimately will be collected from electricity consumers and generating sources through reduced gross margin due to lack of full cost recovery in the market, the funds should be limited to use in addressing CO₂ emissions associated with electricity consumption and energy production, and the use of these revenues for transportation and non-electric uses would be a gross cross-subsidization. Furthermore, the Draft Operating Plan should include specific percentage funding levels to be targeted for short-term and long-term use within the energy consumption and energy supply sectors.

Electric Power Supply and Delivery Initiative

According to the Draft Concept Paper, the objective of the Electric Power Supply and Delivery Initiative is to reduce the carbon footprint of the electric power sector in New York, through activities such as:

- implementation of innovative strategies to improve the overall efficiency of existing power plants
- demonstration projects to diversify the portfolio of renewable resource options available for electric power production
- targeted incentives to increase market penetration and performance of direct renewable energy conversion systems, such as wind and low-impact hydroelectric power plants
- research, development, and demonstration of promising, innovative technologies, such as tidal, solar, wave, and off-shore wind

- advanced energy storage systems used to dampen the intermittent power characteristics of renewable resource generation
- carbon capture and geological sequestration techniques
- high efficiency power transmission and delivery systems

IPPNY supports each of these areas for funding with RGGI auction proceeds. In particular, IPPNY would like to thank NYSERDA for proposing to make the following areas eligible for funding: (1) carbon capture and sequestration technology projects; (2) existing power plant efficiency improvements; and (3) incentives for wind and low-impact hydro plants.

Additionally, if the state's ultimate goal is to reduce total CO₂ emissions by substantially more than the amount anticipated under the RGGI program in the long term, then RGGI auction proceeds should be provided to program areas such as non-commercial emerging renewable technologies and emerging low-carbon technologies for generation sources. End use energy efficiency, renewable technologies, and carbon mitigation technologies at the source collectively can result in the best opportunity to achieve more aggressive goals.

IPPNY urges NYSERDA to make projects involving all renewable energy resource technologies, as defined in Subdivision 12 of Section 1-103 of the New York State Energy Law, eligible for funding with RGGI allowance auction proceeds. Under this existing law, renewable energy resources are defined as “sources that are capable of being continuously restored by natural or other means or are so large as to be useable for centuries without significant depletion and include but are not limited to solar, wind, plant and forest products, wastes, tidal, hydro, geothermal, deuterium, and hydrogen.”

The Draft Concept Paper also states that initiatives of importance are those that promote implementation of peak demand management technologies and reduce local air quality impacts associated with oil and diesel-fired peaking plants in environmental justice communities. IPPNY recommends that prior to the development of demand-side management (DSM) programs that promote energy efficiency in a constrained area, the following actions should be taken and

funded, in order to understand and promote the maximum overall public benefits of such a program:

- A study should be conducted to assess what levels of DSM penetration can be accommodated, while respecting the level of peaking facility support that still will be required in order to ensure system reliability is maintained.
- The results of this study then can be used to quantify the emissions reductions and relative value of the environmental benefits that might be achievable through such a program.
- Finally, assuming both energy efficiency and environmental benefits are the desired outcomes, a program should be designed to encourage increased DSM and the repowering of peaking facilities, in order to achieve the maximum combined benefits of peak load reduction, energy savings, and emission reductions. Such a program must work in concert with the markets of the New York Independent System Operator (NYISO) and its reliability planning processes. As such, we recommend that involved state agencies and stakeholders work with the NYISO, the New York State Reliability Council, and market participants to determine what market-based price signals are needed to (1) make this increased reliance on DSM possible and economic and / or (2) repower facilities to modern, state-of-the-art generation that meets New Source Performance Standards. The market solutions to provide incentives for repowering could be in the form of: (1) Request for Proposals (RFPs), (2) market-based credits (similar to the REC market for wind capacity), or (3) long-term forward capacity market contracts.

IPPNY also suggests that NYSERDA consider supporting efforts to refuel existing dispatchable facilities to run on bio-fuels. These types of technologies greatly would help meet NYSERDA's objective to "dampen the intermittent power characteristics of renewable resource generation" to "ensure that a secure, reliable electric grid can be maintained as the electric power sector adapts to a carbon-constrained environment." Existing fossil-fired facilities may have the ability to convert to bio-fuels, but they may lack the fuel supply to do so. For example, there are a number

of options to backing up intermittent renewables, such as biomass repowering, bio-diesel, and gasification. Supporting dispatchable technologies provides NYSERDA with the ability to promote sustainable bio-energy, while also addressing the need to provide reliability to the grid, and at the same time motivate facilities to refuel with bio-fuels. For example, IPPNY believes the Draft Concept Paper should recognize the tremendous potential that biomass expansion in the electric generation sector can play in creating the necessary infrastructure for the development and progression of second and third generation bio-fuel businesses in the future. We believe a natural synergy exists between generation infrastructure and needed infrastructure to allow these new bio-fuel opportunities to become a reality. In other words, existing power generation sites have the potential to become hybrid energy / bio-fuel centers in the future.

