

New York's Regional Greenhouse Gas Initiative Operating Plan Amendment for 2013 (April 25, 2013 Draft)

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 Energy Research and Development Authority (NYSERDA). DEC and NYSERDA program responsibilities are contained in coordinated regulations:

- DEC established New York's CO₂ 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.
- NYSERDA set up the CO₂ 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 NYSERDA 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 utilize said funds to achieve the goals of the program. The Operating Plan is reviewed and revised on an annual basis, and the Advisory Group is convened to provide input.

The 2012 review resulted in an Operating Plan Amendment that was approved by NYSERDA's Board in June 2012. This document represents the proposed 2013 Operating Plan Amendment, and it provides program descriptions and funding levels for the 2013 version of the plan. It is anticipated that a final draft of this 2013 Amendment will be considered by the Board at its June 17, 2013 meeting.

Funding Assumptions for Operating Plan

This section provides an explanation of the funding assumptions used to prepare the Operating Plan. A regional RGGI program review was recently completed and the participating states are presently working to incorporate program changes, including a more stringent carbon cap, into their regulations by January 1, 2014. The funding assumptions will not account for potential program changes until any such changes to the New York State regulations become final. The projection assumes the marketplace currently has a large bank of CO₂ allowances (beyond what is needed to cover current compliance obligations) and has the potential to grow the bank further through 2013. Since we do not want to speculate about how the marketplace will behave during this time of proposed program changes and rulemaking, a conservative approach is used to develop funding assumptions for this Operating Plan. This approach seeks to avoid overestimating the level of funds available, and to avoid possible constriction in program activity should actual proceeds become insufficient to support Operating Plan programs.

The following two steps are proposed for the 2013 Operating Plan Amendment funding assumptions:

- A conservative assumption about the level of proceeds is used. More specifically, for planning purposes, it is assumed that New York receives proceeds of \$62.8 million in FY 13-14 and \$67.2 million in FY 14-15. These values were derived using electricity system modeling data from the RGGI Program Review and they reflect estimated proceeds for the current RGGI program.
- The planning horizon for this year's Op Plan has been reduced to two years because it not possible to reliably estimate proceeds levels three years into the future during this time of market transition.

Table 1 reflects these estimated proceeds, and it also 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, State Cost Recovery Fees, and other factors. After netting out administration and evaluation expenses and fees, this translates to \$52.7 million in FY 13-14 and \$56.4 million in FY 14-15 available for program implementation. As a reference, information about proceeds collected through March 2013 is also included.

A more detailed breakdown of the proceeds estimates and related expenses can be found in Table 1.

Table 1: Current Actual and Estimated Future Funding

	Cumulative Allocation Through December 2012	Jan-March 2013	FY 13-14 Total	FY 14-15 Total	Total
Proceeds					
RGGI Auction Proceeds	\$ 410,586,619	\$ 39,907,890	\$ 62,820,968	\$ 67,217,292	\$ 580,532,770
Interest earnings	\$ 3,026,525	\$ -	\$ -	\$ -	\$ 3,026,525
Total proceeds	\$ 413,613,144	\$ 39,907,890	\$ 62,820,968	\$ 67,217,292	\$ 583,559,295
Budget transfer***	\$ (90,000,000)	\$ -	\$ (25,000,000)	\$ -	\$ (115,000,000)
Transfer to GJGNY	\$ (112,000,000)	\$ -	\$ -	\$ -	\$ (112,000,000)
Appropriation to Cleener, Greener Communities ***	\$ -	\$ -	\$ 25,000,000	\$ -	\$ 25,000,000
Sub-total Proceeds Available	\$ 211,613,144	\$ 39,907,890	\$ 62,820,968	\$ 67,217,292	\$ 381,559,294
Administration and Evaluation Expenses and Fees					
Administration (7% through March 2011, 8% thereafter)**	\$ 15,726,208	\$ 3,192,631	\$ 5,025,677	\$ 5,377,383	\$ 29,321,900
Evaluation (5%)	\$ 9,516,376	\$ 1,995,395	\$ 3,141,048	\$ 3,360,865	\$ 18,013,684
Litigation settlement*	\$ 13,242,504	\$ -	\$ -	\$ -	\$ 13,242,504
RGGI Inc startup SBC repayment	\$ 1,598,204	\$ -	\$ -	\$ -	\$ 1,598,204
RGGI Inc pro-rata costs	\$ 2,720,544	\$ 692,047	\$ 890,000	\$ 890,000	\$ 5,192,591
State Cost Recovery (1.7%)	\$ 3,597,424	\$ 678,434	\$ 1,067,956	\$ 1,142,694	\$ 6,486,509
Subtotal Admin & Eval. Expense	\$ 46,401,260	\$ 6,558,507	\$ 10,124,682	\$ 10,770,942	\$ 73,855,391
Funds Available for Programs	\$ 165,211,884	\$ 33,349,384	\$ 52,696,286	\$ 56,446,350	\$ 307,703,903

