



Comments Re. New York State Energy Plan Interim Report

May 15, 2009

The New York State Energy Plan Interim Report provides an opportunity to revitalize our state's economy by investing in a balanced portfolio of clean energy solutions and energy infrastructure projects that are cost-effective, and that also create jobs and make New York more competitive in attracting new investment. Its preliminary findings outline policies with the potential to promote economic development and job creation, foster private investment, increase the tax base, enhance energy reliability, lower consumer bills, and protect public health, safety, and the environment.

Central Hudson supports efforts such as:

- Deploying cost-effective energy efficiency and demand response programs to reduce energy costs.
- Maintaining NYPA economic development programs until long-term extensions can be put in place.
- Facilitating the development of renewable and other clean and diverse energy resources that create jobs and economic activity in New York State, including partnerships with utilities that allow for opportunities to own and ratebase such installations.
- Supporting cost-effective investment in new infrastructure using advanced technologies (smart grid) that will support the deployment of energy efficiency and demand response, integrate renewable generation into the electricity grid, and facilitate the use and connection of electric vehicles.
- Upgrading and constructing electric transmission and distribution infrastructure, pursuant to appropriate regulatory review, that will facilitate access to remote renewable and other clean energy.
- Encouraging efficiency in generation resources, and appropriate new options to bring new electricity supplies on line.
- Transportation options that improve mobility and reduce emissions that contributes to climate change.

The NYSPSC should be empowered to act quickly, assertively and effectively to develop regulations, promulgate rules, render decisions, approve programs and plans, and take other action as necessary to implement the provisions of this legislation. The PSC should be required to report to the Legislature on its progress in implementation by a date certain.

Central Hudson's responses to the Interim Report's Preliminary Findings are as follows:

- 1. The State's clean energy sector is built on a foundation of investments in energy efficiency and renewable energy. The growth of this sector will expand economic development opportunities across many industries and regions in New York. Clean energy investments create local jobs, reduce the outflow of dollars to pay for energy imports and make the State more energy independent and secure.**

Central Hudson supports the premise that the clean energy sector is built on investments in energy efficiency and renewable energy, and Central Hudson can best accomplish these goals at the lowest possible cost to customers. Central Hudson should be allowed to ratebase renewable generation, as this will spur greater penetration within our service territory and may also provide an additional economic development benefit. Central Hudson is also in the best position to provide the services of energy efficiency and distributed generation, as we are closest to and most trusted by our customers.

Renewable generation

- Statewide renewable electricity requirement (e.g., 30% by 2015) – should include a specific target for the development of solar resources (e.g. 500 MW) and for wind resources – with a combined goal for renewable electricity and energy efficiency of 45% by 2015 as announced in Governor Paterson's State of the State address.
 - Distribution utilities and their affiliates should be allowed to finance, develop, own, and operate renewable generation on either company, or customer-owned buildings, structures or properties in order to assist the State in meeting this goal, as is taking place in other states.
 - Regulated distribution utilities should be provided full and timely cost recovery of prudent and verifiable investments in such renewable generation.
 - Utility ownership permits energy and capacity benefits to flow to customers.
- Supportive policies should advance wind, solar, low-head hydro, biomass, compressed air energy storage, geothermal, landfill methane, and storage technologies - including renewable electricity utilization for plug-in hybrid electric vehicles and policies that support recharging infrastructure - and use of biodiesel and biogas for power generation to support intermittent renewables and improve transmission reliability. Specific supportive policies may include one-stop and expedited permitting and market-based RPS pricing.
- Supportive policies should advance renewable gas (biogas) for injection into the natural gas pipeline system, in a manner that meets manufacturers' standards for electric generation (turbine) technology.
- Establish an economy-wide renewable (electricity, renewable gas, and transportation fuels) requirement (e.g., 25% by 2025).

Energy Efficiency and Distributed Generation

- Emphasis must be placed on energy efficiency/demand management programs when they represent the least-cost, fastest means of meeting customer energy

