



May 14, 2009

State Energy Plan (SEP) Comments  
NYSERDA  
17 Columbia Circle  
Albany, NY 12203-6399

Comments on Interim Report of 2009 New York State Energy Plan

Dear New York State Energy Coordinating Working Group (ECWG):

The Northeast Gas Association (NGA) and its New York Planning Committee (NYPLAN) appreciate the opportunity to submit comments on the Interim Report of the 2009 New York State Energy Plan (SEP), released March 31, 2009.

NGA provided initial comments in its meeting with the Energy Coordinating Working Group (ECWG) in Albany on May 30, 2008, and submitted written comments on behalf of NYPLAN in July 2008. NGA's NYPLAN, which is comprised of regulatory and planning representatives from the natural gas local distribution companies serving New York State, has previously assisted NYSERDA and other state agencies with state energy planning. The Committee again offers its assistance to the ECWG and the State Energy Planning Board as they prepare the SEP in the coming months.

We support the directive of Governor Paterson's Executive Order No. 2, and believe that the 2009 State Energy Plan can establish a comprehensive policy path through a complex series of inter-related issues. Natural gas is clearly linked with the state's economic competitiveness and environmental well-being. In our view, an energy plan that balances costs, environmental goals, energy efficiency and operational requirements will enhance energy security and reliability, as well as contribute to a stronger economy and environment, to the benefit of all New Yorkers.

NGA and NYPLAN are pleased to submit the following comments on the Interim Report, and look forward to further discussions with the ECWG in the coming months as the draft plan is prepared.

Executive Summary - Preliminary Findings

NGA and NYPLAN agree with the essential elements of the Preliminary Findings outlined on pages 2-3 and 2-4. However, there are some general natural gas-related findings that we would like to address.

Preliminary Finding #3 states that “Demand for natural gas is expected to grow over the planning period. New infrastructure may be needed to support this growth in demand to ensure adequate and reasonably priced supplies.”

We support this finding but feel it should be phrased more strongly. We find that the need for new infrastructure is a certainty rather than conditional, particularly given the planning horizon of the SEP. In addition, the natural gas growth is targeted at the downstate regions of New York City and Long Island (this should be noted in Preliminary Finding #3).

Furthermore, one aspect of natural gas supply not cited in the Preliminary Findings (or the Interim Report) to our surprise is the potential of in-state natural gas production. Natural gas production has grown strongly in the last decade in New York and neighboring states, and the potential for substantially greater development exists in such areas as the Marcellus Shale resource base, currently being reviewed by the State Department of Environmental Conservation. These developments, managed with the greatest care for the environment, will contribute to a “clean energy” path, and will create jobs, provide local and state tax benefits, air quality improvements, and diversity and security of cost-effective supply.

#### Preliminary Findings

##### **1. *The state’s clean energy sector is built on a foundation of energy efficiency and renewable energy.***

On page 4-1, the third bullet point notes the role of research and development organizations, among others, that are key to supporting the growth of the State’s clean energy sector. We concur. NGA’s NYSEARCH, created by the former New York Gas Group (NYGAS), has been a pioneering R&D organization for over 15 years, and has grown into an organization with national and international partners, to advance innovative natural gas technologies. Among its current endeavors are efforts to address greenhouse gas emissions in the natural gas sector. Similarly, the Gas Technology Institute (GTI) is involved with local gas utilities throughout the U.S., including New York, to develop technologies that are more efficient and enhance operations, safety and the environmental profile.

On page 4-5, the report notes “the growing role of electric and gas utilities in providing energy efficiency services and hardware to their customers.” We concur. New York’s natural gas utilities have been active in promoting efficiency programs to their customers, and are currently participating in enhanced programs through the proceedings of the Public Service Commission. In early April, for example, the Commission announced its approval of a residential gas efficiency equipment program designed to promote the installation of efficient, cost-effective furnaces, boilers, and other equipment, primarily by providing more than \$24 million in rebate programs for the purchase and installation of approved equipment.

