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VIA E-MAIL to rggiprograms@nyserda.org

RGGI Programs
Attn: Dave Coup
New York State Energy Research and Development Authority
17 Columbia Circle
Albany, NY 12203-6399

Re: Comments on NYSERDA's Draft Proposal for New York's Regional Greenhouse Gas Initiative Operating Plan for 2011

Dear Mr. Coup:

Consolidated Edison Company of New York, Inc. ("Con Edison") and Orange and Rockland Utilities, Inc. ("O&R") (collectively the "Companies") respectfully submit these comments on NYSERDA's May 16, 2011 Revised RGGI Operating Plan for 2011 (the "Revised Plan"). The Revised Plan summarizes the results of a review of the 2010 Revised Operating Plan, adopted June 21, 2010, and outlines changes proposed for the eventual adoption of a Revised Operating Plan for 2011.

The Companies request that, in finalizing the Revised Plan, NYSERDA should (1) plan to invest RGGI revenues in programs that directly benefit New York's electricity customers, (2) make RGGI funding available for use in utility-administered energy efficiency programs in the same manner that RGGI funding is earmarked for NYSERDA energy efficiency programs, (3) consider using uncommitted RGGI funding to reduce the State's Energy Efficiency Portfolio Standard (EEPS) and Renewable Portfolio Standard (RPS) collections, (4) engage utilities in a comprehensive ongoing review of all of the State's clean energy programs to ensure that they reduce carbon cost-effectively

while at the same time providing customer-focused benefits in a manner that is geographically equitable, and (5) increase funding for programs, such as the Competitive Greenhouse Gas Reduction Pilot, that spur both innovation and investment in advanced power delivery infrastructure.

INTRODUCTION

The Companies have supported the RGGI initiative since its early inception. They continue to support the overall goals of RGGI and the development of an environmentally sustainable economy. Con Edison and O&R will continue to work closely with NYSERDA and other State agencies at every opportunity to help guide development and implementation of programs that achieve the State's ambitious energy and environmental policy goals while also advocating for the interests of its customers, including adequate consideration of customer bill impacts.

The Revised Plan sets out the budget and programming expectations for a three-year time period, from the second quarter of 2011 through the second quarter of 2014. Using conservative estimates of auction prices and volume of allowance sales, NYSERDA anticipates RGGI program budgets of \$42.3 million, \$68.2 million, and \$68.2 million, respectively, in each year covered by the Revised Plan. The Companies maintain that the very purpose of the RGGI auction mechanism is defeated if proceeds are diverted from the energy sector entirely and, as such, commend Governor Cuomo and NYSERDA for keeping the RGGI revenues in the energy sector.

After careful review of NYSERDA's Revised Plan, the Companies developed general principles for NYSERDA to consider as it finalizes the Revised Plan. First, funds should be invested in programs that directly benefit electricity customers, offset costs, and reduce the future cost of compliance with sector-specific regulations. Second, RGGI funding can and should be leveraged for use in utility-administered energy efficiency programs in order to meet the needs of customers across the state. Third, applying RGGI dollars to existing public purpose programs could reduce the strain of State-driven surcharges on customers' energy bills, particularly as the economy recovers from the

recent recession. Fourth, NYSERDA and other State agencies should view the utilities as key partners in decisions about program design and funding allocation across the State's complex portfolio of energy programs. Fifth, investment in infrastructure demonstration projects that improve the efficiency of the power delivery system is a win-win for customers in that it both improves the reliability and efficiency of their electric service and also provides greenhouse gas (GHG) reduction benefits.

Additionally, the Companies would note that the majority of forecasted RGGI revenues over the next three years - \$94.7 million in all – are earmarked for Governor Cuomo's proposed Cleaner, Greener Communities program. We appreciate the significant impetus behind this program, and support its overall goals of holistic sustainability achieved through regional and community-based engagement. However, the Companies are unable to comment on this use of RGGI funding for this purpose without more specificity on NYSERDA's plans for the program. In addition, the Companies urge NYSERDA to specifically address the implications of the interaction of the Cleaner, Greener Communities program with other initiatives such as New York City's PlaNYC program.

DISCUSSION

1. RGGI Funds Should Benefit Electric Sector Customers

First, the Companies emphasize that while the electric sector clearly has a critical role in the revitalization and overall "greening" of the New York economy, one of the primary objectives of RGGI is transformation of the electric sector into a cleaner, more efficient system. To achieve that objective, RGGI funding should be funneled to programs that directly enable that transformation. Funds collected from electricity customers will achieve maximum benefits if that funding flows to initiatives that provide value to electric customers and reduce electric customer energy usage and demand, thereby reducing greenhouse gas emissions and lowering the future cost of compliance. Cross-subsidization of other energy sources – such as transportation or heating fuels – by electricity

customers is inequitable and could lead to perverse incentives for customers to use energy sources that do not include the cost of achieving carbon reduction goals.