- requirements. These programs will reduce customer bills to help offset costs of other clean energy initiatives.
- State policy should direct that all cost-effective, end-use energy efficiency be pursued by distribution utilities and other third parties consistent with the state's energy and environmental goals, including the goal of reducing electricity usage 15% by 2015, as is already being implemented by the PSC. Such policy should allow for increased electricity sales for electric vehicles and other new, efficient electric applications.
 - A comparable goal for natural gas should also be developed that allows for increased sales associated with new end-uses such as new gas heating customers, natural gas or steam chillers, cogeneration, fuel cells, or electricity for vehicles and other new, efficient electric applications.
 - In order to encourage increased investment by distribution utilities in energy efficiency and distributed generation, distribution utilities should be able to recover (via rates) in a timely manner all costs associated with investments in energy efficiency, advanced metering and distributed generation.
 - All electric and natural gas distribution utilities should have removed all disincentives for advancing energy efficiency and distributed generation. To remove disincentives, utility distribution revenues should be decoupled from sales (volume) of electricity and natural gas by allowing regular adjustments of forecasted sales with actual sales.
 - Performance-based incentives for promoting energy efficiency and clean distributed generation should also be provided, along with full cost-recovery and decoupling. Performance-based incentives should include penalties for under performance and increased incentive for exceeding targets. Performance-based incentives could include allowing utilities to earn a ROE on efficiency investments.
 - A distribution utility should be allowed to own distributed generation in its service territory and to facilitate customer ownership of distributed generation (solar, fuel cells, low-head hydro, anaerobic digesters, combined heat and power) via ratebasing.
 - Legislation should require improvement in building codes, regular improvements in standards for energy-using products, and encourage building benchmarking.
 - All state facilities should improve the energy efficiency of their operations by at least 25% over the next five years with financing provided by the New York Power Authority.
 - Distribution utilities should be allowed to recover these costs from customers immediately in rates. (Large customers could be exempted if they invest their pro-rata contribution in improving the efficiency of their own facilities.)
 - Distribution utilities should be allowed to provide additional services to customers such as natural gas and electric system service contracts, energy efficiency services, etc., and recover costs from customers through rates.

2. New York has been a leader in addressing climate change through the Regional Greenhouse Gas Initiative (RGGI) and its commitment to improvements in energy efficiency and renewable energy generation, among other actions. However, the growing dangers posed by climate change suggest the need to adopt additional carbon reduction strategies over the planning horizon.

New York State should not adhere to stricter greenhouse gas standards than currently in place. Doing so only puts New York State at a greater disadvantage in terms of energy costs and job creation. The incremental direct benefit to the global atmosphere cannot justify the costs.

Climate Change

- Until comprehensive federal climate legislation is approved, the stated goals of the RGGI for power plant CO₂ emissions (e.g., states shall reduce power plant CO₂ emissions beginning in 2015 by 2.5% each year in order that the base line for CO₂ will be 10% less by 2018) should serve as the target. With passage of any national legislation, RGGI shall be harmonized with the federal program.
- Distribution of RGGI auction revenues should be made to utilities for delivering end-use electric and natural gas energy efficiency, clean distributed generation and renewable electricity to customers.
- In order to reduce tailpipe emissions, New York must become a leader in the electrification of the transportation sector - including development of advanced battery technologies. New York must adopt a holistic perspective that recognizes that total electric use will increase through this approach but that air emissions will be reduced. Programs must be developed to allow utilities to build and earn a reasonable return on the infrastructure necessary to support plug-in hybrid vehicles.
- Consider policies to support increased use of compressed natural gas vehicles in New York.

3. Demand for natural gas is expected to grow over the planning period. New infrastructure may be needed to support this growth in demand to ensure adequate and reasonably priced supplies.

Central Hudson supports developing alternatives for increasing natural gas pipeline capacity to the state, and urges more expeditious siting of natural gas pipelines.

- Encourage prompt regulatory review and support for infrastructure investments and contractual commitments by local natural gas distribution companies that will be required to deliver natural gas to firm natural gas customers and to electric generating facilities, and for new end-uses that reduce greenhouse gas emissions (e.g., fuel cells, cogeneration, CNG vehicles), as well as expanding traditional gas end-uses by allowing full and timely recovery of prudently incurred capital costs and reasonable opportunity to earn fair rates of return.

4. New York's transportation sector will use many strategies to significantly reduce its reliance on petroleum-based fuels over the long run. The most important of these long-term strategies are likely to target the increased market penetration

and use of electric vehicles. In the short and mid-term, transportation system efficiencies will be improved, mass transit will be supported, and alternative fuels will be used to add to the fuel diversity of the sector.

Central Hudson supports the concept of plug-in hybrid vehicles and the electrification of the transportation system, but the Interim Report contains virtually no actionable items for the transportation sector notwithstanding that it is responsible for 36% of CO2 emissions.

