

March 27, 2003

NEW YORK STATE
PUBLIC SERVICE COMMISSION

Case 03-E-0188 - Proceeding on Motion
of the Commission Regarding
a Retail Renewable Portfolio Standard

COMMENTS OF THE EMPIRE STATE FOREST PRODUCTS ASSOCIATION
ON A RENEWABLE ENERGY POLICY FOR THE STATE OF NEW YORK

The Empire State Forest Products Association (ESFPA) is pleased to present these comments on the design of a renewable portfolio standard for New York. We commend the Public Service Commission for initiating this proceeding, and look forward to working with the commission and all parties to design public policy that supports renewable energy in New York.

ESFPA represents landowners, loggers, foresters, and wood-using industries statewide. We have 387 members throughout the state. Members own and responsibly manage over 1.2 million acres of forestland in New York.

Forestry and the forest products industry is a cornerstone of New York's economic and environmental future. Over 61,000 New Yorkers are employed in the forest products industry, with an annual payroll of nearly \$2 billion. New York is one of the national leaders in the production of hardwood lumber; in 2000 production was estimated at 467 million board feet. Combined hardwood and softwood lumber production within New York in 2001 totaled 660 million board feet – a volume of wood sufficient to construct 45,225 new homes. The forest products industry contributes \$3.7 billion to New York's gross state product.

The primary objective of ESFPA in this proceeding is the retention and expansion of markets for low-grade wood for use in biomass power plants. Markets for low-grade forest products are critical to the forest products industry and the practice of forestry in New York. These markets provide an outlet for wood that cannot be used to manufacture lumber, but that are removed during forestry operations to allow other, better quality trees to grow into high value sawlogs. A viable market for low-grade wood serves to enhance the future of the state's forest products industry, allow for the practice of sustainable forest management, and increase the economic viability of privately owned forestland in New York.

In addition, markets for low-grade wood can also provide an outlet for sawmill residue that is generated during the manufacture of lumber. In order to operate economically, sawmills must be able to sell their residues or dispose of them at minimal cost. Markets for low-grade wood that are capable of absorbing these residues are therefore critical to the economic health of New York's sawmill industry.

The primary markets for low-grade wood in New York have been the region's pulp mills, biomass energy facilities, and manufactured panel products (medium density fiberboard, oriented

strand board, etc.). Six major wood-using mills have ceased or significantly cut their purchase of low-grade wood in the past 2 years. With this loss of market, the forest industry and the forests of New York would clearly benefit from new markets for low-grade wood, such as biomass generation facilities encouraged through the state's renewable portfolio standard.

In addition to their benefits to the state's forest industry, strong markets for low-grade wood have numerous benefits to the environment. In research commissioned for the New Hampshire Division of Forests & Lands, markets for low-grade wood such as biomass generation plants were shown to support the retention of open space, contribute to sustainable forest management, and aid in the creation of diverse wildlife habitat.ⁱ

ESFPA offers the following responses to select questions posed by the Public Service Commission in their order instituting Case 03-E-0188. We look forward to working with the Commission and parties to create a renewable portfolio standard that recognizes the economic and environmental benefits that biomass power can provide.

Threshold Issue Comments

1. The types of resources that should be considered as “renewable” for the purposes of a renewable portfolio standard.

The Empire State Forest Products Association (ESFPA) strongly supports the inclusion of biomass power plants, particularly those deriving their fuel from either forest harvesting operations or wood-using industries, in New York's renewable portfolio standard.

Biomass in New York State Energy Policy

Generation of electricity using biomass is clearly recognized as renewable in existing New York energy policy. Governor Pataki's Executive Order 111 recognized “sustainably managed biomass” as one of eight forms of renewable generation. Additionally, in the New York Department of Environmental Conservation's Part 204 regulations, “sustainably managed biomass” is one of five forms of generation specifically recognized as renewableⁱⁱ. Existing biomass power plants in New York generated over 1 million MWH of electricity in the year April 2001 – March 2002, 0.67 percent of the state's generation during that time period.ⁱⁱⁱ

Biomass in Other State's Renewable Portfolio Standards

According to the *Database of State Incentive for Renewable Energy*^{iv}, thirteen states have enacted renewable portfolio standards^v. Biomass is recognized as a renewable energy source in every one of these states. In Connecticut, “new sustainable managed” biomass generation is given preferential treatment over some other forms of renewable generation. This universal acceptance of biomass as a renewable energy in state-level renewable portfolio standards source should leave no question as to the appropriateness of including, and potentially favoring, biomass generation in New York's RPS.

