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New York Power Authority, Natural Resources Defense Council, NRG Energy, Pace Energy and Climate  
Center, Public Service Enterprise Group**

May 31, 2011

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Department of Environmental Protection

John W. Betkoski III, Vice Chairman, Connecticut  
Department of Public Utility Control

Collin P. O'Mara, Secretary, Delaware  
Department of Natural Resources and  
Environmental Control

Arnetta McRae, Chair, Delaware Public Service  
Commission

Patricia Aho, Deputy Commissioner, Maine  
Department of Environmental Protection

David P. Littell, Commissioner, Maine Public  
Utilities Commission

Ken Kimmell, Commissioner, Massachusetts  
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Philip Giudice, Undersecretary for Energy,  
Massachusetts Executive Office of Energy and  
Environmental Affairs

Robert M. Summers, Acting Secretary, Maryland  
Department of the Environment

Susanne Brogan, Commissioner, Maryland  
Public Service Commission

Thomas S. Burack, Commissioner, New  
Hampshire Department of Environmental  
Services

Clifton Below, Commissioner, New Hampshire  
Public Utilities Commission

Bob Martin, Commissioner, New Jersey  
Department of Environmental Protection

Lee A. Solomon, President, New Jersey Board of  
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Joseph Martens, Commissioner, New York  
Department of Environmental Conservation

Garry A. Brown, Chairman, New York Public  
Service Commission

Janet L. Coit, Director, Rhode Island Department  
of Environmental Management

Kenneth Payne, Administrator, Office of Energy  
Resources

Justin Johnson, Deputy Commissioner, Vermont  
Department of Environmental Conservation

James Volz, Chair, Vermont Public Service Board

**RE: RGGI Stakeholder Process and Modeling Next Steps**

Dear RGGI Energy and Environmental Commissioners,

As the RGGI states begin to conduct the 2012 program review called for in the RGGI Memorandum of Understanding (MOU), we, the undersigned electric industry companies and environmental nonprofit organizations, would like to take this opportunity to provide these joint comments. We write to offer our support and congratulations on the first two years of the Regional Greenhouse Gas Initiative (RGGI), the leading mandatory carbon reduction program in North America, and to offer some preliminary comments on three specific areas: 1) transparency and stakeholder engagement for the overall review process; 2) suggestions for additional reference case sensitivity modeling runs; and 3) suggestions for policy case modeling scenarios. This diverse group of stakeholders has started a dialogue with each other regarding the 2012 RGGI review with the goal of finding areas of agreement on key policy design issues.

## **Review Process Transparency and Stakeholder Engagement**

We recognize that the RGGI states are in the early stages of the 2012 program review and that changes in administrations and department personnel in RGGI states has resulted in a pause to the public engagement process. While we appreciate the need for this pause, we encourage the RGGI states to restart the public participation process as soon as practical. We recommend that the RGGI states develop and release a stakeholder communication outlining the following:

1. the overall timing, process, and approach to stakeholder engagement for the 2012 review;
2. the anticipated timing of the energy and macroeconomic modeling;
3. the likely number, content, and schedule of public meetings and workshops ; and
4. additional information on next steps after the 2012 review has concluded.

Such a communication would help our organizations, as well as the broader universe of RGGI market participants and stakeholders, to reengage in the RGGI dialogue and start to evaluate the numerous policy issues at play during this review process. We strongly feel that the RGGI states should provide for stakeholder involvement in all aspects of the 2012 review process, including: defining the scope of the review; establishing a structure for the process; conducting energy market and macroeconomic modeling, including consumer impact assessment; engaging in dialogues with other state and regional programs regarding linkage; as well as discussing how RGGI might be used to comply with GHG New Source Performance Standard (NSPS) under the Clean Air Act.

While we do not anticipate a stakeholder process as long as the original RGGI development process, we do expect an inclusive and meaningful level of stakeholder involvement above and beyond the opportunity to comment on modeling results or policy decisions after they have been developed. We are eager for early opportunities to engage policymakers and discuss relevant issues to help inform those policy decisions.

For example, the RGGI states could organize issue-specific workshops and listening sessions in 2011 similar to the approach utilized in the RGGI development process. This approach provides the opportunity for stakeholders to engage one another on a topic or a set of interrelated topics. In this type of setting, policymakers and stakeholders can have an open dialogue on these focused topics and work together to reach consensus outcomes on policy choices. Such workshops would also allow stakeholders to present independent analysis and recommendations for consideration by policymakers.

Topical workshops might include some combination of the following issues: cap level and timing, including the options to address unsold and banked allowances; allowance price control mechanisms, including allowance auction reserve, floor and ceiling prices, or allowance reserve pools; on-going recalibration of the cap; consumer costs and benefits; electricity imports and emissions leakage; allowance auctions; carbon offsets; expansion to other greenhouse gases; integrating additional states into the program and linkage with other climate policies, including cap-and-trade programs and EPA's GHG NSPS. Furthermore, we would respectfully ask that all meeting materials be provided well in advance of any meetings to promote more meaningful and robust discussions.