2. *RGGI Funds Should Be Allocated to Utility-Administered Energy Efficiency Programs*

The Green Jobs/Green New York (GJ/GNY) program is funded from RGGI auction proceeds. The law establishing the GJ/GNY program allows NYSERDA to establish programs where utilities can participate in competitive solicitations to achieve the goals of the program, such as disseminating energy conservation throughout the State. The State's utilities have active programs to encourage customers to install energy efficiency measures. NYSERDA should make GJ/GNY funds available for use in utility-administered programs for the purpose of subsidizing audits and financing energy efficiency investments by customers, and should do so on a similar basis to how such funds are currently earmarked for NYSERDA's own energy efficiency programs. Ultimately, all energy efficiency programs – whether run by the utilities or NYSERDA – will be improved if customers can secure energy efficiency assistance through the program that best fits their needs.

3. *RGGI Funds Should Be Used in Existing Public-Purpose Programs*

To date relatively little RGGI funding has actually been spent, although funds have already been collected and much funding has been committed in contractual agreements. To reduce the negative economic impact of collecting funds from customers but not spending them, NYSERDA should consider using uncommitted RGGI funding to reduce the State's EEPS and RPS collection amounts, similar to what has been done with the System Benefits Charge (SBC) for 2011. RGGI money could temporarily fund the RPS and EEPS programs to help customers during difficult economic times. Utilities can resume collection for RPS and EEPS at a later date. As we have seen,

unspent RGGI funds can be a tempting source for other purposes¹ and so putting RGGI money to work now to help utility customers will reduce the opportunity to divert that money for other purposes.

4. *NYSERDA Should Take a Comprehensive Look at State Programs and Leverage a Strategic Partnership With Utilities in Decision-Making*

As the Companies have stated previously, all of the programs and initiatives funded with customer money – whether through RGGI, RPS, EEPS or SBC collections – should be evaluated collectively on an ongoing basis and modified if necessary to achieve cost-effective and, where possible, geographically balanced results. We believe this is particularly true with respect to programs funded by RGGI auction revenues, because NYSERDA has the flexibility to apply RGGI funds across the portfolio where they are needed most. All stakeholders can agree that using RGGI funds to duplicate efforts orchestrated under other programs is wasteful, so we encourage NYSERDA to consider its entire portfolio when allocating RGGI funds for specific programs. Also, in other public programs that NYSERDA oversees, it is often the case that Con Edison and other downstate customers contribute disproportionately more revenue than they receive in program benefits. NYSERDA can use the RGGI funding, in part, to offset this imbalance and bring more benefits to downstate customers who contribute so heavily to funding.

New York utilities offer unparalleled technical expertise, customer insights, and experience with customer outreach and education. NYSERDA should work closely with utilities in the design and implementation of all of its public programs, including those funded via RGGI auction proceeds, to ensure that funds are spent on projects that address prevailing customer needs in addition to reducing GHG emissions. Engaging utilities and other key stakeholders in the program decision

¹ On December 4, 2009, New York State enacted numerous deficit reduction measures that included the transfer of \$90 million in RGGI auction proceeds to the General Fund.

process through a structured forum will make it more likely that NYSERDA effectively and equitably allocates RGGI funding.

As an example, there are opportunities across New York for NYSERDA to apply RGGI funding to Smart Grid and renewable energy demonstration projects that use utility infrastructure and facilities. Partnership opportunities also exist in research and development for the next generation of efficiency for electronics and plug load, including cable boxes, servers, and air conditioning. Creating a regular avenue for communication between the utilities and NYSERDA on program design will lead to greater utilization of these and other partnership opportunities in addition to ensuring that public dollars are invested across sectors to maximize customer benefits while advancing the State's energy policy goals.

5. *GHG Reduction Programs Focused on Electric System Investments Are a Win-Win for Customers*

Reducing transmission and distribution ("T&D") line losses in major load pockets helps to provide a twofold benefit: first, power can be more efficiently moved to load, and second, there is a commensurate reduction in carbon and other pollution-causing emissions from generators. In addition, T&D investments provide customer-specific benefits by lowering total costs and maintaining reliability, as well as secondary benefits such as job growth and improved air quality. The Companies are pleased to see that NYSERDA is investing \$15 million in 2012 in a Competitive Greenhouse Gas Reduction Pilot program targeted at supply-side efficiency projects. We think that this program shows great promise in achieving innovation in advanced infrastructure that will spur further investment. Further, we look forward to working with NYSERDA on implementing this Pilot program and encourage the agency to consider T&D demonstrations as a major area of emphasis. Should the Pilot prove successful, the Companies encourage NYSERDA to consider additional funding to similar initiatives over the next three years.

The Companies are constantly seeking and exploring new opportunities to reduce losses to its electric system, as demonstrated by the roll-out of capacitor automation equipment through its Smart Grid Deployment Project. Additional funding from RGGI could also be used to demonstrate advances in electric vehicle charging and distribution system management in dense urban areas, to name one example. We encourage NYSERDA to increase its allocation of RGGI funding for such infrastructure programs.

CONCLUSION

The Companies urge NYSERDA to consider these comments in finalizing the Revised Plan for 2011. We look forward to continued participation in the New York State RGGI process and appreciate the opportunity to provide comments.

Respectfully submitted,

/s/ Stuart Nachmias

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