On page 4-5, the report notes under “Renewable Energy Resources” the plans for large-scale wind generation and the technical challenge of integrating an intermittent resource into the electric grid. To the extent that intermittent generation sources such as wind power are added to the State’s electric grid, natural gas remains a likely back-up fuel. In assessing renewable energy, the inter-relation with other fuels, such as natural gas, should be evaluated, as this will have an impact on natural gas supply and infrastructure in the State. If these evaluations show that integrating greater amounts of intermittent renewable energy into the State’s energy portfolio increases the need for quick-start conventional generation to ensure electric reliability, then more renewables may actually increase the need for new natural gas transmission capacity within the State, even while reducing the amount of natural gas that would otherwise have been consumed by electric generators.

**3. Demand for natural gas is expected to grow over the planning period. New infrastructure may be needed to support this growth in demand to ensure adequate and reasonably priced supplies.**

As previously discussed, the need for new infrastructure, particularly in constrained areas such as the downstate regions of New York State and Long Island, is a certainty, given the projected natural gas demand growth in these areas. It is essential for safety, reliability, environmental enhancements and economic development that the State ensure it has access to adequate natural gas supplies.

Supply source diversity is also a very important consideration within this context, and the availability of multiple supply and delivery points will contribute to greater economic competitiveness and energy security. Supply source diversity relies on a secure pipeline network to deliver natural gas from existing and emerging resource basins – including indigenous local production (and the promising Marcellus Shale) – to the LDCs' citygate delivery points throughout the State and Northeast region.

In addition to the portfolio of interstate pipelines that serve the State, New York's natural gas reliability is also supported by the existence of gas storage facilities within the State or in neighboring states. Gas storage can also help moderate commodity price spikes, and our State's storage assets may make it possible to attract new supply sources (such as LNG for injection during the summer months when LNG prices have traditionally been comparatively low). The SEP should consider the benefits of additional storage to the reliability and economics of the natural gas transmission and delivery system.

We look forward to the draft report's discussion of the adequacy of the natural gas system, and the need for system enhancements to meet the needs of all system customers, including gas-fired electric generators. We urge that this infrastructure analysis address pipeline deliverability, storage, and supply portfolio diversity.

Of utmost importance in the process of energy planning is the assessment of the current infrastructure and the development of a plan to expedite the replacement and expansion of infrastructure to address energy and reliability needs in the State. New York has one of the oldest energy delivery networks in the nation. The replacement, expansion and upgrade of natural gas systems is a critical and necessary investment to ensure energy security and reliability, as well as to improve economic development and environmental quality.

In terms of gas for electric generation, we would note that natural gas is likely to be the preferred fuel for new and upgraded generation facilities for the immediate and longer-term period considered by this State Energy Plan. The implementation of the Regional Greenhouse Gas Initiative (RGGI), as well as possible federal legislation to address greenhouse gas emissions, are expected to place further restrictions on fossil fuel use options that would still leave a large role for clean-burning natural gas. As stated above, to the extent that intermittent generation sources such as wind power are added to the State's electric grid, natural gas remains a likely back-up fuel. The ability of generators to leverage unused gas transmission capacity during the summer via interruptible service provides energy savings to all electric customers, but the ability of the State's gas infrastructure to serve the needs of both firm heating customers during the winter and interruptible electric generation customers should be evaluated to ensure electric – and natural gas – reliability is maintained (this was a topic reviewed by NYSERDA in a 2002 report).

New technology systems that utilize natural gas and which offer great possibilities for electric generation include distributed generation and combined heat and power (CHP). Over the term of this SEP forecast, these technologies could be instrumental in helping the state achieve its "15 by 15" goal. We recommend that the SEP include an assessment of the potential role of distributed generation and CHP.

Again, as stated above, we are surprised at the omission in the Interim Report of any reference to natural gas production in New York State. The first natural gas well in the U.S. was in New York, and production has been on the upswing in the last decade. The Marcellus Shale formation has substantial development potential, with challenges for the State but even more opportunities. We urge the draft report to include a full consideration of the potential of in-state natural gas production, which could contribute to a transformed Northeast supply flow within the next five years as well as reliability, economic development and air quality improvements for New York State.

