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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

March 23, 2009

Dear President Murray,

Congratulations on your appointment as President of the New York State Energy Research and Development Authority (NYSERDA). AES Eastern Energy LP ("AES") and its multiple businesses in New York look forward to working directly with you and your NYSERDA staff going forward. AES appreciates the opportunity to provide these comments on the *Draft Operating Plan for Investments in New York under the* CO_2 *Budget Trading Program and the* CO_2 *Allowance Auction Program*, which has been issued for stakeholder comment by NYSERDA.

AES has several concerns with the proposed distribution of the anticipated RGGI auction revenues because we believe that the anticipated allocation formula will not result in the least cost consumer price impact or the highest probability of substantial CO2 emission reduction. We urge NYSERDA to consider our concerns in order to create a balanced approach to addressing the multiple RGGI priorities of reducing overall energy usage, promoting new renewable energy expansion, and introducing CO2 emissions control technology associated with the electricity sector as the Draft Plan's main and only focus. Ultimately, carbon emissions and CO2 price impacts attributed to the electric generation sector will be most reduced if the RGGI revenues are utilized in several key ways:

- Introduce low or no-carbon renewable sources which are not yet commercialized
- Introduce low or no-carbon control technology for existing and new generation fossil sources.
- Utilize additional funding to develop biomass closed loop and agricultural programs that substitute renewable solid fuel for fossil fuel or gasoline replacement.
- Reduce overall energy demand

Failure to allocate the funding in this manner will result in a less than efficient utilization of the RGGI monies that are being expended by New York consumers and New York electric suppliers that are funding the initial implementation of the RGGI CO2 program. Further, it will not allow the fullest impact on reducing the price impact of CO2 on consumer electric pricing; nor provide the foundation for realizing substantial CO2 reductions that will be needed to realize the percentage goals being debated for the years 2020, and 2050.

The bulk of the RGGI monies simply and primarily should go back to the stakeholders (consumers and generation sources) that are providing such monies and should be returned for projects that benefit electricity customers. Additionally, NYSERDA should align the use of these monies with the upcoming federal program to maximize its available financial resources.

Recommended Funding Priorities

AES urges NYSERDA to provide appropriate amounts of funding from the auction of allowances under the RGGI program for the following areas at the suggested percentage levels:

(1) Generation Resource Low Carbon Technology and Efficiency Improvement (50%)
(2) Non-commercialized Advanced Renewable Energy Technology Demonstration (20%)
(3) Agricultural Closed Loop Energy Development (10%)
(4) Energy Efficiency and Demand Reduction Programs (20%)

The RGGI Allowance Auction revenues should not be used to fill in funding gaps programs in the RPS, SBC, or EEPS programs. Utilization of the money to fill gaps will make it virtually impossible to track the real objectives of the RGGI program which must be electric sector reduction of CO2 emissions and reducing the CO2 cost impact on consumers.

Generation Carbon Control Technologies

AES urges NYSERDA to provide 50% of all available RGGI auction revenues over the three years of the plan for Generation Carbon Control Technology applications. Given that CO_2 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, commercialization and deployment. The success of the RGGI program (substantial CO2 emission reductions) depends on the development of new generation carbon control technologies.

Indeed, other sources of funds also will need to be leveraged, and the recently passed Economic Stimulus package has proposed monies to advance the development of low-carbon coal technologies including carbon capture transportation and storage technology. NYSERDA must position the state to take advantage of all of these funding opportunities and to ensure that CO_2 emission control technology is developed successfully.

Non-commercialized Advanced Renewable Energy Technology Demonstration

AES supports the Draft Plan's proposal to provide funding over three years for this program and urges NYSERDA to consider only renewable technologies which currently require demonstration to prove the ability to commercialize vs. renewable technologies that are already commercialized. The goal should be to develop the next generation of renewable energy. Energy storage, biomass gasification, large scale PV applications are examples of emerging technologies for consideration. Providing incentives for this use is necessary for creating a diversity of renewable energy supplies going forward. **Further, NYSERDA should support the expansion of renewable energy at existing power generation sites, where ample acreage and infrastructure (electrical, transportation, on-shore and off-shore land access) exists**. The ultimate goal should be to create hybrid energy centers that incorporate base load facilities, renewable energy, and combined heat and power applications. In many cases, the additional development costs associated with new greenfield applications can be avoided by economic utilization of existing sites and the corresponding benefit of reducing the specific site's overall CO2 footprint. Economic, environmental, and energy policies are simultaneously realized by this type of application.

Agricultural Closed Loop Energy Development

AES encourages NYSERDA to substantially increased anticipated funding to ten (10) per cent of all auction revenues over the next three year period for energy crop research, development, and commercialization. Substantial progress in this area will result in potential replacement of fossil fuel with renewable energy sustainable resources, replacement of current gasoline demand with renewable energy sustainable resources, and the creation of the necessary biomass infrastructure to promote the development of second generation biofuel applications such as cellulosic ethanol.

These applications can be developed in concert with our major universities such as SUNY Morrisville, Syracuse University ESF, and Cornell. The corresponding net positive benefits include lower CO2 emissions, economic utilization of available unused farm land, and reduced dependence on fossil fuels.

AES appreciate the opportunity to provide this input and we are hopeful these concerns will be incorporated into the final decision-making process. We look forward to continuing to work with NYSERDA and other interested parties, and we appreciate your time to review and act on our comments. If you have any questions or need additional information, please feel free to contact me.

Sincerely,

Christopher Wentlent
Director, Regulatory Affairs
AES Eastern Energy