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Northeast  
**NECHPI**  
Combined Heat and Power Initiative

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February 23, 2005

Jaclyn A. Brillling  
Secretary  
NYS Department of Public Service  
3 Empire State Plaza, 14th Floor  
Albany NY 12223

ENERGY  
RESOURCES

FEB 23 2004

AND THE  
PERMITTING UNIT

Re: Case 05-M-0090

Dear Mrs. Brillling:

We write to encourage you to re-authorize the System Benefits Charge (SBC) due to expire in June 30, 2006 that has been used to fund combined heat and power projects in New York State over the past 6 years. We also encourage you to re-appoint NYSERDA as the manager of the SBC fund.

National and state governments have long publicly recognized the benefits that accrue from greater use of combined heat and power (CHP) technology. These benefits accrue to the local user in the form of lower energy costs and higher on-site power reliability, but also to the public at large in the form of reduced pollution from power generation, reduced demand for power plant fuels and a more reliable national power grid. Since 1998, New York State has been a national leader, "putting its money where its mouth is" through the use of the SBC charge to provide financial support to those who seek to design and/or deploy CHP technology.

Based on the current trajectory, it is expected that at the end of SBC Phase II, New York will have installed about 100 new CHP systems to produce over 120 MW of electrical power.

Indeed, a sizeable number of such systems are already operational. This is a remarkable accomplishment in comparison to what is occurring in other states, and is having a positive influence on the marketplace by demonstrating real successes and encouraging replication. In fact, a small but growing number of CHP systems are being installed in New York without grant funding, which is a testament to New York's programs in moving the marketplace toward the ultimate goal of self-sufficiency. However, the marketplace is not self-sustaining yet, and the new CHP systems represent just a small fraction of the remaining market potential that could be achieved, estimated to be approximately 2,200 MW. Continued nurturing of this fledgling market will be instrumental in achieving the potential during a reasonable time period.

This historic success has made New York unique amongst states in the northeast region, and is a direct reason for the state's vibrancy as a market for CHP businesses and technologies. It is also evidenced by the recognition that the state has received on the national stage, on issues from

interconnection policy to rate design. More often than not, the individuals in the state who are the deepest reservoirs of this expertise are the NYSERDA employees who have been directly involved with these issues since the inception of the SBC fund in 1998.

### **Recommended SBC Changes**

The Northeast Combined Heat and Power Initiative (NECHPI) would like to recommend several broad changes to the SBC structure, which we believe will lead to even greater market change to the benefit of New York State rate payers.

- *Gas System Benefit Charge* – We recommend that the Public Service Commission explore the possibility of creating a statewide SBC gas program. We commend the Commission for **taking** the first step in this direction with the creation of the \$5 M gas efficiency pilot program in the Con Edison gas service territory and believe that this program should serve **as** a model for how to create programs in the rest of the state. NYSERDA should incorporate new gas-funded programs into their current electric programs and make every effort to ensure that the two are complementary.
- *Expand Focus of Programs to Include Grid Support* – All rate payers benefit when distributed resources are used to provide support for the **grid** in constrained areas and to improve reliability. The scope of NYSERDA’s programs should be expanded to include efforts that are directed towards using DR resources towards those goals. This new focus will likely result in greater cooperation and interaction between owners and operators of distributed resources and those that maintain the energy delivery infrastructure of New York State including the Independent System Operator, **transmission** owners, and distribution utilities.
- *Increase Funding Available to Individual Projects* – While NYSERDA’s RD&D programs are a model for the rest of the country and have done much to spur the development of clean and efficient uses of energy, more can yet be done. We recommend that in certain high cost arenas (CHP, fuels cells/hydrogen, etc.) that money be allocated to allow larger projects, rather than several smaller projects. We feel that **this** will enhance research and product development, ultimately leading to larger gains in the energy industry and New York’s economy.

We thank you in advance for your consideration of these comments and recommendations. Please use the NECHPI as a resource, should you have any questions and concerns related to CHP markets and technologies.

Respectfully,



Sean Casten  
Chair, Northeast CHP Initiative  
[www.northeastchp.org](http://www.northeastchp.org)

***About the Northeast Combined Heat and Power Initiative:*** The NECHPI is an ad hoc organization dedicated to accelerating the deployment of clean, efficient combined heat and power in the Northeastern United States. We are committed to doubling the use of CHP in the Northeast by 2010, a goal shared at a national level by the U.S. Department of Energy and the U.S. Environmental Protection Agency. NECHPI is an alliance of more than 40 organizations which includes CHP project developers and equipment manufacturers, electric and gas utilities, consultants, air regulators, state government agency representatives, universities and other organizations involved in the energy and environmental field. Given the nature of our organization, the views expressed herein do not necessarily represent the views of all of our members.