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Gil C. Quiniones
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March 23, 2009

RGGI Programs, Attn: Dave Coup
NYSERDA
17 Columbia Circle
Albany, NY 12203-6399

RE: Written Comments on the Draft Operating Plan for Investments in New York under the CO₂ Budget Trading Program and the CO₂ Allowance Auction Program

Dear Mr. Coup:

After reviewing the Draft Operating Plan for allocating proceeds from the New York CO₂ Allowance Auction Program – released February 25th by NYSERDA's Advisory Group – the New York Power Authority (NYPA) believes that this plan does not address the significant impact that NYPA and our customers can have on meeting the goals of the Regional Greenhouse Gas Initiative (RGGI) or create substantial program opportunities by which NYPA customers can benefit from the auction proceeds.

Background

At the March 6th RGGI Operating Plan Advisory Group meeting in New York City, NYSERDA staff stated their goal to supplement and not supplant existing programs with proceeds from the RGGI auction. The plan NYSERDA presented will expand existing programs funded through the System Benefits Charge (SBC), Electric Energy Efficiency Portfolio Standard (EEPS), Renewable Portfolio Standard (RPS), and other programs in natural gas efficiency, weatherization, and congestion mitigation and air quality. Where electricity efficiency measures are funded, NYSERDA plans to use auction proceeds to subsidize non-electric projects that will mitigate carbon emissions – for example, projects that replace or reduce use of oil as a heating fuel. The justification for subsidizing non-electric projects with funds raised based on electricity generation is that RGGI is primarily a carbon mitigation program.

While the presentation indicated a partnership with renewable energy programs at NYPA and the Long Island Power Authority (LIPA), the Draft Operating Plan did not specifically identify NYPA as an implementation partner in several key areas where we can have an impact. This may put NYPA governmental, municipal electric utility, rural electric cooperative, and business and industrial customers at a considerable disadvantage to benefit from auction proceeds, despite the significant reduction in carbon emissions these customers can achieve through efficient use of electricity. These customers will pay into the CO₂ auction either through increased cost of service or an expected increase in the wholesale price of electricity, and so deserve to benefit from the auction proceeds. We believe the proceeds should benefit the customers who will ultimately bear the cost of the RGGI program.

NYPA's Recommendation

We suggest that rather than using RGGI auction proceeds to enhance existing NYSERDA programs, NYPA can implement a portion of these funds through its Energy Services Program, a turn key delivery mechanism that includes the audit, design, construction and financing of projects in a single program package that is available statewide, encompasses whole-building operation in its planning scope, and addresses all fuels through both electric and non-electric efficiency measures. NYPA helps customers' leverage their monies with various funding sources – including federal and state grants – to finance projects, but there is often not enough funding available to reduce customers' financing costs and make otherwise worthy projects economically viable. RGGI funding could help overcome this obstacle and advance projects into construction.

The most effective, streamlined process would be to award a portion of auction proceeds directly to NYPA's Energy Services Program, which would then allocate the funding to NYPA customer projects that met the criteria approved by the NYSERDA Board. This would ensure that NYPA customers have equal access to funding opportunities and would support the program goal of reducing CO₂ emissions among all customer groups.

NYPA's Suggested Revisions to the Draft Operating Plan

Barring direct award of RGGI proceeds to NYPA's Energy Services Program, the Operating Plan should at least state that NYPA customers will be eligible for RGGI funding for electric and non-electric projects. NYPA should also be specifically identified as a partner in implementing electric and non-electric programs.

In the Draft Operating Plan, only **Electrified Rail Efficiency (Section 4.A.2)**, which invests in technologies that increase efficient use of electricity by electric rail, identifies a close working relationship with NYPA, Con Ed, and Metropolitan Transportation Authority (MTA) and its operating subsidiaries – MTA-New York City, MTA-Metro-North, and MTA-Long Island Rail Road, etc. This is good, but we feel there is additional potential for identifying NYPA as a partner in implementing RGGI auction proceeds to cost-effective carbon mitigation projects.

NYPA proposes that the Advisory Group consider clarifying our role and the opportunities available to our customers in the following specific programs outlined in the Draft Operating Plan.

First in the **Residential, Commercial, and Industrial** section, to which 38% of the auction proceeds are committed:

Commercial and Industrial Efficiency (Section 3.A.1) provides technical support and implementation assistance to existing facilities and new construction projects. The Draft Operating Plan proposes to add incentives for non-electric projects to SBC- and EEPS-funded programs that currently focus on electric measures. This is an area where NYSERDA should partner with NYPA and/or identify that NYPA customers are eligible for funding for electric and non-electric projects. NYPA has experience with both types of measures including but not limited to:

- Boiler upgrades and replacements
- Building management systems implemented to conserve fossil fuels
- Building envelope improvements such as window and door replacements, weather stripping, and roof insulation
- Electric to fossil fuel heating conversions
- Fossil fuel to geothermal heat pump conversions
- Heat recovery
- Distributed generation

Residential Space & Water Heating Efficiency (Section 3.A.2) supplements SBC- and EEPS-funded electric programs with fossil-fuel based measures and renewable energy measures. This

program should also identify NYPA as a partner for implementation support as NYPA is currently developing a PV and solar thermal program targeted to the residential sector of its municipal and cooperative customers. In addition, NYPA is developing a \$25 million project with the New York City Housing Authority to replace hot water storage tanks with instantaneous water heaters, resulting in annual savings of 111,213 dekatherms of steam and \$2.35 million in annual savings.

