



NEW YORK STATE COMMISSION ON
SAM
STATE ASSET MAXIMIZATION

PRELIMINARY REPORT

Transmittal Letter

December 15, 2008

The Honorable David A. Paterson
Governor of New York
State Capitol
Albany, New York 12224

Dear Governor Paterson,

On behalf of the New York State Commission on State Asset Maximization, I am pleased to submit this Preliminary Report on the Commission's work.

This Report outlines the Commission's findings within the first ninety days of its work. In addition to defining the undertaken process, the Report describes the guiding principles selected to evaluate asset maximization. Furthermore, the Report delineates several issues and opportunities presented to the Commission that warrant further exploration.

To date, the Commission has solicited advice from elected officials, business officials, labor groups, policy experts, stakeholders, and members of the public. We have invited public comment and received a broad diversity of input from public hearings held in New York City, Buffalo and Westchester County. During the next ninety days, the Commission will seek additional public comment, hold more hearings across the State, and develop our recommendations to you. The final report will be submitted by April 2, 2009.

I know I speak for all members of the Commission, special advisors, and staff when I say that it is an honor to participate in this important work. We look forward to completing our charge in identifying the best possible opportunities to maximize the assets of our great State.

Respectfully submitted,



Charlotte Hitchcock, Chair

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Asset Class IV: Energy

The Challenge

New York State's energy challenges are complicated and varied. Besides New York State being largely dependent on energy imports from western and southern states, Canada, and foreign countries, its electricity costs are almost 70 percent higher than the national average.

Energy delivery throughout the State is imbalanced, with relatively inexpensive electricity commodity costs Upstate, and more expensive, load-constrained electricity in the New York City metropolitan area. This imbalance is exacerbated by aging infrastructure and the need for capital investment. Investments in transmission, distribution and natural gas pipeline capacity have not kept pace with growing energy demands. There has been no significant investment in petroleum products infrastructure in the State in decades, and projects to bring more natural gas to Long Island and New York City have proved difficult to site and build.

Meanwhile, State government consumes more than 1.9 billion kilowatt hours per year, costing over \$550 million annually.²⁹ Given these needs, the combination of the economic crisis with the escalation of energy costs is creating a severe strain on the fiscal conditions of multiple public agencies across the state. In order for the State's Renewable Portfolio Standard (RPS) to reach the goal of generating 25 percent of New York State's energy via renewable resources, it is estimated that \$800 million in additional funding will be needed.³⁰

Maximizing Resources: A Multilayered Approach

Lowering Energy Costs

One solution to lower State energy expenses would be to find ways to lower energy costs for public offices. Currently, the Office of General Services helps about thirty State agencies with operations in the New York City metropolitan area through a buying program with the New York Power Authority (NYPA). Through this consolidated energy buying savings program, these thirty agencies saved the State approximately \$13 million in FY 2007-08, a savings of 26 percent. Expanding the scope of NYPA's consolidated electricity purchasing to all State agencies could allow the full magnitude of the program's savings to be realized.

Unlocking New York State's Untapped Energy Producing Potential: Natural Gas

It is estimated that the Marcellus Shale's recoverable reserves are 363 trillion cubic feet of natural gas, which equates to a value of approximately \$2.2 trillion at \$6 per thousand cubic

²⁹ Executive Order No. 111: Green and Clean State Buildings and Vehicles, NYSERDA, July 2003.

³⁰ Case 03-E-018: Retail Renewable Portfolio Standard, New York State Public Service Commission.

feet (MCF) in today's dollar.³¹ New York's portion of the total could reach \$210 – \$315 billion, assuming that 10 to 15 percent of the reserves are located in New York.

The Millennium natural gas pipeline, traversing New York's lower Hudson Valley and Southern Tier, is scheduled to deliver natural gas beginning in early 2009 to New York City and Long Island. This pipeline will also be used to transport Marcellus Shale gas to southeastern New York, and will provide the State with a competitive advantage to other states.

Current Lease Payments: Future Revenue Source Indicators

New York State is experiencing an increase in lease acquisition investments, with a coalition of 300 property owners in eastern Broome and Western Delaware Counties entering an agreement worth nearly \$90 million to give natural gas companies drilling rights to members' land for five years.³² They will receive another lump sum of \$90 million if the gas companies want to extend the leases for three additional years.

From May of 1999 to present, New York State has realized a total of \$30.8 million from all aspects of its State land, oil and gas leasing program. Over \$16 million of this revenue was derived from energy industry bonus-bids on Department of Environmental Conservation managed lands in competitive lease sales held during 1999, 2003 and 2006. The revenues received were the direct result of the renewed energy industry's interest in leasing State lands after the discoveries of natural gas in Trenton-Black River reservoirs in the late 1990s. Presently, State land under contract for oil and gas development totals over 63,000 acres in 91 leases.

