

**New York's Regional Greenhouse Gas Initiative Operating Plan**  
**Draft Amendment**  
**May 22, 2012**

**Background**

In New York, responsibility for implementing the State's participation in the Regional Greenhouse Gas Initiative (RGGI) is shared by three departments of State government: the Department of Environmental Conservation (DEC); the Department of Public Service, and the New York Energy Research and Development Authority (NYSERDA). DEC and NYSEDA program responsibilities are contained in coordinated regulations:

- DEC established New York's CO<sub>2</sub> Budget Trading Program and the State's share of the total regional cap through a new rule (6 NYCRR Part 242) and revisions to an existing rule (6 NYCRR Part 200, General Provisions). Part 242 establishes the cap-and-trade provisions, as well as program compliance responsibilities and other program aspects.
- NYSEDA set up the CO<sub>2</sub> Allowance Auction Program through regulations (21 NYCRR Part 507). Part 507 establishes administrative procedures for the auction process and provides that proceeds from the sale of the allowances will fund projects and programs for "energy efficiency, renewable or non-carbon emitting technologies, and innovative carbon emissions abatement technologies with significant carbon reduction potential, and for reasonable administrative costs incurred by the Authority."

The NYSEDA regulations include a provision for the creation of an Advisory Group of stakeholders representing a broad array of energy and environmental interests to advise it on how best to use the auction proceeds to achieve the goals of the program. The RGGI Operating Plan is reviewed and revised on an annual basis, and the Advisory Group is convened to provide input. The changes are then presented to NYSEDA's Board for approval.

The 2011 review resulted in an amendment that was approved by NYSEDA's Board in June 2011. This proposed amendment provides program descriptions and funding levels for the 2012 version of the plan.

**Funding Assumptions for Operating Plan**

In preparing the RGGI Operating Plan, conservative assumptions have been used to avoid overestimating the level of funds available, and to avoid possible constriction in program activity should actual proceeds become insufficient to support programs.

First, the Operating Plan assumes that the RGGI marketplace buys exactly the number of allowances that are necessary to cover CO<sub>2</sub> emissions during each compliance period. The "actual emissions" value of 376.8 million tons for the first compliance period was provided by RGGI, Inc., while the emissions estimates for subsequent timeframes came from the February 2012 RGGI Program Review "reference case" modeling results.<sup>1</sup> The modeling output for 2012-2014 was 344.2 million tons of CO<sub>2</sub> emissions. Altogether, this results in an estimate of 721 million tons of CO<sub>2</sub> emissions during the first two compliance periods.

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<sup>1</sup> Actual emissions may deviate from modeling results for numerous reasons (*e.g.*, the economy, energy efficiency, weather, fuel prices, etc.).

Information about the overall number of allowances already in circulation in the marketplace was obtained from RGGI, Inc. Program-wide, approximately 432.8 million allowances have been sold at auction through March 2012<sup>2</sup> and about 27.5 million have been distributed through other methods (*e.g.*, direct allocation and early reduction credits) for a total of 460.3 million allowances in circulation. When comparing the total allowances in circulation with the total allowances forecasted for compliance through the first two compliance periods, market participants still would need to acquire 260.7 million allowances by December 31, 2014, the end of the second compliance period.

RGGI, Inc. estimates that 15.7 million allowances will be distributed to the market through direct allocation during the second compliance period. As a result, it is estimated that 245 million additional allowances would still need to be purchased at auction. Proceeds collected at the regional auction are distributed on a prorata share to the participating states, and New York typically supplies approximately 38.93% of the allowances sold during each quarterly auction. At a market clearing price of \$1.93/allowance (reserve price), this translates to \$184.1 million in potential proceeds during the remaining eleven auctions during the second compliance period. Using this approach, the average estimated proceeds for each auction would be \$16.735 million.

