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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 Draft Proposal for New York's Regional Greenhouse Gas Initiative Operating Plan for 2014

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 the May 2, 2014 draft Regional Greenhouse Gas Initiative ("RGGI") Operating Plan Amendment for 2014 (the "Plan Amendment").

The Companies request that, in finalizing the Revised Plan, NYSERDA: (1) consider using RGGI funds to support changes in the State's electric system currently being considered by the New York State Public Service Commission (the "Commission"), (2) prioritize the use of RGGI funding to reduce electric sector carbon emissions, and (3) consider use of uncommitted RGGI funding to directly fund public benefits programs and reduce the utility surcharge for the State's Energy Efficiency Portfolio Standard ("EEPS"), Renewable Portfolio Standard ("RPS") and System Benefits Charge ("SBC") collections or, in the alternative, for the capitalization of the New York Green Bank.

INTRODUCTION

The Companies have supported the RGGI initiative since its inception. They continue to support the overall goals of RGGI and the development of a sustainable economy. Con Edison and O&R will 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 their customers, including consideration of customer bill impacts.

The Plan Amendment sets out the budget and programming expectations for the two-year time period including fiscal years 2014/15 and 2015/16. Using conservative estimates of auction prices and volume of allowance sales, NYSERDA anticipates RGGI program budgets of \$89.40 million and \$80.78 million, respectively, in the two fiscal years covered by the Plan Amendment. The Plan Amendment includes proposals to fund such non-electricity programs as the biomass heat industry and the transportation industry. The Companies maintain that the purpose of the RGGI auction mechanism is defeated if any proceeds are diverted from the electricity sector. Moreover, the Commission has recently instituted a number of proceedings¹ that have the potential to reorganize the way customers receive electricity, including possible changes to the funding and use of public benefit funds that are paid for by electricity customers. Changes to the RGGI program should be designed to work in harmony with these other changes underway in the State.

¹ Case No. 14-M-0101, Proceeding on Motion of the Commission in Regard to Reforming the Energy Vision, Order Instituting Proceeding, April 25, 2014 (the "REV Proceeding"); Case No. 14-M-0094, Proceeding on Motion of the Commission to Consider a Clean Energy Fund, Order Commencing Proceeding, May 8, 2014 (the "Clean Energy Fund Proceeding").

DISCUSSION

1. *The Plan Amendment Should Use RGGI Funds to Support State Efforts to Control Costs and Leverage Distributed Energy Resources*

The Commission's institution of the REV Proceeding and the Clean Energy Fund Proceeding, has highlighted the importance of accommodating and leveraging the growth of distributed resources, and improving the effectiveness of the State's limited budget (collected from customers) for clean energy resources. The goals of both proceedings would be furthered by RGGI funds support of the development of software and other technology to better integrate clean and renewable distributed resources into the State's energy portfolio.

The REV Proceeding contemplates the development of a Distribution System Platform Provider ("DSPP") which would actively manage and coordinate distributed resources through market mechanisms. Setting up a DSPP will require substantial investments in software and technology, including the new distributed resource market contemplated in the REV proceeding and operations software and controls and communications technologies that are needed to create such a market. RGGI funds should be used toward the development of this software and technology to allow greater penetration of solar and other clean distributed resources and reduction of the State's overall carbon emissions.

Other electric investments that would support both the REV Proceedings goals and the RGGI programs goals include:

- Investing in further penetration of "modlets" (*modern outlets*) that allow utilities to control window air conditioners that are prevalent in dense urban areas within the State; "peak shaving" via modlets will allow utilities to manage growth in peak demand, defer infrastructure investments, and avoid dispatching some of the least clean generation resources during peak hours.

- Furthering existing development efforts to provide more rapid information on demand response actions to customers, which will provide more immediate feedback to customers on their actual performance in a demand response event as well as enable more rapid payment for demand reducing actions to customers and thereby make such programs more attractive to potential customers.
- Funding pilot AMI programs at the State's utilities to install more smart meters, particularly in regions where the utility is making other demand reduction investments in order to defer infrastructure; AMI may be an enabling technology to test out some of the ideas that are being discussed as part of the REV Proceeding.
- Reducing transmission and distribution ("T&D") line losses in major load pockets by installing automated capacitor banks which can 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. Such investments increase the efficiency of the T&D system, an important goal of the REV Proceeding. 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.