**4. *New York's transportation sector will use many strategies to significantly reduce its reliance on petroleum-based fuels over the long run.***

On page 4-9 the report addresses "the steady diversification" of energy sources that power vehicles. We encourage the State to consider the role of compressed natural gas (CNG) as well as hydrogen fuel cells among the potential options for alternative fueled vehicles.

CNG vehicles are already an important component of bus fleets in New York City and elsewhere, and have the potential to achieve further market growth. The New York Office of General Services reports that there are already sixty public CNG fueling stations in the State. According to the U.S. Department of Energy's most recent data (for 2007), there are over 9,000 CNG vehicles on the road in New York, representing the leading alternative fuel vehicle in the State. New York City benefits from emissions reductions due to the more than 400 CNG buses in the fleet of the Metropolitan Transit Authority. The Interim Report makes several references to electric vehicles but none to CNG.

Typical dedicated natural gas vehicles (NGVs) can reduce exhaust emissions of:

- Carbon monoxide (CO) by 70%
- Non-methane organic gas (NMOG) by 87%
- Nitrogen oxides (NOx) by 87 percent
- Carbon dioxide (CO<sub>2</sub>) by 20 to 30% below those of diesel and gasoline vehicles.

In February 2009, the American Council for an Energy-Efficient Economy (ACEE) released its annual environmental ratings for cars – for model year 2009. Once again, a natural gas vehicle claimed the top spot as the "greenest" vehicle on the road (the Honda Civic). We urge that the draft report include the option of CNG (and hydrogen) as a clean and viable alternate vehicle fuel for New York.

**7. & 8. *Health Impacts of Energy Use, Emissions Reductions, Environmental Justice***

It is clear that environmental and health factors will be major determinants in energy fuel choices and usage patterns. New York State has been a leader in regional and national discussions on these issues. Natural gas has a beneficial role to play in this evolving market discussion as the most environmentally positive of fossil fuels.

**9. *New York may progress toward a number of its critical energy, economic, and environmental objectives through strategic inter-state and intra-state regional collaboration efforts.***

New York has been a leader in coordinating regional action on a number of energy-related issues, from advocacy for great funding for the LIHEAP program to auto emissions standards to RGGI. New York imports most of its energy supplies, so efforts to improve energy trade and transmission through neighboring states and provinces makes sense. We also believe it is appropriate that the State examine the issue of "Regional Energy Issues" from the perspective of siting. Off-shore development holds great potential for energy projects as the Interim Report notes, be it for wind or LNG. Coordination with

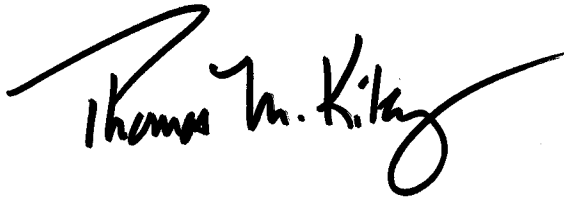
neighboring states is prudent. However, we would caution against efforts to add a new layer of “regional regulation” to an already complex network of state and federal oversight. Furthermore, the ability of neighboring states to impede energy projects that serve neighboring state, regional, national and continental markets is an issue of concern. Unilateral state actions within a “regional context” to block projects can directly frustrate important energy goals of New York State.

Finally, as we stated in our July 2008 letter, the issue of “reliability” is one that we feel should be paramount as a theme and perhaps accorded identification as a topic of its own under “Issue Briefs.” Absent assurance of reliable energy systems, the other issues and policy paths are likely to be fundamentally constrained. We encourage the ECWG and the Board to consider the *maintenance of reliability* as central to the State’s energy planning process.

We thank you for the opportunity to offer these comments on the Interim Report and look forward to working with the ECWG and the Board throughout this process.

Please feel free to call on NYPLAN and NGA at any time to assist in this important initiative.

Sincerely,

A handwritten signature in black ink that reads "Thomas M. Kiley". The signature is fluid and cursive, with a large, sweeping initial 'T'.

Thomas M. Kiley  
President and CEO

TMK/mlg

cc: NY LDC Executive Committee  
NYPLAN