In its budgetary process, New York uses fiscal years that end on March 31. Therefore, the estimated proceeds for fiscal year 2012-13 would be determined as follows:

Q2 Calendar Year 2012 = \$16.735 million

Q3 Calendar Year 2012 = \$16.735 million

Q4 Calendar Year 2012 = \$16.735 million

Q1 Calendar Year 2013 = \$16.735 million

**Total Estimated Proceeds for FY 2012-13 for Planning Purposes = \$66.94 million**

The same estimate of \$66.94 million is used to for fiscal years 2013-2014 and 2014-2015.<sup>3</sup> Therefore, proceeds for the three-year period covered by the RGGI Operating Plan are estimated at \$200.8 million. Table 1 reflects these estimated proceeds, and translates these values into estimates of funding available for implementing programs each year by making adjustments for estimated program administration and evaluation costs, ongoing RGGI, Inc. costs, the New York State Cost Recovery Fee, and other factors. As a reference, information about proceeds collected through March 2012 is also included. It should be noted that these estimates assume that no change is made to the regional CO<sub>2</sub> cap as a result of the 2012 program review.

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<sup>2</sup> A combined total of approximately 411.2 million allowances were sold during the first compliance period (includes 2009 through 2012 vintage allowances). Approximately 21.6 million tons were sold during the March 2012 auction.

<sup>3</sup> Fiscal year 2014-15 extends one quarter beyond the second compliance period. For budgetary purposes, it is assumed that the same average quarterly proceeds of \$16.735 million would be realized.

**Table 1: Current Actual and Estimated Future Funding**

	<b>Proceeds through March 2012</b>	<b>Estimated Funding FY 2012-13</b>	<b>Estimated Funding FY 2013-14</b>	<b>Estimated Funding FY 2014-15</b>
Auction Proceeds	\$362,047,824	\$66,940,000	\$66,940,000	\$66,940,000
Allocated Interest	\$2,222,051	--	--	--
Deficit Reduction Transfer	(\$90,000,000)	--	--	--
Litigation Settlement <sup>1</sup>	(\$13,242,504)	--	--	(\$1,120,000)
Repayment of SBC Funds (for RGGI Inc. Start-up Costs)	(\$1,598,204)	--	--	--
Estimated Ongoing New York Share of RGGI, Inc. Costs	(\$2,720,544)	(\$222,500)	(\$890,000)	(\$890,000)
Program Evaluation	(\$13,649,213)	(\$3,347,000)	(\$3,347,000)	(\$3,347,000)
Program Administration <sup>2</sup>	(\$20,738,746)	(\$5,355,200)	(\$5,355,200)	(\$5,355,200)
State Cost Recovery Fee	(\$4,662,588)	(\$1,137,980)	(\$1,137,980)	(\$1,137,980)
<b>Funds Available for Programs</b>	<b>\$217,658,076</b>	<b>\$56,877,320</b>	<b>\$56,209,820</b>	<b>\$55,089,820</b>
<p><b>Notes:</b> Fiscal years begin on April 1 and end on March 31.  The "Proceeds through March 2012" column covers auctions from December 2008 through March 2012.</p> <p><sup>1</sup> The litigation settlement value in the "Proceeds through March 2012" is an estimate for the first two compliance periods covering 2009 to 2014. The value in the "FY 2014-15" column represents an estimate for the third compliance period.</p> <p><sup>2</sup> Based upon program administration budget rate approved by the Public Service Commission for public benefit energy efficiency and technology and market development programs funded through the System Benefits Charge. Administrative costs were not charged against the \$90 million of proceeds that were transferred to the General Fund for deficit reduction.</p>				

### Review of Programs and 3-year Budgets for June 2012 Operating Plan

Each initiative described below represents either a continuation of an activity in the 2011 plan or an evolution of a current program that is designed to take advantage of important new opportunities. The funding level shown below with each respective program description represents the total budget allocation for the three fiscal years covered under the proposed 2012 plan update (FY 2012/13, FY 2013/14 and FY 2014/15). Any funding allocated in previous years is identified in Table 2 (Funding Allocation Through March 2012), but is not discussed in the program description provided.

Annual funding allocations are shown in Table 2. The historic allocation of proceeds collected through March 2012 for all programs is also provided in the table as a reference. These future allocation values represent an estimate of when funds would be assigned to each program. These figures do not reflect when funds will be spent or when contracts will be signed.

Programs not described below nor receiving allocations in FY 2012/13 through FY2014/15 (including programs such as Green Jobs/Green New York which have been funded from previous revenues) will continue on their planned budget trajectory for use of their previously allocated funding as outlined in the current RGGI Operating Plan.