Municipal and Institutional Climate Change (Section 3.A.3) emphasizes opportunities to implement advanced technologies in water and wastewater infrastructure. This program should specifically identify NYPA as a partner because we have existing and planned projects incorporating energy efficiency into wastewater infrastructure. For example, NYPA has several projects at New York City Department of Environmental Protection facilities including a \$35.7 million improvement to the anaerobic digester gas system at its Red Hook facility that will feed fuel cells, thereby reducing and offsetting 15,268 tons of CO₂ emissions annually.

Advanced Building Systems and Industrial Process Improvement (Section 3.B.1) provides for technical innovations that reduce fossil fuel use, have significant replication potential, are cost-effective, and are not supported by SBC program funding. Current and potential NYPA projects in this area include innovative uses of waste heat recovery for heating, process, or electrical generation, installation of low pressure hydro projects, and demonstration projects of fuel cell, solar, and wind technologies.

The **Transportation** section to which 15% of the auction proceeds are committed:

Transportation Efficiency Program (Section 4.A.1) improves vehicle and system efficiencies by reducing vehicle miles traveled (VMT) and improving the efficiency of New York's diesel fleet. NYPA's existing program has placed over 1,000 hybrid and battery-electric vehicles in service and built extensive experience installing supportive infrastructure for hybrids.

Advanced Transportation Development Program (Section 4.B.1) supplements current NYSERDA programs for developing emerging transportation technologies with measureable greenhouse gas mitigation, including plug-in hybrid vehicles and supportive infrastructure, electric rail efficiency, and hybrid-electric vehicles including MTA buses. This should specifically leverage NYPA's existing programs and partnerships with major auto manufacturers to develop and demonstrate plug-in hybrid technology.

In the **Power Supply and Delivery** section, to which 17% of the auction proceeds are committed:

Statewide Photovoltaic (PV) Initiative (Section 5.A.1) expands NYSERDA's existing PV incentive program to customers that do not pay RPS program charges, partners with utilities to improve performance, quality, and reliability of distribution circuits, and installs PV systems at schools. In the Draft Operating Plan, NYSERDA specifically identifies LIPA as a potential recipient of these funds to expand their PV program on Long Island. NYPA and/or its customers should also specifically be identified in the Operating Plan to ensure that they benefit from the initiative. NYPA's PV program targets communities with high peak electric demands and off-grid applications, and our existing program installs PV systems at schools and municipal facilities statewide. Participants in our program are usually ineligible for RPS incentives.

Advanced Power Technology Program (Section 5.B.1) funds early stage technology developments, engineering and evaluation services, and pre-development work at specific sites identified for emerging renewable energy generation, including off-shore wind. This program also includes funds for applied demonstrations of technologies to modernize the electric grid and integrate renewable energy resources. NYPA owns 1,400 circuit miles of transmission in the state, and has ongoing feasibility and engineering studies, and site preparation work for several renewable energy and advanced power technologies toward its large solar statewide initiative. NYPA is planning to develop large scale energy storage capacity to help integrate wind power,

and grid modernization programs including advanced substation monitoring to improve transmission reliability.

Finally, ***Sustainable Agriculture and Bioenergy***, to which 2% of auction proceeds are committed, will fund sustainable agriculture and carbon sequestration projects. NYPA is evaluating two biomass energy projects including installation of small biomass boilers to provide heat to the SUNY Environmental Science and Forestry Ranger School in Syracuse.

Conclusion

NYPA offers these written comments to the RGGI Advisory Group and NYSERDA to highlight the potential overlap between the Draft Operating Plan and the existing programs NYPA offers statewide. We see these revisions as necessary to ensure that our governmental, municipal electric utility, rural electric cooperative, and business and industrial customers receive a share of the benefits provided by the RGGI allowance auction, to which they are entitled as they will pay into the program. This has been our consistent position throughout the process of developing this Operating Plan, as outlined in our written comments submitted to NYSERDA last December on the Concept Paper, *Operating Plan for Investment in New York under the CO₂ Budget Trading Program and the CO₂ Allowance Auction Program*.

NYPA agrees with the policy of supplementing existing programs with auction proceeds, but NYSERDA should clearly and specifically expand funding to customers ineligible for current incentives, rather than expanding the services provided by current programs. One way to do this is to award a portion of auction proceeds directly to NYPA's Energy Services Program. Another is to identify NYPA as a partner in program implementation and clearly state that NYPA program participants will be eligible for funding of electric and non-electric projects. In any case, proceeds from the allowance auction should be open statewide to all cost-effective projects that provide significant reduction of carbon emissions.

Thank you for your consideration,

Gil C. Quiniones
Chief Operating Officer