2. *The Plan Amendment Should Prioritize Using RGGI Funds to Reduce Electric Sector Carbon Emissions*

While the electric sector clearly has an inherently 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 focus on 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. This is a “virtuous cycle” where funds which are ultimately collected from customers are used to reduce carbon emissions, achieving a key objective of RGGI, and rewarding customers with both a cleaner electric generation sector as well as lower future costs of carbon allowances. In contrast, using RGGI funding in ways that do not reduce electric sector carbon emissions may reduce overall carbon emissions, but the customers who are the source of the RGGI program funds will not benefit from a reduction in the upward trajectory of carbon prices in future years.

3. *Non-Budgeted RGGI Funds Should Be Used to Reduce Customer Surcharges for Existing Public Benefit Programs or for Funding the NY Green Bank*

NYSERDA and the State have already used RGGI funds to pay for renewable energy programs, including a proposal in the Plan Amendment to spend \$48.16 million over the next two fiscal years on the New York Sun solar PV program. Such spending could be further improved by using RGGI funding to reduce the State’s EEPS and RPS collection amounts, particularly if RGGI funds are larger than currently expected. In the Plan Amendment, NYSERDA assumes RGGI allowances clear at \$3.22 per allowance in 2014, \$3.40 per allowance in 2015, and \$3.60 in 2016. But in the most recent RGGI auction, allowances cleared at \$4.00, and demand for allowances resulted in RGGI, Inc. including all of the “cost containment allowances” available for 2014 in the auction. While there is uncertainty in actual future allowance clearing prices, it seems possible based on results from the most recent auction that allowances prices will come in higher than NYSERDA expects. Should this occur, the Companies suggest that these “unbudgeted” RGGI funds be used to help customers during continued difficult economic times by funding a portion of the RPS, SBC, and EEPS programs, and reducing the utility bill surcharges currently used to fund those programs. Utilities could reduce or even eliminate RPS, SBC, and EEPS program collections during period

when RGGI proceeds are above the budgeted level, and resume collection for RPS, SBC, and EEPS at a later date. This would help moderate electricity prices, support continued economic recovery in the State, and reduce the likelihood that excess RGGI funds are used outside of the electricity sector, as was done when \$90 million in RGGI proceeds were ‘swept’ by the State to help reduce a budget shortfall.² Putting RGGI money to work now to help utilities reduce the burden of public policy program costs on customers also reduces the opportunity to divert that money for other purposes outside of RGGI goals.

In the alternative, should the State not use RGGI funds to mitigate the collection of public policy program surcharges, the State should consider using RGGI proceeds above currently-budgeted amount to continue and potentially complete the capitalization of the NY Green Bank. The NY Green Bank was capitalized with \$218.5 million, which was provided in part by repurposing uncommitted RPS, SBC, and EEPS funds and in part by contributing uncommitted RGGI proceeds to the NY Green Bank. The State has committed to a \$1 billion capitalization of the NY Green Bank, but additional repurposing of RPS, SBC, and EEPS funds could threaten the viability of those programs in their present form.³ Using excess RGGI proceeds to complete the NY Green Bank capitalization is consistent with the RGGI program’s overall mandate, and will allow the State to achieve its capitalization goal without additional surcharges on customer bills. Moreover, because the NY Green Bank is likely to fund, directly or indirectly, projects that will mitigate CO2 emissions from the electric sector, using RGGI proceeds in this way will relieve pressure on future RGGI allowance prices and ultimately result in electricity prices that are lower than they would have been otherwise.

² 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.

³ While the Clean Energy Fund Proceeding envisions reductions in overall collections, it also notes a need in the short term to preserve funding for clean energy programs during the industry transition contemplated by the REV Proceeding.

CONCLUSION

The Companies urge NYSERDA to consider these comments in finalizing the RGGI Operating Plan. 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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