NYSERDA will provide timely and transparent progress reports utilizing best practice protocols for project tracking and evaluation.

### Cleaner, Greener Communities - \$79.0 million

This program was announced by Governor Cuomo in his 2011 State of the State address. It will build on the Climate Smart Communities program, providing enhanced support for development and implementation of regional sustainability plans to help ensure that the State's ongoing and substantial investments in infrastructure to move communities and New York as a whole toward a more environmentally sustainable future. The program will encourage communities to use public-private partnerships and develop regional sustainable growth strategies in areas such as emissions control, energy efficiency, renewable energy, low-carbon transportation, and other carbon reductions. The program will emphasize activities such as revitalizing urban areas through smart growth, creating green jobs, building green infrastructure, and strengthening environmental justice and protection.

The program will have two primary components: (1) development of regional sustainable growth plans; and (2) implementation of the sustainability plans. With respect to sustainability plans, a minimum of 10 region-specific plans will be competitively selected, one for each of the 10 Regional Economic Development Council regions.

With respect to the program overall, approximately 90% of the budget will be used to support the implementation component of the program. Funds will be awarded on a competitive basis. Project proposals must address specific items within the region's sustainability plan. Projects that have garnered community acceptance and approval, as well as those that include public-private partnerships, will be encouraged. Consideration will be given to support implementation projects in multiple types of communities (i.e., rural, suburban, and urban communities). RGGI proceeds can be used for the implementation of plan elements that fall within the scope of the permissible use of RGGI proceeds (energy efficiency, renewable energy and innovative carbon reduction programs).

Outreach and community support for the overall Cleaner, Greener Communities initiative will be provided in part through Climate Smart Communities and Energy Smart Communities.

### Residential Efficiency Services - \$27.7 million

Funding for the Residential Efficiency Services Program will be spent in a manner consistent with that described in the June 2010 plan for the Multifamily Performance Program (MPP), Home Performance with ENERGY STAR (HPwES), and EmPower New York<sup>SM</sup> (EmPower). RGGI funds will be used primarily to mitigate the high cost of heating oil, with special emphasis through targeted marketing on providing services to low and moderate income households. Households that heat with other fuels (such as propane and wood) will also be eligible to receive services through these programs. These fuels are generally not eligible under programs supported by other funding sources (e.g., EEPS funding). Households and buildings receiving incentives through the MPP and HPwES may be able to fund the balance of eligible work using financing offered through Green Jobs – Green New York.

In addition, consistent with the Recharge New York Power Program Act,<sup>4</sup> NYSERDA will establish the Recharge New York Energy Efficiency Program for residential electric customers of National Grid, NYSEG and RG&E, who no longer receive the benefit of reduced electricity costs related to purchases of hydroelectric power. NYSERDA will provide incentives to eligible households for advanced electric-saving products, such as light emitting diodes (LED) providing ongoing electric savings for years to come. NYSERDA will work with the utilities to perform outreach to their customers so they may participate in the program.

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<sup>4</sup> Chapter 60 of the Laws of 2011, Part CC, Section 4.

## Regional Economic Development and Greenhouse Gas Reductions - \$15.5

To support the Governor's transformative plan to improve New York's business climate and stimulate economic growth, ten Regional Economic Development Councils (REDCs) were established in 2011. Through a performance based, community-driven approach, each REDC has designed and approved a strategic economic development plan for its region. To facilitate the delivery of State support, a Consolidated Funding Application (CFA) was created as the primary mechanism for eligible applicants to submit projects that advance the vision of each strategic plan. Within each of the REDC plans, clean energy strategies and opportunities have been identified as priority needs.