New York State's leasing potential totals approximately 180,300 acres, with the possibility of receiving bids for its holdings at a range of \$1,000 to \$3,000 per acre, amounting to \$180 to \$540 million in possible future leasing revenues. In addition to bid revenues, the State could also realize royalty payments.

Examples of Oversight & Regulations

The Department of Environmental Conservation (DEC) has issued over 600 drilling permits in each of the past two years. DEC permits require that all fluids on site be contained in lined pits and disposed of offsite according to applicable laws and regulations. Hydraulic fracturing fluid composition can be reviewed and managed through the permitting and environmental review process.

To provide the requisite regulatory certainty to the natural gas industry, and to protect natural resources, DEC is supplementing its review of environmental impacts associated with natural gas drilling. An existing Generic Environmental Impact Statement (GEIS) provides a comprehensive review of the potential environmental impacts of oil and gas

³¹ Kane, Tom. "Marcellus Shale Is Bigger Than Estimated," *The River Reporter*, VOLUME XXXIV No. 47, November 2008.

³² Wilber, Tom. "Second Wave of Landowners Sign Gas Lease Offers," *The Press & Sun Bulletin*, May 23, 2008.

drilling and production in New York, and how they are mitigated. DEC has initiated a formal public review process to supplement this GEIS to ensure that any issues unique to Marcellus and other horizontal shale formation drilling are adequately addressed, particularly the technique for hydraulic fracturing known as "slick water fracturing" which requires large volumes of water.

Job Creation, Market Stimulation & Education & Vocational Training

State investment in exploration and utilization of natural gas and in renewable energy will have a reverberating economic impact as surveyors, commodity suppliers, energy distribution staff, construction workers, pipeline workers, real estate agents, attorneys, utility installers and other service companies follow initial exploration and investment efforts. The extended economic base will also stimulate education, housing, food, travel, and entertainment sectors as well.

Investing in the energy efficiencies will lower current energy costs while creating job opportunities. For example, meeting New York State's "15 by 15" clean energy strategy initiative will result in approximately 41,000 sustained net jobs over a 15-year period.³³ Achieving the current 25% renewable energy goal will create approximately 8,500 sustained net jobs over a 20-year period. Further, the Millennium Pipeline Project has already created 2,000 construction jobs. The jobs created through energy investment will reach statewide, stimulating multiple economies and expanding New York's revenue base.

New York's Commitment to Maximizing Energy Efficiency

The State's "15 by 15" energy efficiency goal is the most aggressive energy efficiency goal in the country. The Department of State has updated its energy code for new construction and is working with local governments to improve code enforcement and The Dormitory Authority of the State of New York (DASNY) has committed to build only green buildings in the future. The State's "15 by 15" goal will reduce the need for approximately 6 to 10 new power generating facilities. This will make it easier to retire some of the oldest, least efficient power plants.

In addition, New York recently commenced a carbon dioxide (CO₂) cap and trade program under the Regional Greenhouse Gas Initiative, which will require a 10 percent reduction in carbon dioxide emissions from power plants by 2018. The Obama Administration has proposed a national program similar in scope. Such national action will improve the energy price competitiveness of New York compared with other states, which have yet to take the actions necessary to reduce CO₂ emissions, as New York's generation is cleaner and other states costs to comply will be higher than New York's.

The Commission will also examine the history and successes of the NYSEDA programs for both distributed generation and energy efficiency programs. The Commission understands that while the NYSEDA programs have been models in their early creation of incentives to

³³ *Proceeding on Motion of the Commission Regarding an Energy Efficiency Portfolio Standard*. Appendix 1, Table 3. New York State Public Service Commission: Case 07-M-0548. June 23, 2008.

promote energy efficiency, causing New York to be ranked number 7 among all States in terms of energy efficiency their small scale is limiting their impact.³⁴ At the same time, distributed renewable generation has been limited due to technical issues with net metering and limited benefits that are insufficient to induce industry to take part. MTA, CUNY and other State agencies have successfully pursued ad hoc programs such as the MTA's Stillwell Avenue Station with a solar paneled roof, and CUNY's comprehensive green house gas inventory to allow it to identify areas for energy conservation, but much more is possible with a more comprehensive statewide approach where incentives are matched to the magnitude of the goals set forth in the State's "15 by 15" plan. NYSERDA's expertise garnered through their excellent work to date can be leveraged to manage such a larger scale program.

Opportunities for Consideration

Success in achieving the goals addressed in this report is essential to the competitiveness and health of New York State's energy infrastructure and overall economy. Achieving success will require bipartisan cooperation to pass legislation that will enable progress and efficiency maximization in New York State's energy arena. Examples of legislation that will require consideration are the New York Power Authority's (NYPA) Energy Expansion and Efficiency Program, as well as NYPA's Economic Development Program. Furthermore, legislation specifically geared toward consolidating electricity purchases for all New York State public agencies may help to address lowering energy costs for New York State Public entities.

³⁴ *The State Energy Efficiency Scorecard for 2006*. Report E075. American Council for an Energy Efficient Economy, June 2007.