Notes: Fiscal years begin on April 1st and end on March 31st.

The "Cumulative Allocation Through December 2012" column covers auctions from December 2008 through December 2012.

* The litigation settlement value in the "Cumulative Allocation Through December 2012" is an estimate for the first two compliance periods covering 2009 to 2014.

** Administration is 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.

*** Pursuant to the State FY13-14 budget, this proposal accounts for a \$25 million transfer of operating revenue to the General Fund as well as a \$25 million capital program increase in the Cleaner Greener Communities program.

Review of Programs and Budgets for June 2013 Operating Plan

The initiatives described below represent a continuation of a program activity in the 2012 Operating Plan or an evolution of a current program that is designed to take advantage of important new opportunities; in addition, one new program opportunity is described. The funding level shown below with each respective program description represents

the total budget for the two fiscal years covered under the proposed 2013 plan update (FY 2013/14, and FY 2014/15), as well as accounts for proceeds from the March 2013 auction.

Annual funding allocations are shown in Table 2. The historic allocation of proceeds collected through December 2013 for all programs is 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 2013/14 through FY 2014/15 (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 - \$70.7 million

This \$100 million program was announced by Governor Cuomo in his 2011 State of the State address. It builds upon 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 move communities and New York as a whole toward a more environmentally sustainable future. The program encourages public-private partnerships to develop regional sustainability plans in areas such as emissions control, energy efficiency, renewable energy, low-carbon transportation, and other carbon reductions. The program also emphasizes activities such as revitalizing urban areas through smart growth, creating green jobs, building green infrastructure, and strengthening environmental justice and protection.

The program has two primary components: Phase I, the development of regional Sustainability Plans, and Phase II, competitive implementation grants for projects that support the goals outlined in the Sustainability Plans. Phase I, initiated in 2011, supported 10 region-specific plans, one for each of the 10 Regional Economic Development Council regions. These 10 Sustainability Plans are all in the process of finalization, which supports movement of the program into the Phase II implementation process.

Phase II project proposals will be required to contribute to achieving specific goals identified in the region's Sustainability Plan. Projects that have garnered broad community acceptance and approval through inclusive participatory processes, 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, with special attention placed on environmentally burdened communities. RGGI proceeds will be used for the Phase II implementation of energy efficiency, renewable energy and innovative carbon reduction programs.

With respect to the funding (Phase I), 10 region-specific plans were competitively awarded for approximately \$1 million each. The remaining \$90M of the total program budget will be used to support the implementation component (Phase II) of the program.

Outreach and community support for the overall Cleaner, Greener Communities initiative will be provided in part through NYSERDA's Climate Smart Communities and Economic Development Growth Extension programs.

Residential Efficiency Services - \$24.2 million

Activities for the Residential Efficiency Services Program will be consistent with that described in the 2012 Operating Plan for the Multifamily Performance Program (MPP), Home Performance with ENERGY STAR (HPwES), and EmPower New YorkSM (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. Additionally, as the Green Residential Buildings Program expires in October 2013, NYSERDA may use nominal funds to continue support for energy efficiency in Low Rise Residential New Construction projects for oil or propane-heated housing.

Industrial Process Improvement - \$15.7 million

These funds will be targeted for two industrial initiatives that are an evolution of the existing industrial programs. 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 especially for the efficient mass production of clean energy technologies (*e.g.*, PV or energy storage) in New York State.

These activities are designed 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. In addition, projects will also be selected in consideration of fuel cycle greenhouse gas emissions reductions. These initiatives are also designed to be coordinated with the Regional Economic Development Councils.