Sustainably Managed Biomass

New York forests are managed in a sustainable manner. According to the most recent data from the USDA Forest Service's Forest Inventory and Analysis, New York State annually grows in excess of three times the amount of wood that is harvested.^{vi} New York is 62 percent forested with more forest cover today than at any time in the last 100 years. As such, all biomass fuel derived through forest harvesting or from forest industries should be categorized as "sustainably managed biomass".

Connecticut requires that biomass facilities participating in the most preferential section of its renewable portfolio standard be derived from use fuel that is "cultivated and harvested in a sustainable manner"^{vii}. This sustainability requirement is not further defined in statute. New Jersey has similar language for biomass in its renewable portfolio standard, again not further defined.

There are many means available to forest landowners and timber harvesters to demonstrate sustainable management practices. The most relevant systems for New York are the Tree Farm Program, Sustainable Forestry Initiative and the Forest Stewardship Council program. Each of these applies to different types of forest ownerships and conditions. Participation in these programs is not the only means of demonstrating sustainable management but is a strong indicator of a landowner's and wood-using business' commitment to sustainable management practices.

The Association strongly supports these programs. We do anticipate that some interveners will suggest that third-party forestry standards are the only way to demonstrate sustainability and therefore should be required. We do not agree that this is the case. Additionally, some will further argue that certain programs are a better indicator than others of sustainable management. The fact is each of these programs has unique value and application -- one size does not fit all.

It is important to note that no state places strict standards on wood biomass fuel sources. The adoption of any such third-party standard would place biomass at a competitive disadvantage when compared to other forms of renewable generation. For existing biomass technologies, particularly those that utilize forest-derived wood, fuel is the greatest cost. Mandating or prescribing various methods of demonstrating sustainability would add unnecessary costs.

The forests of New York are managed in a responsible and sustainable manner. Fuel coming directly from the forest, or mill residues from forest industries, should be considered sustainably managed. It is our view that the PSC should acknowledge the current conditions of New York's forests provide a significant opportunity for increased energy production from wood biomass that will only further increase forest health and sustainability. Any specific criteria for documenting sustainable practices should be looked at within the context of each proposed project and with recognition for the wide range of options available.

Bio-based Fuels

ESFPA does believe that facilities that use forest derived biomass or mill residue to produce a liquid fuel, and use this liquid at a later time to produce electricity, should be included in the renewable portfolio standard as “sustainably managed biomass”. While there are not presently such facilities in the state or region, changes in technology may make this economically feasible in the coming years, and there is no reason for our renewable portfolio standard to not anticipate and accommodate this development. Presently, Hawaii’s renewable portfolio standard anticipates this development^{viii}.

Other Sources of Biomass

In addition to “sustainable biomass”, ESFPA believes that it is appropriate to create a category that recognizes the value of electricity generation using “other biomass”. This would include any clean biomass that is captured before it enters the waste stream, such as damaged pallets, separated construction debris, manufacturing residue, and urban tree waste. Facilities using this “other biomass” enjoy low to zero cost feedstock (in some cases negative feedstock costs), and operate at a significant competitive advantage to plants utilizing forest-derived wood. There is a valid and compelling reason to convert these resources to energy instead of disposing of them in a landfill, and ESFPA supports this. However, such biomass should not be considered “sustainable”, and if a tiered system is developed as part of New York’s renewable portfolio standard “sustainable biomass” should be given clear preference.

2. The appropriateness of including renewable resource energy procured from outside the State, such as hydropower from Canada or wind energy from New England.

The Empire State Forest Products Association (ESFPA) recognizes that electricity operates in a regional marketplace. Many states -- including our neighbors Connecticut, New Jersey and Pennsylvania – have already established renewable portfolio standards. ESFPA supports the participation of renewable energy generators from other states provided that the state in which they generate has a renewable portfolio standard comparable to New York’s and in which New York generators may participate. For states that do not have a renewable portfolio standard, and thus are not supporting the development of a robust marketplace for renewable energy in the region, ESFPA objects to participation in New York’s market.

ESFPA also objects to the participation of generators based in Canada. Such firms operate under a fundamentally different set of economic conditions and regulatory constraints than New York generators, and may have significant advantages in the marketplace. As one of the stated goals of a renewable portfolio standard is the “increased economic development opportunities in the renewables industry, including the attraction of renewable technology manufacturers and installers^{ix}”, ESFPA strongly believes that this economic development should occur in New York, or in areas where New York firms can model the actions of other renewable generators. Firms generating in Canada operate under such different economic and regulatory conditions that they do not serve as appropriate models for New York generators.

8. The potential impact on reliability and system operations due to the addition of renewable resources, especially those that operate intermittently (e.g. wind and photovoltaics), and what, if anything, must be done to ensure that reliability is maintained.