The Regional Economic Development and GHG Reduction program will be designed to support projects that are identified as priority initiatives consistent with a Regional Economic Development Council Strategic Plan and that are not otherwise provided financial support by other Authority programs or initiatives. The Program will provide cost-share funding for energy efficiency, clean and renewable energy, and/or innovative carbon abatement projects that address the regional priorities of the REDCs, result in strategic investments, and build the capacity within the region to participate in the State's clean energy economy. Projects must be capable of moving forward in the near term, while positioning the region for long term economic growth. The Program will complement other funding available through NYSERDA, but will not duplicate funds which are otherwise available from NYSERDA programs. Project funds can be used for implementation of measures and equipment including project design and engineering costs, infrastructure investments, and for demonstrations of new and emerging technologies and approaches. Given the focus on near-term benefits, funds will not be available for research and development projects or for product development. Eligible sectors are anticipated to include businesses, agri-businesses, municipalities (counties, towns, cities, or villages), local development corporations, business or municipal improvement districts, public and private institutions (e.g. universities, colleges, hospitals, schools), and not-for-profits. The Program will focus on several end-uses including: Transportation, Manufacturing and Industrial Process, Buildings, Agriculture, Municipal process, Renewable Electric Generation, and District Energy.

### Industrial Process Improvement - \$14.1 million

These funds will be targeted for two industrial initiatives that are an evolution of the existing industrial programs. The project selection process will take into consideration fuel cycle greenhouse gas emissions. The activities will also help to create, attract, and grow industries in New York that can exploit emerging business opportunities in clean energy and environmental technologies while supporting the goal of carbon mitigation. Funds will be used in a manner consistent with the regulations governing use of RGGI proceeds. The initiatives will be coordinated with the Regional Economic Development Councils.

The first program component will focus on accelerating the adoption of emerging and underutilized technologies that will improve the energy efficiency of industrial processes and data center operations in New York. The projects will focus on technical innovations that have high replication potential in New York and are likely to be cost effective.

The second component will provide assistance for development of manufacturing methods and tools to enable the efficient mass production of clean energy technologies (e.g., PV or energy storage) in New York State.

### Clean Technology Industrial Development - \$14.0 million

The Clean Technology Industrial Development program seeks to create, attract, and grow industries in New York that can exploit emerging business opportunities in clean energy and environmental technologies while supporting the goal of carbon mitigation. Key elements of the program include:

- Providing financial support to leverage private investment in early-stage and expansion stage clean energy companies in New York State and accelerate the market introduction of innovative energy efficiency, renewable energy, or carbon abatement technologies. The program will emphasize early-stage and pre-revenue companies with high-growth potential. Implementation may mirror the process used by private and public seed or venture funding organizations with transparent decision criteria and evaluation/recommendations by qualified investment professionals.
- Advancing the transition of clean energy technology products from the development/demonstration stage to the launch of commercial-scale manufacturing. The program is expected to maximize the competitiveness of the product by identifying and capturing cost saving opportunities associated with production.
- Reducing the financial risk of establishing new manufacturing capacity for innovative clean energy technology products by sharing the investment (typically between 5 and 15 percent) to build a commercial-scale facility. The program also seeks to induce private investment in pre-revenue, start-ups through seed or other approaches to supply working capital.

#### Competitive Greenhouse Gas Reduction (CGGR) Pilot - \$14.5 million

These funds will be used to conduct a Competitive Greenhouse Gas Reduction (CGGR) Pilot. Under this program, a competitive solicitation(s) will be developed and issued for market-ready projects that reduce greenhouse gas emissions in New York. Projects will be selected based on a combination of technical merit/replication potential and cost of delivering greenhouse gas reductions. It is anticipated that projects could include, but not be limited to, supply-side energy efficiency and advanced controls that will reduce GHG emissions cost effectively. The power sector would be the focus of the initial solicitation. If additional funds become available, the scope of subsequent solicitations could be broader to include other sectors.

