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March 4, 2005

Honorable Jaclyn A. Brillling
Secretary
State of New York
Public Service Commission
Three Empire State Plaza, 19th Floor
Albany, New York 12223-1350

Re: Case 05-M-0090 - In the Matter of the System Benefits Charge III

Dear Secretary Brillling,

I have enclosed for filing the original and fifteen hard copies of the comments of the American Wind Energy Association (AWEA) for the Notice Soliciting Comments issued on January 28, 2005 in Case 05-M-0090, In the matter of the System Benefits Charge III.

These comments will be served electronically to the active parties for the case through the DPS list serve for the SBC III proceeding.

Respectfully submitted,

Valerie Strauss
Senior Policy Analyst
For the American Wind Energy Association

Enclosure

**New York State
Public Service Commission**

Case 05-M-0090 In the Matter of the System Benefits Charge III

**INITIAL COMMENTS
OF THE
AMERICAN WIND ENERGY ASSOCIATION**

Introduction

On January 28, 2005 the Public Service Commission (Commission) published a Notice Soliciting Comments for Case 05-M-0090 – In the Matter of the System Benefits Charge III. The Notice is to solicit comments for consideration during a staff review of the System Benefits Charge (SBC) program in order to prepare for future SBC programs. The American Wind Energy Association (AWEA) welcomes the opportunity to provide these comments for consideration. In addition, AWEA is a signatory to the comments of the Clean Energy Advocates (CEA), which are being submitted separately. These comments repeat some of the views expressed by CEA and expand on those comments as they relate to wind energy in particular. These comments only address certain questions from the January 28, 2005 Notice.

It is increasingly evident that renewable energy such as wind power must play an ever-increasing role in New York's energy mix. Large-scale additions of new fossil fuel generation will only contribute to existing environmental and public health problems and the cleanest of these, natural gas, is increasing in price and volatility. In contrast, wind energy is indigenous, inflation-proof power since it requires no fuel and New York has an excellent wind resource. Additions of wind energy to the electric supply mix reduce

airborne emissions from the power sector and free-up often constrained natural gas supplies.

The wind energy industry believes that the major successes of the SBC program to date indicate the programs are appropriate and effective. We look forward to working with Commission Staff, NYSERDA, and the other active parties to craft an expanded and renewed SBC program that will help New Yorkers continue to reap the environmental and energy security benefits that wind energy can provide.

Responses to Select Questions

1. To what extent have the goals and objectives established by the Commission been achieved?

The SBC program is widely recognized as innovative and successful. The program provides many benefits to direct recipients of funds and to all New Yorkers. The overall conclusion of the May 2004 *Program Evaluation and Status Report* was that “the Program has fostered and accelerated market development in the areas of energy efficiency, peak load reduction, and renewable energy that would not have occurred in the absence of the Program.” (*New York Energy Smart Program Evaluation and Status Report, Final Report, Vol. I, ES-iv, May 2004.*) The *Evaluation and Status Report* provides lengthy documentation of the program’s outstanding and cost-effective achievements. These investments in energy efficiency and renewable energy provide otherwise unobtainable environmental and energy security benefits.

Despite the successes of the program, there is still need for continued public investment, in other words, for a continuation and expansion of the SBC. New York has a significant wind resource whose development is just now beginning. Judicious use of

SBC funds to spur wind energy industry interest in the State's significant wind resources has been very successful, but building markets and overcoming barriers to private investment takes time. There are significant barriers that cannot be overcome without continued market development assistance, as discussed more fully below. With rising energy prices and continued advancements in technology, wind energy is increasingly cost-competitive with fossil-fuel, despite the continuing lack of economic accountability for the public health and environmental impacts of fossil-fuel emissions, and the recently enacted Renewable Portfolio Standard (RPS) will provide a much-needed incentive for the use of this pollution-free power source. But timely and full implementation of the RPS will require more than simply the production-based payments for renewable energy attributes. Ongoing use of SBC funds for RPS implementation activities will be essential to the State's ability to realize its renewable energy generation targets.

2. Should the SBC program continue beyond its current expiration date of June 30, 2006? If so, for what duration should the SBC be extended and at what funding level?

AWEA believes it is essential for the SBC to continue beyond its expiration date of June 30, 2006, and for funding levels to increase. AWEA supports an 8-10-year program that will foster greater market certainty and stability. A longer-term program will provide the program continuity and certainty necessary to attract wind energy industry firms and support industries to New York State. Successive short-term reauthorizations do not have the same impact and do not send the same market signals. The wind energy industry is all too keenly aware of the boom and bust cycles regulatory uncertainty can cause as the successive expirations and reauthorizations of the federal

Production tax Credit (PTC) for wind power have clearly illustrated. AWEA realizes that the Commission itself is very aware of the detrimental impact of the PTC experience and encourages the Commission to create a New York program that does not have this same defect. In addition, an 8-10 year time horizon for a reauthorized SBC would coincide with the time horizon for full implementation of the RPS. For the reasons indicated elsewhere in our comments, the SBC should play an integral role in the achievement of RPS targets, and therefore a coincident time frame is appropriate.

3. Have conditions changed since the establishment of the SBC that would necessitate a change in the overall goals and objectives of the SBC? If so, what changes are recommended?

Conditions in the energy sector are always changing, and therefore State energy programs must be designed to be flexible. The broad program areas within the SBC provide the flexibility needed to address issues as they arise. We do not believe any major changes are needed in the SBC's renewable energy program design beyond acknowledgement that generation receiving RPS payments should not also receive payments from the SBC. However, there are changes that make it increasingly important to maintain a robust SBC program for renewable energy. The State's commitment to a reduction in greenhouse gases, the continuing adverse environmental and public health impacts of fossil-fuel consumption, the rising price and increased price volatility of natural gas, and declining income opportunities for rural, upstate landowners can all be addressed through increased development of and reliance on the State's indigenous wind energy resources.