As included under Finding 2:

- In order to reduce tailpipe emissions, New York must become a leader in the electrification of the transportation sector - including development of advanced battery technologies. New York must adopt a holistic perspective that recognizes that total electric use will increase through this approach but that air emissions will be reduced. Programs must be developed to allow utilities to build and earn a reasonable return on the infrastructure necessary to support plug-in hybrid vehicles.
- Consider policies to support increased use of compressed natural gas vehicles in New York.

5. The modernization and expansion of the bulk electricity transmission grid within and beyond the State's borders, with emphasis on Smart Grid technologies, will be an important means to fully optimize cleaner generation resources and provide the ability to manage energy systems with greater efficiency.

Central Hudson fully supports the modernization and expansion of the bulk electricity transmission grid and recognizes that investor-owned utilities are best able to accomplish that goal. Energy that cannot be delivered has no value, and new renewable generation is going to require new transmission. Also, the most prudent way to advance Smart Grid initiatives is to move AMI pilots along at an accelerated pace so there can be greater clarity of their benefits prior to making large-scale investments.

- Require the NYSPSC working with the New York Transmission Owners (NYTOs) and the New York Independent System Operator (NYISO), to develop within a specific time period a comprehensive transmission strategy for New York, subject to normal regulatory review and oversight, that: identifies potential transmission capacity enhancements and expansion for reliability and public policy purposes; ensures appropriate cost recovery of the investment; and addresses cost allocation and financing.
 - The transmission strategy should be developed consistent with the Federal Energy Regulatory Commission (FERC) Order 890 and the NYISO Comprehensive Planning Process currently required by FERC. In addition, to the extent any changes to the FERC and/or NYISO processes may be warranted, such changes should be identified and pursued in the

appropriate FERC and/or NYISO processes and be consistent with PSC's decision on resource adequacy.

- Provide proper investment incentives to develop electric transmission and distribution improvements necessary to meet reliability, economic and public policy objectives – incentives that recognize the risks involved in development efforts and that our existing transmission infrastructure limits renewable energy sources from accessing the transmission system. The following are mechanisms that should be considered:
 - Voluntary joint ownership by the NYTOs, consistent with appropriate regulatory oversight, should be considered as a mechanism for facilitating the development of new transmission.
 - Symmetrical regulation that provides electric utilities with the opportunity to achieve superior earnings for delivering superior service to customers should be encouraged.
 - An infrastructure system investment charge that provides for full and current cost recovery of transmission and distribution investments. The infrastructure system investment charge should provide for recovery by New York's existing Transmission Owners of FERC-approved transmission costs. This would be an adjustment charge that is annually reconciled as a pass through to all distribution customers. The NYPSC should be encouraged to separate transmission and distribution and to support a FERC approved formula rate, particularly for new transmission projects.
 - NYPSC support for FERC ROE and other rate incentives for transmission constructed by the NYTOs that provides access to renewable resources, enhances the economics of the wholesale electricity market and helps to achieve other public policy objectives (e.g., renewable energy development, greenhouse gas emission reductions, etc.).
 - A reasonable opportunity for distribution utilities in New York to earn fair rates of return that provide full recovery of the prudently incurred cost of capital and are benchmarked to similar national or international utilities that provide attractive shareholder return. (In ever-increasingly uncertain capital markets, utilities require strong credit ratings to attract investors; regulators must ensure the financial strength of utilities over the short and long term.) Require the PSC to work with distribution utilities and use regulatory mechanisms to help distribution utilities achieve and maintain "A" level credit ratings.
 - Establishment of NYPSC policies that support multi-year performance-based rate plans for local distribution companies that provide incentives for reliable service, recognize infrastructure investment priorities, provide marketplace stability and certainty and establish reasonable earnings parameters that balance customer and investor needs by providing fair returns. Such plans should be consistent with infrastructure investment recovery mechanisms and provide cost recovery consistent with the need to replace aging equipment, which is generally at a higher cost than the depreciation allowances.
- Promote investment in smart grid technologies, including but not limited to advanced metering technologies that improve the operating efficiencies of the

system and provide consumers with the ability to better manage their energy use and reduce their costs. Smart grid technologies can also lead to reductions in greenhouse gas emissions by facilitating energy efficiency, distributed renewable generation and deployment of electric vehicles.