## Energy and Macroeconomic Modeling

We understand that comprehensive electric sector and macroeconomic modeling are underway or being considered to support the evaluation of modifications to the RGGI program. We encourage the RGGI states to model a wide range of energy market scenarios and associated macroeconomic impacts in order to allow for broad stakeholder review and to inform potential policy decisions. This analysis should include, but not be limited to, an assessment of the effects each policy case has on: state employment, manufacturing, tax base, electricity rates, RGGI-region relative economic competitiveness, and Gross State Product. Building on efforts from the first round of RGGI, the macroeconomic analyses should include assessments of how auction revenue is invested and present estimates on the total impacts of RGGI on state economies (e.g. net job creation, savings on energy bills, rate impacts, etc.).

Finally, the RGGI states should provide an analysis of emissions leakage data for CO<sub>2</sub>, NO<sub>x</sub> and SO<sub>2</sub> and a general update on policy options<sup>1</sup>, including a summary of what fuel is on the margin in the respective RTOs in participating states.

### Proposed IPM Modeling CO<sub>2</sub> Policy Scenarios

The following modeling comments are not meant to define any entity's position regarding changes that should or should not be made to RGGI as part of the 2012 review. Instead, these comments are meant to expand the range of technical analyses in order to develop a more comprehensive picture of potential RGGI policy options and related costs and benefits.

When considering any potential changes to the RGGI program, electric sector modeling must evaluate the following three policy issues:

1. CO<sub>2</sub> allowance budget and revisions;
2. Timing of potential revisions; and
3. Treatment of banked and unsold CO<sub>2</sub> allowances.

Revising the regional CO<sub>2</sub> allowance budget would have the greatest effect on the near-term availability of RGGI allowances and, consequently, would have the most significant impact on allowance prices. Therefore, we recommend that the RGGI states develop policy cases that focus on a range of potential changes to the cap. The RGGI states should aim to model low, medium, and high cap scenarios to establish boundaries for the range of potential impacts of cap revisions. Below are three suggested cap reduction scenarios that the RGGI states should consider modeling as the primary policy cases, although another similar range of cap levels may also be acceptable:

#### *Low Cap Scenario*

- Adjust the cap level to reflect actual 2009 emissions levels (~123 million tons CO<sub>2</sub>e)

#### *Medium Cap Scenario*

- Adjust the cap level to reflect average actual emissions levels for 2008-2010 (~138 million tons CO<sub>2</sub>e)

#### *High Cap Scenario*

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<sup>1</sup> The WCI/California proposal to treat the first purchaser of imported power as a source and regulated entity should receive particular attention.

- Adjust the cap level to reflect 10 percent above actual average emissions levels for 2008-2010 (~151 million tons CO<sub>2</sub>e)

For all three suggested policy case scenarios, set a reduction path similar to the one originally planned for RGGI (e.g. stabilize cap for 3 years before beginning reductions). From that point, reduce the cap by 2.5% annually through the IPM modeling horizon. The timing of the cap adjustment is not as critical as the magnitude of the change, but we recommend setting the modeling start date as either 2013 or 2014 in order to provide an estimate of the maximum impact of the program changes.

### Policy Case Sensitivities

We suggest that the RGGI states consider the impact of several additional policy decisions as sensitivities to the primary policy scenarios. Suggesting modeling of these sensitivities should not be construed to imply that the signatory organizations support implementing these or other potential program changes. Instead, we believe the RGGI states should model the impact of all relevant sensitivities before proposing any policy changes so as to provide stakeholders with the appropriate supporting evidence for all proposed revisions.

The potential policies associated with suggested sensitivities below should be considered in concert with revisions to the regional allowance budget.

- 1) Treatment of Banked and Unsold Allowances:
  - a) Retire unsold allowances – retire all allowances that were offered at auction but not sold, including future compliance period allowances.
  - b) Adjust the budget to account for all unused allowances (unsold and banked) – retire all unsold allowances and reduce the aggregate cap (e.g. total over the IPM modeling horizon) by the number of allowances banked from the first compliance period.
- 2) Alternate Reduction Path:
  - a) Instead of a 3 year stabilization step, begin reducing the cap the year after the initial reduction is implemented.
  - b) Slower reduction path: reduce regional allowance budget by 1.5% annually for the duration of the modeling horizon.
- 3) Combination of the sensitivities to address adjustment for unused allowances (1)(b) and second year cap reduction (2)(a)
- 4) Adding other electric sector sources: Include regulation of emissions associated with imported power (based on conversations about policy options to address imported power and associated emissions leakage)

### Proposed Sensitivity Runs

We also recommend that the following scenarios be run against the Reference Case and Policy cases, if they have not already been conducted:

- High energy efficiency – average program savings of 2.0% per year across the region (current scenario does not reflect the full implementation of comprehensive efficiency programs).
- Reduced nuclear availability – a scenario with increased plants taken off line, including at least the Indian Point and Oyster Creek plants.

- Decoupling of natural gas and coal prices – High and Low Gas Price Sensitivity Cases should not have coal linked to gas, but rather have low gas price locked in and coal moving independently.
- EPA New Source Performance Standards as a Federal policy, as the rules develop.

Thank you for your consideration of these comments. If you have any questions on these comments please contact Brian Jones (MJB&A) at 978-405-1269 or Derek Murrow (ENE) at 203-285-1946.

Sincerely,



Brian Jones  
M. J. Bradley & Associates, LLC

and



Derek Murrow  
ENE (Environment Northeast)

on behalf of:

**Calpine Corporation • Dominion Energy New England • ENE (Environment Northeast) • National Grid •  
New York Power Authority • Natural Resources Defense Council • NRG Energy • Pace Energy and  
Climate Center • Public Service Enterprise Group**