

March 3, 2005

Secretary Jaclyn A. Brillling
New York State Public Service Commission
Empire State Plaza
Agency Building 3
Albany, NY 12223-1350

Re: EPA Comments: CASE 05-M-0090 - In the Matter of the System Benefits Charge III.

Dear Ms. Brillling:

On behalf of the United States Environmental Protection Agency (EPA), I respectfully submit the following comments in support of the System Benefit Charge (SBC) program in New York State.

The NY Public Service Commission (NY PSC) is seeking comment on whether to extend its SBC program and specifics on how best to implement such a program if extended. EPA's comments pertain to the general effectiveness of SBC programs in delivering low-cost, clean energy solutions as well as to some of the specific questions the NY PSC has asked.

For the past 14 years, EPA's ENERGY STAR and other voluntary efforts have worked in partnership with State-level energy efficiency programs across the country as a key strategy to prevent air pollution and greenhouse gas emissions through cost-effective energy-efficient products and practices. NYSERDA, the administrator of New York's SBC program, is one of these partners.

EPA believes, based on a number of recent studies, that SBC programs throughout the nation are delivering significant societal benefits, including reduced energy costs, electric system reliability improvements, air emission reductions, and other economic and public health benefits. A recent report by the American Council for and Energy Efficient Economy,¹ in its review of SBC programs across the country, shows SBC programs are delivering energy savings at a levelized cost of \$0.02 to \$0.04 per kilowatt-hour, well below the relevant avoided power costs. Clearly, SBC programs are an important strategy that States can use to provide low-cost, clean energy to customers.

New York is a national leader in effectively using SBC programs to deliver these benefits. NYSERDA's New York Energy Smart Program Evaluation and Status Report (May 2004) indicates \$1.4 billion of energy savings over ten years for the \$350 million invested to date.

¹ Five Years In: An Examination of the First Half-Decade of Public Benefits Energy Efficiency Policies (U041)

Further, NYSERDA has been recognized year after year through EPA's ENERGY STAR program for its leadership in delivering targeted energy efficiency programs in the residential, commercial, and industrial sectors. This year, NYSERDA is receiving the Corporate Commitment Award for its outstanding efforts across the major energy using sectors **B** the first public entity to receive this award. EPA also recognized NYSERDA with a Climate Protection Award in 2004.

Following are some comments EPA has related to specific questions solicited by Case 05-M-0090.

*Question 2 **B** 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?*

We believe the SBC program should be extended for at least another 5 years, with funding at or above current levels. EPA believes that even leading energy efficiency programs like NYSERDA's have only begun to tap into cost-effective energy efficiency opportunities, particularly when energy efficiency can deliver energy savings at or below the cost of investments in generation and transmission resources. It is also useful to note that a number of States are spending 2 to 3 percent of their electricity revenues to advance cost-effective energy efficiency, clean distributed generation, and renewable energy, which are achieving greater annual energy savings as a result. New York could investigate the programs of these other States as part of assessing the benefits of a higher SBC program. We also strongly believe that a longer period of time for the SBC is more beneficial based on historical evidence that SBC programs realize the greatest benefits with the assurance of a dedicated long-term source of funding.

*Question 7 **B** What specific programs should be eliminated, expanded or created?*

EPA encourages a broad portfolio of programs that meet New York's cost-effectiveness tests. This includes energy efficiency programs such as those that increase market share for key energy efficient products, deliver whole home retrofit services, incentivize efficient new home construction, and promote energy savings in commercial buildings using whole building measurement and verification techniques. Each of these types of programs have been shown to deliver significant energy savings at reasonable costs.

EPA also encourages the continuation of the Distributed Generation/Combined Heat and Power (DG/CHP) Program for SBC III at current or expanded funding levels. EPA's Combined Heat and Power Partnership (CHP) has worked with NYSERDA for the last five years, promoting the use of cost-effective combined heat and power (CHP) systems in a variety of sectors. Since 2001, NYSERDA has achieved strong success, with 31 of the 90 funded projects now operational. In addition, the program's outreach and market transformation efforts have contributed to positive growth for the CHP industry in New York and within the region. This transformation will provide a much greater return on program monies, as CHP projects begin to move forward in New York and the region on their own merits. In the coming years, EPA plans to analyze and promote CHP in new sectors that have low utilization of CHP, including wastewater treatment plants, hotels and casinos, and ethanol processing. Additional SBC funding dedicated for the DG/CHP Program over the course of SBC III would complement EPA's national efforts and

deliver greater savings.

Finally, EPA encourages sufficient resources being devoted to program evaluation.

Question 13. Should the scope of the SBC program be expanded to include programs for natural gas customers?

We are aware of programs that can cost-effectively reduce natural gas use and could contribute to reducing overall demand of natural gas and influencing natural gas prices downward, as a number of economic studies have shown to be possible. One example of a successful program is New Jersey's WARM Advantage Program that rebates residential customers after purchasing ENERGY STAR labeled natural gas furnaces and boilers or efficient natural gas water heaters. We would encourage the expansion of the SBC program to address natural gas use and opportunities for cost-effective reductions in natural gas use in each of the key economic sectors.

In conclusion, EPA shares New York's view that there are tremendous energy, economic, and environmental gains to be had from aggressive energy efficiency and clean energy efforts at the state level. We recognize New York's past efforts to maximize the effectiveness of your energy efficiency, renewable energy, and DG/CHP programs. We recommend continued support for these efforts for the coming years to deliver even more energy savings and environmental benefits to New York citizens. You may contact me regarding our comments at (202)343-9190.

Sincerely,

Kathleen Hogan, Director
Climate Protection Partnership Division

CC: William Flynn, Chairman, NYPSC
Peter Smith, President, NYSERDA
Brian Henderson, NYSERDA