- Provide for timely regulatory review and cost recovery (including recovery of costs for equipment that may be replaced before it is fully depreciated) of prudently incurred costs and sufficient return.
- Consider whether additional incentives for smart grid technologies may be appropriate, including the types of incentives that FERC uses for transmission, such as FERC-type formula rates with assumed 50/50 capital structure, ROE adders, and upfront CWIP recovery.
- Advanced metering (consistent with smart grid strategies) or equivalent technologies should be implemented based upon technology availability, appropriate application, cost-effectiveness, and statewide standards.
 - Utilities should be able to recover the costs of such infrastructure through mechanisms such as accelerated depreciation. Cost recovery should also include the costs associated with stranded assets that have not yet been fully depreciated. Distribution utilities should also be eligible to earn incentives to meet or exceed deployment schedules.

6. The New York Power Authority (NYPA) is a valuable State asset that may provide even greater value through a restructuring of the Authority's economic development programs.

Central Hudson is very concerned with the debt capacity of NYPA and all state authorities. Maintaining NYPA economic development programs until long-term extensions can be put in place. Other initiatives should include:

Green Economic Development/ Power for Jobs

- Legislate long-term extension of Power for Jobs (PFJ), Economic Development Power (EDP), High Load Factor (HLF) and Municipal Distribution Agency (MDA) energy programs; adoption of new allocation-based program; consider shifting current hydro allocations to economic development purposes; and establish criteria to include capital and efficiency investments; job retention and/or creation of "quality" of jobs and local economic impacts.
- Develop an integrated New York State economic incentive/investment package, for demonstration and manufacturing of "clean energy" products (e.g., advanced batteries) and for other "green/greener" products, including capital, tax, energy and other financial incentives.
- The Empire Zone program should be modified in order to include green collar industries.
- Empire State Development Corporation discretionary incentives should be tied to job creation, retention and capital investment (New York State is currently extremely uncompetitive in this race as compared to other states) and targeted at certain industry clusters such as clean tech, solar, semiconductor, R&D, and should be.

- Support a robust workforce development plan and fully integrate public and private universities into such strategy for the development of a green economy.

7. New York has made considerable progress in reducing environmental impacts and health risks associated with energy production and use, and further emission reductions across all sectors of the economy will likely be necessary over the planning horizon.

Central Hudson response

As discussed above, renewable energy investment by CH can help the state further reduce environmental impacts and health risks associated with the energy production and use. Renewable projects in the Hudson Valley is beneficial due to the Valley's location proximate to New York City, which will help NYC area achieve compliance with NAAQS, with a minimum investment in transmission infrastructure.

As included under Findings 2 and 4:

- Distribution of RGGI auction revenues should be made to utilities for delivering end-use electric and natural gas energy efficiency, clean distributed generation and renewable electricity to customers.
- In order to reduce tailpipe emissions, New York must become a leader in the electrification of the transportation sector - including development of advanced battery technologies. New York must adopt a holistic perspective that recognizes that total electric use will increase through this approach but that air emissions will be reduced. Programs must be developed to allow utilities to build and earn a reasonable return on the infrastructure necessary to support plug-in hybrid vehicles.
- Also, see responses under Finding 1 regarding renewable energy and energy efficiency.

8. The State continues to identify policies and strategies to make systematic progress in addressing energy-related concerns of Environmental Justice communities.

Construction of renewable generation projects in the Hudson Valley could help the state reach its environmental justice goals by sending renewable generation in New York City, and allowing natural gas-fired generation to be reduced in the summer months when air quality standards are most difficult to meet. Utilities are also most capable of finding solutions to best meet energy, environmental and community needs:

Encouraging Generation Investment

- Subject to appropriate regulatory review, distribution utilities should be allowed to propose generation solutions where they will advance the state's energy and environmental policy goals, notwithstanding any existing NYPSC Order or stipulation made prior to the enactment of legislation regarding such matter.
- To the extent that the above mechanisms fail to elicit development of needed electricity resources consistent with public policy objectives such as the

promotion of renewable and other clean energy resources, reliability and lower prices, distribution utilities should be encouraged to consider alternative mechanisms. In this regard, a resource hierarchy should be employed by utilities to choose cost-effective, environmentally responsible, and reliable resources to meet demand, with priority given to employing energy efficiency, demand-side management and renewable resources.

9. New York may progress toward a number of its critical energy, economic, and environmental objectives through strategic inter-state and intra-state regional collaboration efforts.

Central Hudson concurs. See also responses to Finding 6 (regarding economic development programs)

10. Near-term investment in infrastructure to support liquid fuels for heating and electricity generation will be necessary to ensure supply reliability and flexibility over the short run.

Central Hudson concurs. Power plant citing issues must also be addressed:

- Include coal and nuclear
- Accelerated permitting for repowering of existing generation sites in order to address property taxes, utilization of existing infrastructure and community revitalization through economic stimulus and job retention.