5. How might the SBC programs be adjusted given the Commission's order, issued September 24, 2004, regarding a Renewable Portfolio Standard (Case No. 03-E-0188)?

The SBC funds used to support renewable energy resources have successfully leveraged the development of the State's indigenous clean energy resources. In fact, the SBC's renewable energy programs created a statewide awareness of the vast potential of renewable energy going largely untapped and laid a foundation for the adoption of a Renewable Portfolio Standard (RPS).

During SBC II some funds were used to provide direct incentive awards to wind energy generators and small wind system purchasers. The PSC order in Case No. 03-E-0188 correctly restricts RPS eligible generation such that both SBC-funded direct incentives and RPS incentives cannot be collected simultaneously. Therefore, it would be entirely appropriate to redirect funds previously used for direct incentives to other areas of support for renewable energy. Beyond some reallocation of funds within the renewable energy programs to specifically support RPS implementation, however, no major adjustments should be made to the existing SBC programs for renewable energy. Continued SBC funds will be essential to timely and complete implementation of the RPS and attainment of the State's renewable energy goals.

RPS premium payments provide generators with a return for the "public benefits/environmental attributes" of their generation. These payments alone, however, cannot create the requisite market support needed nor overcome all barriers to realization of the State's renewable energy goals. SBC III should provide continued funding for renewable energy to be used for activities to ensure the successful implementation of the RPS, and continued exploration of renewable energy opportunities as they arise. These

activities include: facilitating siting and permitting; public education and outreach; green market development; basic research, development and demonstration of renewable generation technologies; and professional training and certification programs. SBC funds should also be used to develop pilot or demonstration projects for new applications or worthy installations unlikely or unable to participate in the RPS. One such example is customer-sited wind projects greater than 300 kw, which are currently not eligible under the RPS program.

As the SBC program for end-use renewables shows, building a market requires more than simply making funds available. Outreach to consumers and local government, certification and training for installers, and initiatives to overcome market-entry barriers are all essential components of a successful program. While the RPS will now provide direct cost-share funds for small, customer-sited wind energy, SBC funding will be essential to realize the Commission's goal of customer-sited resources supplying 2% of the new renewable energy needed to meet RPS targets. Reaching out to local government to ease permitting and overcoming insurance barriers faced by installers are two examples of program activity that should be expanded.

Wholesale electric generation by RPS-eligible renewables such as wind energy also require enhanced SBC support. SBC funds would be well utilized for both outreach and education for the State's local governments and citizens on siting concerns as well as for research and implementation of market tools such as a renewable attribute tracking system and any additional studies needed to support RPS implementation. Innovative approaches to siting and permitting of RPS-eligible resources should also be considered for SBC funding. The recent NYSERDA sponsored study on integrating wind energy

into the grid, recent FERC decisions, and ongoing discussions with the New York Independent System Operator all support the usefulness of wind forecasting to ensure better predictions for and scheduling of wind energy generation. Wind forecasting research and development, including the possible installation of an independent wind measurement network to improve short-term (next hour) wind forecasting is another area where SBC funds could appropriately be used in support of the State's renewable energy generation goals.

In addition, much work is needed among NYSERDA, PSC staff, and the renewable energy community to create a framework that allows the voluntary market to dovetail with the RPS procurement in a way that promotes a viable voluntary market and eventual equilibration between the RPS and voluntary markets. The goal should be one common vibrant market for renewable energy which can achieve the RPS targets and capture the associated environmental and economic development benefits in New York at the lowest possible cost to New York ratepayers.

Therefore, continued SBC funding of renewable energy resources is essential to building a vibrant market in New York and ensuring timely and successful implementation of the Renewable Portfolio Standard. Slight adjustments to the allocation of resources to comply with RPS Order's provision prohibiting the simultaneous collection of SBC incentives and RPS premiums are warranted.

12. Should SBC funds be extended to programs that encompass research and development into retail and/or wholesale electric market competitiveness issues, or transmission and/or distribution of the State's energy resources?

AWEA could support the use of SBC funds to encompass studies of market structures and transmission and distribution issues as long as they are consistent with the State's energy goals and increased reliance on renewable energy resources. For example, current barriers to investments in transmission and alternative structures for reimbursement of incurred costs to attract the investment needed to facilitate wind energy development would be an appropriate use of funds.

A number of RPS implementation details will be revised as NYSERDA and the PSC gain additional experience with the procurement of renewable energy resources. AWEA supports the use of SBC funds to explore some of the issues confronting the State as it moves forward with the unique centralized procurement structure of the RPS. These include investigations into alternative procurement methods and pricing structures and a potential transfer of procurement responsibilities to energy service providers, which is to be discussed in the 2009 interim report on RPS implementation. Studies directly related to the interaction between the voluntary green market and RPS compliance market, as mentioned above, also may merit research and development.

Conclusion

In conclusion, AWEA strongly supports the continuation and expansion of the New York System Benefits Charge program. SBC funding has been a wise investment that will pay dividends for years to come but unfinished business remains. Continual improvement and increases in the delivery of clean, renewable energy supplies and the

American Wind Energy Association

energy security and environmental benefits they provide can best be achieved through a long-term reauthorization of the SBC and substantial investments in ensuring full implementation of the State's recently enacted Renewable Portfolio Standard.

Respectfully submitted,

By _____

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