**Table 2: Current Actual and Anticipated Future Funding Allocations**

<b>Sector/Programs</b>	<b>Funding Allocation Through March 2012 (totals may not sum due to rounding)</b>	<b>Proposed Allocation FY 2012-13</b>	<b>Proposed Allocation FY 2013-14</b>	<b>Proposed Allocation FY 2014-15</b>
<b>Residential, Commercial, Industrial and Municipal Sector</b>				
<b>Residential Efficiency Services</b>	<b>\$27,041,818</b>	<b>\$7,687,500</b>	<b>\$10,500,000</b>	<b>\$9,500,000</b>
Green Residential Buildings Program	\$2,818,166	\$1,250,000	\$300,000	--
Multifamily Performance	\$9,072,909	\$1,375,000	\$2,750,000	\$2,750,000
Multifamily Carbon Emission Reduction Program	\$7,000,000	--	--	--
Home Performance with Energy Star	\$3,687,804	\$1,962,500	\$2,750,000	\$2,750,000
EmPower NY	\$3,636,420	\$2,150,000	\$3,000,000	\$3,000,000
Solar Thermal Incentives	\$644,685	--	--	--
Recharge New York Energy Efficiency Program	\$181,834	\$950,000	\$1,700,000	\$1,000,000
<b>Municipal Water/Wastewater</b>	<b>\$2,541,757</b>	<b>--</b>	<b>--</b>	<b>--</b>
<b>Industrial Process Improvement</b>	<b>\$9,346,457</b>	<b>\$4,093,956</b>	<b>\$5,000,000</b>	<b>\$5,000,000</b>
<b>Transportation Sector</b>				
<b>Advanced Transportation Development</b>	<b>\$2,000,000</b>	<b>--</b>	<b>--</b>	<b>--</b>
<b>Power Supply &amp; Delivery Sector</b>				
<b>Statewide Photovoltaic Initiative</b>	<b>\$11,655,315</b>	<b>--</b>	<b>--</b>	<b>--</b>
<b>Advanced Power Technology</b>	<b>\$4,500,000</b>	<b>--</b>	<b>--</b>	<b>--</b>
Advanced Renewable Energy	\$3,500,000	--	--	--
Carbon Capture & Sequestration	\$1,000,000	--	--	--
<b>Competitive GHG Reduction Pilot</b>	<b>--</b>	<b>\$14,500,000</b>	<b>--</b>	<b>--</b>
<b>Multi-sector</b>				
<b>Cleaner, Greener Communities</b>	<b>\$40,369,885</b>	<b>\$15,889,018</b>	<b>\$34,002,974</b>	<b>\$29,076,480</b>
Planning	\$9,600,000	--	--	--
Incentives	\$26,287,654	\$9,799,265	\$29,650,854	\$24,268,275
Implementation	\$177,231	\$3,529,753	\$1,792,120	\$2,248,205
Community Outreach and Support	\$4,305,000	\$2,560,000	\$2,560,000	\$2,560,000
<b>Regional Economic Development &amp; GHG Reduction Program</b>	<b>\$3,000,000</b>	<b>\$9,000,000</b>	<b>--</b>	<b>\$6,513,340</b>
<b>Green Jobs/Green New York</b>	<b>\$95,536,000</b>	<b>--</b>	<b>--</b>	<b>--</b>
<b>Clean Technology Industrial Development</b>	<b>\$16,270,000</b>	<b>\$4,000,000</b>	<b>\$5,000,000</b>	<b>\$5,000,000</b>
<b>Climate Research and Analysis</b>	<b>\$5,396,843</b>	<b>\$1,706,846</b>	<b>\$1,706,846</b>	<b>--</b>
<b>Total</b>	<b>\$217,658,075</b>	<b>\$56,877,320</b>	<b>\$56,209,820</b>	<b>\$55,089,820</b>

## **Program Expansion Plan**

As noted above, this Operating Plan is based on a conservative estimate of allowance proceeds that could be made available for program support. Allowance auction proceeds over the next year may exceed the estimates being used to develop this proposal for the updated Operating Plan. Absent unforeseen circumstances, if additional revenue should be available, the following potential funding opportunities could be considered:

- Accelerate/expand funding for the Regional Programs including the Economic Development & GHG Reduction Program, and Cleaner/Greener Communities;
- Accelerate/expand funding for the Competitive Greenhouse Gas Reduction (CGGR) program;
- Increase funding for residential oil heat efficiency programs; and
- Provide funds to support Advanced Transportation.

Resolution No. \_\_\_\_\_

RESOLVED, that revisions to the “Operating Plan for Investments in New York Under the CO<sub>2</sub> Budget Trading Program and the CO<sub>2</sub> Allowance Auction Program” as presented to the Members for consideration at this meeting, with such non-substantive, editorial changes and supplementary schedules as the President and Chief Executive Officer, in his discretion, may deem necessary or appropriate, are adopted and approved;

AND BE IT FURTHER RESOLVED, that the Members direct the President and Chief Executive Officer to develop a revised operating plan incorporating such revisions as soon as reasonably possible.