The electric generating sector will be affected strongly by the New York State policy initiatives described in the Draft Concept Paper. In addition to using RGGI allowance auction proceeds to support actions that will reduce the cost of the RGGI program, we believe that these monies should be used, at least in part, to address issues associated with those policy initiatives. As noted in the Draft Concept Paper, several policy initiatives are under way in New York that can shape overall greenhouse gas emissions policies and impact the electricity generating sector. They include the reinstatement of a State Energy Planning Process that incorporates greenhouse gas mitigation, the implementation of a Renewable Portfolio Standard (RPS), and the “15 by 15” Program. Furthermore, the New York State Department of Environmental Conservation (DEC) has instituted policies to incorporate the same types of programs into their air quality improvement plans. While the concepts behind these initiatives are sound, the fact is that New York’s electric system was not designed with the energy efficiency, DSM, and renewable resources envisioned for these policies in mind. Therefore, it is prudent to determine what has to be done to ensure that these policies can be implemented without affecting overall electric system reliability. Furthermore, the effectiveness of aggressive implementation of those resources as replacements for specific generating facilities has not been evaluated in sufficient

detail to enable confident policy decisions. IPPNY recommends RGGI allowance auction proceeds also be provided for research programs by NYSERDA to address these issues.

Non-Carbon Emitting Technologies

This category was added specifically to the RGGI rule, in recognition of the need to treat all non-emitting generation sources the same in any program aimed at reducing greenhouse gases. The category has been understood during the RGGI process to include nuclear energy and, specifically, nuclear up-rates. In short, additional nuclear energy should be treated just like additional renewable capacity. Indeed, the modeling used to help shape the RGGI program assumes all nuclear power plants in the region apply for and receive operating license renewals. However, the Draft Concept Paper does not mention providing funding for this category overtly, and IPPNY urges NYSERDA to include this category specifically as eligible for funding in the Draft Operating Plan.

Residential, Commercial, and Industrial Sectors

The Draft Concept Paper notes that these sectors are served by established, operating energy efficiency and renewable resource programs and infrastructure. The paper indicates that the initiative will be designed to fill critical gaps by targeting fuels not adequately addressed through the System Benefits Charge (SBC), Energy Efficiency Performance Standard (EEPS), and RPS programs. IPPNY supports this approach. Indeed, RGGI auction proceeds should supplement and not supplant other monies that are available, or can be made available, for energy efficiency and renewable energy programs to serve these sectors. Various programs that currently exist and the various agencies responsible for implementing those programs must be coordinated to avoid duplicate efforts and inefficient distribution of funding. The risk of such a lack of coordination exists, because no clearinghouse mechanism exists at this time. Also, programs being implemented by the New York Power Authority and the Long Island Power Authority should continue to be funded with the resources of those entities and should not be eligible for funding with RGGI allowance auction proceeds.

Furthermore, energy efficiency programs funded by RGGI auction proceeds should be conducted as loans and not grants. The loans should be repaid into the Energy Efficiency and Clean Energy Technology Account, using the savings in energy costs that result from program implementation. These savings should be tracked and transferred into the Account, until the loan is repaid. Monies so repaid should be redistributed for the use of projects under other RGGI auction proceed eligibility categories.

Moreover, entities seeking to use RGGI auction revenues to implement energy efficiency programs should meet the requirements for general additionality similar to those noted in NYCRR Part 242-10.3 and project standards along the lines of requirements for the “reduction or avoidance of CO₂ emissions from natural gas, oil, or propane end-use combustion due to end-use energy efficiency” as provided for in NYCRR 242-10.5.

Transportation

The Draft Concept Paper notes that the transportation initiative focuses on new and improved technologies and includes programs that target behavioral changes by reducing vehicle miles traveled; increasing the use of renewable alternative fuels; developing and deploying high efficiency vehicles; and improving the magnitude, performance, and efficiency of transportation systems. The paper notes that most initiatives in the transportation area require substantial expenditures, and auction proceeds would complement, rather than supplant, existing Federal and state funding.