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

The Competitive Greenhouse Gas Reduction (CGGR) Pilot program is a new initiative that will seek market-ready projects that reduce greenhouse gas emissions from the power generation sector in New York. Eligible projects will demonstrate reduction of greenhouse gas emissions at the plant either through technology applications, through plant operations efficiencies, or by some combination of these elements. Eligible projects could include but not be limited to supply-side energy efficiency, advanced controls, and/or integration of renewable technology into plant operations. Program development activities will include:

- Developing a survey/engaging with stakeholders on the appropriate design elements of a pilot competitive solicitation for projects/bids;
- Issuing one or more competitive solicitations;
- Developing mechanisms to verify/track/record actual greenhouse gas reductions for the purpose of compensating bidders

Clean Technology Industrial Development - \$10.5 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 emissions reductions. 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, venture capital or accelerator funding organizations.
- Reducing the financial risk of establishing new manufacturing facilities for innovative clean energy technology products by sharing in the design of facilities, manufacturing lines, and supply chains to manufacture at commercial scale. The program is designed to support an increase in the availability of clean energy technologies in the New York market.

Green Bank Pilot Program - \$8.4 million

In his 2013 State of the State address, Governor Cuomo announced several initiatives to further advance New York's clean energy successes. Central to his energy policies is a Green Bank that will focus on attracting private sector capital to spur investment in clean energy technologies. The mission of the Green Bank is to address financial market barriers that are impeding the flow of private capital into the clean energy sector. The Green Bank's vision is to foster an innovative and flexible energy marketplace that is able to react and adapt to evolving environmental and customer demand patterns. The Green Bank will target projects involving only mature, bankable technologies and applications. Products and services that the bank will likely provide include risk mitigation, credit enhancement, project aggregation for rooftop solar and energy efficiency projects, contract standardization, and data collection.

NYSERDA currently offers certain financing programs, such as on-bill recovery financing and mechanisms to leverage capital through secondary and primary capital markets through the Green Jobs-Green New York program, which provide a good foundation for the Green Bank. Identified as a division of NYSERDA, the Green Bank will offer opportunities to enhance some of these strategies and to implement new structures and approaches. Guiding principles for Green Bank activities will focus on strategies to address sectors or technologies where insufficient capital exists for energy efficiency and renewables, or where the terms of available capital are not attractive to drive demand. As Green Bank's priorities evolve, NYSERDA will provide the RGGI stakeholder group specific program funding activities that align with the mission of the Green Bank as well as contribute to the carbon reduction goals of the RGGI program.

Statewide PV - \$3.6 million

Recognizing the continued benefit of investing in Long Island's rapidly growing PV market, an additional \$11 million was allocated to support the continuation of the Long Island Power Authority's Solar Pioneer program during calendar year 2012; another \$1.8 million was allocated to this program in March 2013, and another allocation of \$1.8 million is planned for FY 13-14.

Climate Research - \$3.6 million

The Climate Research and Analysis program is designed to increase the understanding and awareness of the environmental impacts of energy choices and emerging energy options. It provides a scientific foundation for formulating effective, equitable, energy-related environmental policies and resource management practices that can both reduce greenhouse gas emissions and address climate change. The Climate Research and Analysis program will continue to build the environmental research capability in New York to address critical climate change-related issues facing the State and the region, including the needs of environmental justice communities.

This program uses RGGI funding to support research studies, demonstrations, policy research and analyses, and outreach and education efforts. These research initiatives will:

- Inform decisions related to reducing the cost of achieving the emission reduction goals of local, state and regional programs
- Evaluate and document health and environmental impacts and opportunities
- Identify cost-effective climate change strategies
- Guide initiatives designed to reduce the disproportionate cost burden and environmental impacts on low-income families and environmental justice communities

Transportation Research - \$3 million

These funds will be used to reduce greenhouse gas contributions from the transportation sector by reducing petroleum use and increasing the efficiency of electric mass transit. These objectives can be achieved by improving the efficiency of vehicles and transportation infrastructure, expanding the use of electricity and renewable fuels in the sector, education campaigns that encourage behavioral changes and smart growth policies that reduce vehicle miles traveled (VMT) and encourage efficient freight transport. Key elements of the program may include:

- Electrified rail improvements in the New York City Metropolitan Transit Authority (MTA) system;
- Outreach and education efforts to support transportation demand management and traffic signal timing projects ;
- Emissions-reducing freight technologies and energy efficient freight improvements.

