



19 Dove Street, Suite 302

Albany, NY 12210

phone: 518-436-3749

fax: 518-436-0369

www.ippny.org

**Gavin J. Donohue**, *President &  
Chief Executive Officer*

May 2, 2011

Via email to [info@rggi.org](mailto:info@rggi.org)

Mr. Jonathan Schrag  
Executive Director  
Regional Greenhouse Gas Initiative, Inc.  
90 Church Street, 4th Floor  
New York, NY 10007

Dear Mr. Schrag:

The Independent Power Producers of New York, Inc. (IPPNY) is a not-for-profit trade association representing the independent power industry in New York State. IPPNY and its members participated actively in the development of the Regional Greenhouse Gas Initiative (RGGI) at both the regional and New York State levels.

IPPNY's members are companies involved in the development of electric generating facilities, the generation, sale, and marketing of electric power, and the development of natural gas facilities in the State of New York. The companies produce over 75 percent of New York's electricity using a wide variety of generating technologies and fuels such as hydro, nuclear, wind, coal, oil, natural gas, energy-from-waste, and biomass. All of the views expressed in IPPNY's comments do not necessarily represent the positions of each of our members. Since IPPNY represents a broad spectrum of companies, we anticipate some of our members also may submit comments on their own. In addition, nothing in these comments should be deemed to waive any rights that IPPNY or any of its members may have to challenge the procedural or substantive legality of the RGGI program, any variation of the existing program, or any element thereof.

The ongoing review of the RGGI program by the participating states includes an evaluation of factors that have resulted in a reduction in carbon dioxide (CO<sub>2</sub>) emission levels, which contribute to lower allowance prices. The New York State Energy Research and Development Authority produced an analysis paper (entitled *Relative Effects of Various Factors on RGGI Electricity Sector CO<sub>2</sub> Emissions, Comparing 2009 to 2005*), which concluded that three categories of factors are the primary drivers of the decreased CO<sub>2</sub> emissions. Declining

***Board of Directors***

AES-NY, LLC ■ Astoria Energy, LLC ■ Brookfield Renewable Power ■ Brooklyn Navy Yard Cogeneration Partners  
Calpine Corporation ■ Constellation Energy ■ Covanta Energy ■ Dominion ■ Dynegy, Inc. ■ Entergy Nuclear Northeast  
First Wind ■ Fortistar ■ GDF SUEZ Energy North America, Inc. ■ GenOn Energy, Inc. ■ New Athens Generating Company, LLC  
NextEra Energy Resources, LLC ■ NRG Energy, Inc. ■ PSEG Power New York, LLC ■ Selkirk Cogen Partners, LP  
TransCanada Corporation ■ US Power Generating Company, LLC

emissions result from: (1) lower electricity load due to changes in the weather, energy efficiency programs, customer-sited generation, and the economy; (2) fuel-switching from petroleum and coal to natural gas due to relatively low natural gas prices; and (3) variations in the available capacity mix due to increased nuclear capacity availability and uprates, reduced coal capacity, increased wind capacity, and more use of hydro capacity. The RGGI states should continue to consider the effect these factors are having on the price and supply of allowances.

The RGGI states are seeking public comments on a consultant's report (entitled *Reserve Price Analysis Task: Performed for RGGI Inc. on behalf of the Participating States*) as part of their consideration of changing the reserve price used for the RGGI CO<sub>2</sub> allowance auctions. The consultant's report finds that the RGGI allowance market currently provides an adequate basis to establish a Current Market Reserve Price (CMRP) as a replacement for the minimum reserve price.

IPPNY supports meeting the requirements of the RGGI cap in the most economically efficient manner possible. Accordingly, IPPNY strongly urges the RGGI states NOT to increase the minimum reserve price. Electric generating companies that must purchase CO<sub>2</sub> allowances in the auction cannot afford another cost increase. These companies already face many burdens, such as those arising from the recent spot price of natural gas averaging \$4.278 per million Btu, and from Installed Capacity payments of \$0.55 per kilowatt-month.

Indeed, wholesale electricity prices, which are the source of revenues for owners of generating facilities, are near a ten-year low, and independent power producers have a reduced ability to afford artificial increases to allowance prices. Notably, since 2000, competitive markets in New York have contributed to a reduction in fuel-adjusted wholesale power costs. The declining wholesale electricity prices largely are attributable to reduced power consumption and reductions in the cost of natural gas, which is used to fuel a significant portion of New York State's electricity supply. New York and the rest of the nation are experiencing an economic downturn that has resulted in smaller energy demand, reduced operation of generating facilities, less demand for CO<sub>2</sub> allowances, and correspondingly lower allowance prices.

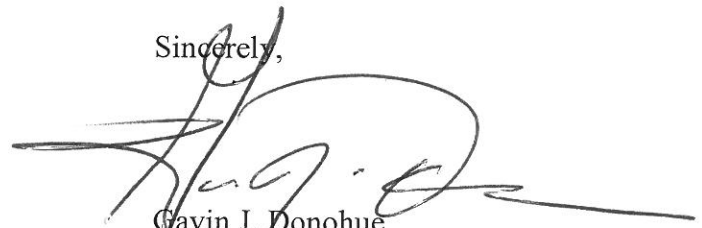
IPPNY is concerned that, in order to raise revenues for state programs, the RGGI states may become motivated to increase artificially the minimum auction reserve price or that the states will send a negative business signal by prematurely establishing a stricter emissions cap. These actions, in concert with the proposed CMRP methodology, could force the auction reserve price higher and harm energy consumers. Even more discouragingly, auction proceeds have been used for state budget deficit relief, an outcome not intended originally by the RGGI program. As a result, IPPNY urges the RGGI states to avoid escalating RGGI compliance burdens, such as any increase to the allowance auction reserve price, as these extra costs would amount to increased taxes and fees. In particular, adjustments to the RGGI minimum reserve price would be premature during this period of hopefully temporary economic decline. Obviously, undue burdens should not be placed on the RGGI states while the economy begins to recover its vitality and experience growth.

Importantly, a hallmark of New York Governor Cuomo's Administration is his opposition to increasing taxes and fees and his understanding of the need for a positive business climate. As you likely are aware, taxes and fees on New York's energy industry are taxes and fees on New

York's energy consumers, which cannot be borne during these trying financial times when the state is seeking an economic recovery and a stabilization of energy prices. Notably, the impact of the savings from market efficiencies has been diminished by rising taxes, fees and assessments on electricity. New York's power industry overall paid an estimated \$6.367 billion in state and local taxes, assessments, and fees in 2009. Specifically, for the independent power producer sector, generators already pay annual taxes of over \$600 million and invest more than \$50 million in their communities.

Thank you for the opportunity to provide these comments. IPPNY urges you to incorporate our recommendations into the RGGI states' decision-making process on the RGGI allowance auction minimum reserve price. IPPNY appreciates your taking the time to review and act on our comments. If you have any questions or need additional information, please feel free to contact me.

Sincerely,



Gavin J. Donohue  
President & CEO

CC: Governor Cuomo's Deputy Secretary for Energy Thomas Congdon  
DEC Commissioner Joe Martens  
PSC Chairman Garry Brown  
NYSERDA President Frank Murray