IPPNY opposes the use of RGGI auction proceeds for transportation projects, unless they are limited to those that are related directly to efficient electric use, such as truck stop electrification or studying the impact of plug-in hybrids on system emissions, efficiency, and requirements for transmission and distribution systems. Indeed, as discussed in the Draft Concept Paper, the transportation sector is the sector experiencing the highest level of growth in CO₂ emissions since 1990. Funding for eligible transportation projects should be used to advance infrastructure that can facilitate load growth during off-peak hours. Otherwise, the use of RGGI auction

proceeds for projects that are outside of the electricity sector and unrelated to electricity use constitutes an inappropriate funding cross-subsidization. Instead, RGGI decision makers should create a new Transportation Offset Projects Category under the RGGI, and the project categories envisioned by the Draft Concept Paper should be added as programs under that offset project category. Indeed, RGGI stakeholders (http://www.rggi.org/docs/blue_source_offsets.pdf) have asked that such an offset project category be created. To the extent that investments are made in these programs, the resulting emission reductions should be translated into offset project allowances that generators can use to help comply with the RGGI program requirements.

Agriculture, Forestry, and Sustainable Bio-Energy Initiative

The Draft Concept Paper notes that the primary goal of the Agriculture, Forestry, and Sustainable Bio-Energy Initiative is to foster innovation, apply new business strategies, and promote sustainable resource management techniques to reduce the lifecycle carbon intensity of the bio-power and bio-fuels sectors.

IPPNY opposes the use of RGGI auction proceeds for projects under this initiative that are unrelated to the electricity sector as an inappropriate funding cross-subsidization. Instead, RGGI decision makers should create a new Agriculture, Forestry, and Sustainable Bio-Energy Offset Projects Category under the RGGI, and the project categories envisioned by the Draft Concept Paper should be added as programs under that offset project category. Indeed, the RGGI decision makers already are contemplating adding additional offset categories (http://rggi.org/docs/sherry_presentation_2_16_05.pdf) in the areas of (1) forest management and preservation, (2) degraded land or cropland to forest, (3) no-till agriculture, and (4) manure digesters. Efforts to develop these offset categories should be accelerated and expanded to include the activities contemplated by the Agriculture, Forestry, and Sustainable Bio-Energy Initiative.

Multidisciplinary Initiatives

The Draft Concept Paper indicates that certain greenhouse gas reduction goals cannot be addressed within the confines of a single initiative and require a multi-disciplinary approach among government and private sector stakeholders. The following programs are included among these activities:

- Clean Energy Innovation Initiative: University-Industry Collaboration in New York
- Business Innovation, Development, and Manufacturing
- Research Studies Related to Mitigating and Adapting to Impacts of Climate Change
- Climate Change Policy Research and Analysis
- Outreach and Education Initiatives, Strategic Partnerships, and Greenhouse Gas Lifecycle Management

IPPNY also opposes the use of RGGI auction proceeds for projects under these initiatives. These project categories are similar to those already being funded by NYSERDA's existing programs or undertaken by the DEC's Office of Climate Change Office, as well as by other state agencies such as the Empire State Development Corporation and the New York State Department of Labor. To the extent that additional resources are needed for these purposes, funding should be allocated to state entities through the New York State Budget process.

Overall, NYSERDA's Draft Concept Paper proposes an ambitious and very broad array of program areas for funding with RGGI allowance auction proceeds. Given this likely expensive program scope and the high uncertainty about actual RGGI allowance prices, NYSERDA must allocate monies only to the extent that they are actually available and should be cautious about establishing program budgets based upon an estimate of overall RGGI allowance auction proceeds that might be available. Indeed, NYSERDA should steel itself strongly against any temptation to set the RGGI allowance auction reserve price at a level to cover the projected cost

of these program areas. An artificially inflated reserve price would exacerbate further the existing costliness of the RGGI program. This outcome would be most unfortunate, given that RGGI allowance auction proceeds are paid initially by generators who are able to buy the allowances and then ultimately by electricity consumers who already are overburdened by high costs across the board during these arduous economic times.

IPPNY urges NYSERDA to address our concerns and to incorporate our recommendations into its decision-making process. IPPNY looks forward to continuing to work with you and other interested parties, and we appreciate your taking the time to review and act on our comments. If you have any questions or need additional information, please feel free to contact me.

Respectfully submitted,

By: _____

Gavin J. Donohue, President & CEO

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