Table 2: Current Actual and Anticipated Future Funding Allocations

<u>Program Funding</u>	Cumulative Allocation Through December 2012	Jan-March 2013	FY 13-14 Total	FY 14-15 Total	Cumulative Total Through March 2015
RCI Buildings					
Residential Efficiency Services					
Residential Green Buildings	\$ 3,593,590	\$ -	\$ -	\$ -	\$ 3,593,590
Multifamily Performance Program	\$ 9,760,409	\$ 1,893,119	\$ 2,761,874	\$ 2,093,514	\$ 16,508,916
Multifamily Carbon Emission Reduction	\$ 6,815,520	\$ 184,480	\$ -	\$ -	\$ 7,000,000
Home Performance and Assisted Home Performance	\$ 5,762,804	\$ 3,276,700	\$ 2,201,937	\$ 4,172,609	\$ 15,414,050
EmPower NY	\$ 4,536,420	\$ 1,524,106	\$ 1,488,422	\$ 4,626,399	\$ 12,175,347
Solar Thermal Incentive	\$ 956,259	\$ -	\$ -	\$ -	\$ 956,259
Municipal/Wastewater program	\$ 1,941,757	\$ -	\$ -	\$ -	\$ 1,941,757
Industrial Process Improvement	\$ 8,156,252	\$ 3,113,053	\$ 4,000,000	\$ 8,561,542	\$ 23,830,847
Power Supply & Delivery					\$ -
State-wide PV					\$ -
LIPA PV	\$ 16,962,950	\$ 1,818,525	\$ 1,818,525	\$ -	\$ 20,600,000
NYSERDA PV	\$ 5,343,741	\$ -	\$ -	\$ -	\$ 5,343,741
Advanced Power Technology					\$ -
Carbon Capture Sequestration	\$ 1,000,000	\$ -	\$ -	\$ -	\$ 1,000,000
Adv. Renewable Energy	\$ 2,893,674	\$ -	\$ -	\$ -	\$ 2,893,674
Competitive GHG Reduction Pilot	\$ 11,478,656	\$ 3,021,344	\$ -	\$ -	\$ 14,500,000
Multi-sector					\$ -
Climate Research	\$ 6,656,004	\$ 446,978	\$ 1,348,128	\$ 1,848,981	\$ 10,300,091
Clean Technology Industrial Development	\$ 16,220,847	\$ 5,250,000	\$ 1,000,000	\$ 4,277,977	\$ 26,748,824
Green Bank	\$ -	\$ 8,425,312	\$ -	\$ -	\$ 8,425,312
REGIONAL INITIATIVES					\$ -
Regional Economic Development and GHG Reduction	\$ 12,000,000	\$ 400,000	\$ -	\$ -	\$ 12,400,000
Cleaner Greener Communities Program					\$ -
Climate Smart Communities	\$ 2,668,940	\$ 265,530	\$ 1,390,530	\$ 1,884,372	\$ 6,209,372
EDGE (Energy Smart Communities)	\$ 3,129,517	\$ 150,000	\$ 600,000	\$ 2,200,000	\$ 6,079,517
Cleaner Greener Communities Outreach	\$ 395,084	\$ 100,000	\$ 61,116	\$ -	\$ 556,200
Implementation Contractor	\$ 3,153,740	\$ 182,341	\$ 1,792,120	\$ 2,248,205	\$ 7,376,406
Planning	\$ 9,600,000	\$ -	\$ -	\$ -	\$ 9,600,000
Incentives	\$ 30,185,718	\$ 4,047,896	\$ 34,233,634	\$ 21,532,752	\$ 90,000,000
Net budget transfer (for CGC incentives)	\$ -	\$ -	\$ -	\$ -	\$ -
					\$ -
Transportation					\$ -
Transportation Research	\$ 2,000,000	\$ -	\$ -	\$ 3,000,000	\$ 5,000,000
					\$ -
Program Spending	\$ 165,211,884	\$ 34,099,384	\$ 52,696,286	\$ 56,446,351	\$ 308,453,904

Totals may not sum exactly due to rounding.

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 become available, proceeds could be used to expand funding for the existing portfolio of RGGI programs including the Green Bank as well as for climate resiliency and sustainability initiatives, to the extent consistent with Part 242.