

**the
energy association
of n.y.state**

SUITE 601, 111 WASHINGTON AVE., ALBANY NY 12210
TEL : 518-449-3440 FAX: 518-449-3446



**COMMENTS
Of
THE ENERGY ASSOCIATION OF NEW YORK STATE
on the**

**2009 New York State Energy Plan (SEP)
Interim Report**

Submitted May 15, 2009

**Member Companies: CH Energy Group; Consolidated Edison, Inc.; Entergy
Nuclear; National Fuel Gas Company; National Grid
Acting Executive Director: Kevin Lanahan**

The Energy Association of New York State appreciates this opportunity to comment on the 2009 New York State Energy Plan (SEP) Interim Report. Member companies were generally pleased with the general direction conveyed and wholeheartedly support the State's emerging Clean Energy Agenda.

The Energy Association is optimistic about the state's long term economic prospects and the opportunities and possibilities that exist for New Yorkers relative to advancing a new and bold direction in energy policy. The state must prepare now for a future where customers make real time, interactive, economically efficient and environmentally minded energy choices.

Most forecasts indicate economic recovery beginning in the next 12 months. Yet the state must also recognize that economic recovery and the pace of such recovery remains uncertain. The current economic conditions present an opportunity for the energy industry to contribute to economic recovery, to promote employment opportunities and to plan a bold and intelligent vision for the state's energy future. The Energy Association believes that the state should consider energy policies that attract investment and encourage energy initiatives in the near term that are cost effective, maintain grid reliability and promote job growth. This effort should include energy reliability programs and energy efficiency opportunities in the short term. Over the long term the state should begin now to lay the groundwork for significant investments in smart grid.

A major challenge for state energy policy is to address the short term economic situation and at the same time responsibly address the long term goals of building a modern and clean energy supply for New York's future.

As the Energy Coordinating Working Group deliberates and finalizes the State Energy Plan, we offer additional comments on the following items that we believe the SEP should promote:

- Increased involvement of utilities in delivering the State's Clean Energy Agenda;
- Utility investment in renewable generation to increase the pace and scale of the State's renewable portfolio;
- Increased investment in natural gas infrastructure;
- Unbundling of transmission rates to facilitate investment in electric transmission;
- Actions that increase the regulatory certainty of adequate and timely cost recovery with a level of returns to enable necessary investment to support the State's Clean Energy Agenda (including those items mentioned above);
- Creation of a forward capacity market to improve wholesale market operations; and
- Consolidation of various sources of Clean Energy funding to optimize and quicken the effective deployment of those funds.

The following will address detailed comments on each of these items.

Support for more utility involvement in State’s Clean Energy Agenda, including Smart Grid.

As recognized in Preliminary Finding # 5, the state can increase the effectiveness of its electric-funded expenditures by tapping into the expertise of utilities through the funding of additional activities in existing utility programs that will reduce emissions and move the state toward a sustainable renewable energy system. The PSC has begun to approve utility-managed energy efficiency programs, and are considering smart grid deployments in certain circumstances. A number of New York utilities have existing or proposed programs to install solar resources in their service territories that have the potential to mitigate carbon emissions. Current efforts to test smart grid concepts show promise with specific opportunities that can improve electric system efficiency. We encourage the SEP to promote timely approval of beneficial efforts proposed by utilities.

Renewable Generation in Rate Base

As noted in Preliminary Finding # 1, To meet the state’s environmental and climate change goals, substantial additional renewable electric generation (in addition to large-scale wind projects noted in the Interim Report) must be developed and put on-line throughout the State while at the same time minimizing price impacts to customers. The State Energy Plan should support a variety of models for developing renewable energy projects, including utility investment and ownership. Utilities may be able to invest on scale that other entities cannot, thus reducing costs to customers. Utilities can also help to bridge financing gap for customers with much shorter investment horizons. New York State utilities should be authorized to develop and implement distributed and/or central station renewable electric generation projects through investment and equity ownership in such projects with the regulatory certainty necessary to attract the affordable capital necessary and to consider the price impact on customers.

As applied to renewables, such an approach could take several forms, including:

- Utility build and own;
- Utility build and own in various forms of partnership with renewable developers;
- Utility ratebased financing of projects built by developers.

Under any such approach the key would be for the utility to have an equity interest in projects and for capital/operating costs to be recovered in utility rates, subject to PSC approval. Such an approach provides for the development of renewable generation on a scale, at a pace, and at a level of affordability not otherwise possible.

To facilitate the growth of renewable generation, the State Energy Plan must also develop the necessary policies and incentives to integrate renewable resources into the state’s transmission grid.

Natural Gas Infrastructure Investment

Natural gas is an accepted, clean-burning, abundant domestic source of fuel for homes and businesses in New York. Increased direct use of natural gas in residential and commercial applications or in electric generation plants, when that use displaces combustion of dirtier fuels such as heavy fuel oils, would reduce CO₂ emissions and result in overall increased air quality as is achieved also from oil to gas conversions. Increased natural gas use necessitates an expansion of the State's existing natural gas distribution and transmission infrastructure and such expansion should be a priority in the State Energy Plan and of State energy policy.

