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Gavin J. Donohue, *President &
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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 NYSEDA 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,

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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

Independent Power Producers of New York, Inc.