



**RESOURCES**  
FOR THE FUTURE

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February 18, 2005

Honorable Jaclyn A. Brillling  
Secretary  
New York State Public Service Commission  
3 Empire State Plaza, 14<sup>th</sup> Floor  
Albany, New York 12223-1350

Secretary Brillling,

We are writing to submit comments to the Public Service Commission about the extension of the System Benefits Charge Program. Our institution Resources for the Future is a nonprofit, nonpartisan research institute that has specialized in natural resource, energy and environmental economics for 52 years. We are an interested party because we have received funding via the System Benefits Charge under the Environmental Monitoring, Evaluation, and Protection (EMEP) program for a project titled: "Multi Pollutant Policies For The Electricity Sector And Environmental Quality For The Empire State." Our comments draw on that experience, but also we wish to provide a general viewpoint about the long-run value of research that is supported by the Program.

We address two questions from the Notice Soliciting Comments (1/28/2005).

Question 2: We endorse the extension of the SBC program beyond its June 30, 2006. A bit of historical perspective is useful. In the early 1970s national leaders realized that there were important issues on the forefront of environmental performance and system reliability that could not be addressed by independent entities. In the face of legislative interest in a pre-emptive federal research program that would shape the future of the electricity industry, an independent initiative within the industry led to the formation of the Electric Power Research Institute (EPRI), which has provided path-breaking research for three decades. New York State formerly had a similar research effort known as the Empire State Electric Energy Research Corporation (ESEERCO). With restructuring of the industry EPRI has evolved toward a more proprietary role. Although EPRI still conducts important research on issues affecting not only individual firms but also the electricity system and related social concerns, that research is much

organizations like EPRI and ESEERCO may never have been at adequate levels of funding, but it certainly is not currently at such levels. Moreover, research support at the federal level has not expanded to address the new challenges facing the industry. There are important benefits from a coordinated research program that must be funded through efforts such as the SBC.

Question 14: We offer suggestions for improving the overall SBC program. The existing policy goals of the PSC in administering the System Benefits Charge are each important. However, they are inter-related, especially when it comes to research concerning environmental issues. Our involvement with the Environmental Monitoring, Evaluation, and Protection (EMEP) program has an environmental focus and provides analysis of the environmental impacts of energy production and use. Our research also touches on other PSC policy goals to improve system-wide reliability, improve energy efficiency and facilitate competition.

In keeping this comment brief, we cannot provide substantive support for the following, but we want to assert the following propositions that fall out of the body of research we and others have done at the interface of electricity and the environment.

- (1) Four major sources of uncertainty affect the future of the electricity industry. These include changes in electricity demand, changes in natural gas price, technological change and environmental regulation. The first three of these stand alone to some degree, but the issue of environmental regulation is one that is closely related to all of them.
- (2) Issues in the design of environmental regulation can have an enormous impact on the cost and effectiveness of the regulation. Indeed, choice among the various designs to achieve a given environmental goal can have a significantly larger effect on consumer and producer welfare than any asserted benefits from the introduction of competition that have been asserted over the last decade. That is, we are not discussing the choice of environmental goals; rather we are stating that the way in which policy aims to achieve those goals can have a dramatic effect. A critical aspect of environmental analysis should be how economic behavior responds to policy design. This interaction is as important and as complex as the interaction within natural ecological systems. The design of regulation to achieve environmental goals is especially true as society considers future policies for mitigating carbon dioxide emissions.
- (3) A critical aspect of the research agenda on environmental issues should be integrated assessment including projects that link natural scientists with social scientists to understand how economic behavior can be shaped by, and will react to, environmental policy. This collaboration should involve research designs that go all the way from emission changes and their effect on the environment to policies that affect emissions and/or electricity consumption, and economic behavioral response to those policies.
- (4) Uncertainty is a permanent feature of the landscape. However, analysis of uncertainty has not yet been incorporated into most research design. Future

funding priorities should reward research that explicitly incorporates formal analysis of uncertainty.

Thank you for your consideration of these comments, and for the leadership that the Public Service Commission provides in its farsighted support of analysis and research.

Sincerely,



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