As alluded to in Preliminary Finding # 3, a high priority is expansion of the state's existing natural gas distribution and transmission infrastructure. The pipeline infrastructure is not only the backbone of the natural gas market but also an essential component of the electric market in New York. Economic development, retail competition, energy conservation, natural gas production and all other programs important to New Yorkers rely for their effectiveness on the long-term integrity of the state's pipeline network.

Even though natural gas is abundantly available, like all energy sources it should be efficiently consumed. As with electric utilities, it is also important that gas utilities play a leading role in administering energy efficiency and conservation programs directly to consumers.

The need for additional natural gas delivery infrastructure in New York State will increase in the coming years. It is clear that natural gas will have an even more important role to play in the future national energy marketplace. New York State has an opportunity not only as a consumer of natural gas supplies but also as a potential producing region of natural gas supplies.

In order to fully take advantage of this indigenous source of energy supply, New York State will need to develop policies that support the development of natural gas delivery infrastructure. Support will be needed to develop the piping infrastructure to gather supplies from the wellhead as well as expand the transmission infrastructure to transport gas supplies to market. The New York State Energy Plan should not ignore this opportunity to bring relatively high paying natural gas production jobs to the economically stagnant southern tier of New York State, particularly where this indigenous energy source can be used to bring cost effective clean burning natural gas supply to the homes and businesses of New York State.

Further unbundling rates

Recognizing, as noted in the Interim Report, that New York shares certain responsibilities and jurisdiction over transmission with the Federal Energy Regulatory Commission (FERC) and that investment in transmission is a key enabler of accessing renewable generation necessary to meet the State's policy objectives, the State Energy Plan should encourage the PSC and transmission owning utilities to consider unbundling transmission rates from overall rates to facilitate the building of new transmission. Unbundled rates

would help align rate-making both with the nature of the investments and their associated risks and with each jurisdictional body, while eliminating duplicate rates and tariffs. This should enable a more focused (and faster) regulatory process for new transmission proposals. In addition, streamlining the rates and tariffs and increasing transparency of the transmission rate on bills would aid customer awareness and understanding of future rate increases necessary to meet the State's policy objectives.

Regulatory Certainty

As noted in the Interim Reports Preliminary Finding #1, one of the essential components is the need to address access to adequate capital, both public and private, to meet the State's clean energy agenda. We agree that a stable regulatory environment is fundamental to utility and others' investment in the necessary infrastructure to realize a clean energy future. The need to replace aging infrastructure, as well as build new infrastructure that will be required to meet environmental and other policy goals of New York State, results in a substantial need for investment capital in the upcoming years. The State Energy Plan should be mindful of the interrelation between capital markets and utilities, which will be making investments to further the State's Clean Energy agenda.

Timely cost recovery and returns commensurate with the perceived risks will affect each utility's cost of capital. Ignoring this interplay may result in unintended consequences for customers. For example, if state regulators focus primarily on minimizing short-term customer costs by reducing the returns allowed to a utility or disallowing recovery of certain costs, this can result in downgrades to that utility's credit rating (making borrowing more expensive) and reducing the stock price of that utility (making raising capital via equity issuances less effective). Raising the cost of borrowing and issuing equity will make necessary investments more expensive, with the ultimate effect of raising prices to consumers over the long term. Conversely, assuring a fair return on invested capital and more certainty over cost recovery will allow utilities and other market participants to lower the overall cost of capital, resulting in lower long term prices for consumers.

Forward Capacity Markets

In order to ensure sufficient supply is available to meet electric demand at peak usage, New York has a market to procure electric capacity. Capacity can be procured for up to one year in advance of need. Neighboring markets, however, have instituted markets for capacity which procure three years prior to need and permit new resources to lock-in prices for a longer period of time.

A forward capacity market should be mandatory with a three year forward planning horizon. A forward capacity market with an extended commitment period for new entry should facilitate greater participation of new resources and better align New York with neighboring regions. With the implementation of a mandatory forward capacity market,

the setting of prices by use of an administratively-determined demand/supply curve is not necessary and should be eliminated.

Bilateral agreements and self-generation of resources are essential within a forward capacity market construct and should be accommodated in a manner that minimizes administrative burdens and hurdles. If this cannot be achieved, an opt-out provision may be necessary. A forward market must allow imports into New York and exports from/to the NYCA New York and should also promote broader regional capacity markets.

Consolidation of Clean Energy Funds (RGGI, SBC, EEPS, and RPS).

To support Preliminary Finding # 1 to strengthen the foundation of investments in energy efficiency and renewable energy, the state should consider the development of a single comprehensive plan to achieve the goal of a sustainable energy system using all available funding sources.

It is critical that all funds currently available be optimized (including funds from the Regional Greenhouse Gas Initiative, the Renewable Portfolio Standard, and the System Benefits Charge programs) so that customers funding the programs that are necessary in the most efficient manner, and that the funds are put to use immediately including by utilities, that can aid in the achievement of the state's policy goals. An uncoordinated collection of programs is less likely to result in the transformational changes that are needed to address climate change than is a single, coherent program. By integrating the various and disparate programs duplication will be eliminated, administrative costs will be reduced and with increased focus the likelihood of achieving the state's ultimate goal will be increased.