Biomass power plants have a proven track record of providing reliable base-load renewable power. Unlike some other forms of renewables, biomass generation plants can be cycled on and off as demand requires, and are available to the grid at times of greatest load. Biomass plants should be recognized for this superior characteristic.

The Empire State Forest Products Association (ESFPA) strongly believes that, for purposes of a renewable portfolio standard, the goal should be to provide energy from renewable generation, not simply the existence of renewable generation capacity. We believe this is supported by the Commission's order, which notes that "only about 17% of the electricity currently *used* in New York State is provided by renewable resources"^x, and calls for this amount to increase to 25 percent.

One way to address the challenges of providing renewable energy during times of greatest demand is through the establishment of a renewable attributes trading system, which ESFPA addresses in response to question #10.

10. The appropriateness of a "renewable attributes trading" system, and the components of any such system that might be developed.

The Empire State Forest Products Association (ESFPA) supports the development of a renewable attributes trading system. Such a system presently exists in the NEPOOL region, and may serve as a model for New York. NEPOOL's "Generation Information System" (GIS) tracks emissions, fuel sources, and eligibility for participation in various states' renewable portfolio standard^{xi}. Using this as a model may be instructive in New York.

ESFPA notes that a renewable attributes trading system could and should be established in a way that allows participation by generators not selling into the electricity grid. Many manufacturing facilities, institutions and others generate their own electricity, and providing "renewable attributes" credits to those that generate using renewables could spur renewable distributed generation. This incentive could encourage renewable generation at areas of need, support small-scale renewable energy projects, and provide economic and environmental benefits statewide.

12. The practicality of installing new renewable facilities in the high load areas of the State. If the targeted renewables are built upstate, the impact, if any, such construction may have on the addition of new resources in the load centers where they are most needed, and the appropriate means to ensure that additional generation and transmission resources will be built where they are most needed.

The Empire State Forest Products Association (ESFPA) notes that there are some areas of Upstate New York where generation is needed, and encourages recognition that there are

underserved load centers of varying sizes across the state. ESFPA notes that one way to address this challenge is through a renewable attributes trading system (see response to question #10), where high-load areas can acquire necessary renewable attributes from areas of the State more suited to renewable generation. ESFPA would note that some areas near high-load centers might be appropriate for biomass generation facilities. This would certainly be true if biomass-based liquid fuels become commercially viable, and could be manufactured near the resource and used for generation near load pockets (see response to questions #1 and #14).

14. Changes needed, if any, to the Public Service Commission and NYSERDA in the SBC-funded renewable energy program to coordinate with the new targets.

The Empire State Forest Products Association (ESFPA) notes that there are a number of emerging opportunities in the biomass industry, and urges NYSERDA and the Public Utilities Commission to recognize these opportunities in future actions. While combustion of biomass to generate electricity is a mature technology, new technologies or process improvements are occurring that may provide increased opportunities for biomass generation. Examples of new or emerging technologies include gasification, utilization of circulating fluidized beds, conversion of biomass to liquid fuels, and use of biomass-based fuels to power fuel cells (thus making fuel cell technology truly renewable). ESFPA believes that development, demonstration and commercialization of these technologies should be fully supported by the SBC-funded renewable energy programs.

Respectfully Submitted,

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ⁱ Innovative Natural Resource Solutions and Draper / Lennon Inc. *Identifying and Implementing Alternatives to Sustain the Wood-fired Electricity Generating Industry in New Hampshire*. Prepared for the New Hampshire Department of Resources & Economic Development. January 2002.

ⁱⁱ NYCRR 204-1.2 (b)(67)

ⁱⁱⁱ Memorandum of Paul Agresta, NY Public Service Commission to the Hon. Eleanor Stein, NYS Department of Public Service. "Baseline Electric Generation Sources" April 17, 2003.

^{iv} www.dsireusa.org

^v Maine, Massachusetts, Connecticut, New Jersey, Arizona, Hawaii, Nevada, California, Iowa, Texas, Wisconsin, Minnesota, and Pennsylvania

^{vi} USDA Forest Service. *Forest Statistics for New York: 1980 and 1993*.

^{vii} Connecticut Public Act 98-28 (section 26).

^{viii} www.hawaii.gov/dbedt/ert/rps.html

^{ix} New York Public Service Commission, Order Instituting Proceeding 03-E-0188, February 19, 2003.

^x New York Public Service Commission, Order Instituting Proceeding 03-E-0188, February 19, 2003.

^{xi} New Hampshire Governor's Office of Energy & Community Services. *New Hampshire Energy Plan*, page 8-30. November 2002.