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November 2, 2012

Dear Ms. Singh,

Enclosed are comments by TransCanada regarding the October 18, 2012 Request for Stakeholder Comments on Program Review.

Background

TransCanada owns and/or operates over 40,000 miles of pipelines and about 11,000 MW of power generation across North America. In the Regional Greenhouse Gas Initiative region ("RGGI"), TransCanada owns and operates two natural gas electricity generating facilities: (a) the 2480 MW Ravenswood facility located in Queens, New York; and b) the 560 MW Ocean State Facility located in Burrillville, Rhode Island. In addition, TransCanada owns and operates 13 hydroelectric stations and associated storage reservoirs and dams on the Connecticut and Deerfield Rivers located in New Hampshire, Vermont and Massachusetts with a total capacity of 583 MW. TransCanada also owns and operates the 132 MW Kibby Wind Farm in Franklin County, Maine.

TransCanada **commends** RGGI States for openly and continuously seeking stakeholder input to the review process. We are please to provide further comments in the following areas.

1. Treatment of Unsold Allowances

RGGI States are seeking comments on the treatment on allowances offered for sale but not sold at auctions due to reduced demand. TransCanada notes that at the end of the first control period (2009-2011), each state decided not to reoffer unsold allowances from the first control period in the second control period.

TransCanada believes that with emissions in the first control period way below the cap, the RGGI program exceeded its primary goal – progress toward reducing CO2 emissions from the electricity sector by 10% by 2018 relative to the start of the program. Under these circumstances the States decision to retire unsold allowances seems prudent.

On the other hand, with a wide range of prices and volumes traded over the first control period, it hard to predict how conditions will be during any time within a control period. Furthermore GHG policy in other jurisdictions will continue to evolve in ways that may impact RGGI States. **For these reasons TransCanada recommends that States make decisions about unsold allowances as needed, preferably at the end of each control period.**

2. Consideration of Banked Allowances in Potential Cap Changes

States are requesting comments on how the allowances sold to but not utilized by independent market participants should be factored into decisions on revising the cap. TransCanada believes that any consideration of privately held allowances is a slippery path that states should tread carefully. It has implications on the integrity of the market mechanism on which the RGGI program depends. The banking of allowances by market participants is a cost management tool that should not feature in decisions about the program cap. **TransCanada recommends that once allowances are sold to market participants, they should not be considered in determining potential changes to the program cap.**

3. Control period - Interim True-up

RGGI states are requesting comments on the implication of a fixed percentage in the range of 75% to 85% for an Interim True-up.

States have explained that the motivation for Interim True-up is to minimize potential non-compliance. In this regard, TransCanada observes that out of 211 facilities only five failed to comply in the first control period. The issues with those five facilities probably go beyond a simple strategy of non-compliance. This means that non-compliance with the program is not systemic.

In the previous round of comments on the control period, TransCanada recommended that RGGI maintain the Control Period as is, with no Interim True-up. A robust control period like the one currently in place reduces the risk of adverse price spikes, increasing market participants' confidence in the market which ultimately leads to the success of the program. Interim compliance also increases administrative burden without contributing to the success of program. **TransCanada still maintains that RGGI should not institute Interim True-up at all.**

4. Cost Containment Reserve (CCR)

RGGI States are considering cost containment flexibility with: a) a fixed quantity of CCR allowances in addition to the cap, with annual replenishment as needed, up to the fixed quantity (e.g. 10M) to ensure availability of allowances each year; b) CCR allowances being offered at any auction if demand for allowances at prices above the CCR trigger price exceeds the supply of non-CCR allowances, until all CCR allowances available for the year are sold.; and c) CCR allowances being sold at or above the CCR trigger price.

In the previous round on comments TransCanada maintained that the goal of a CCR is to mitigate the ultimate cost of energy to consumers, and recommended that RGGI should sell CCR allowances to compliance entities only. **TransCanada maintains that auctioning CCR allowances to compliance entities only, at a price stating at the CCR trigger price is the prudent way for RGGI States to manage the cost of the program.**

5. Flexibility Mechanism Triggers

States are seeking comments on the following considerations: a) retaining the 3.3% offset limitation for compliance; b) removing international offsets and either replacing offset expansion by the CCR or developing domestic offset expansion trigger at a price higher than the CCR trigger; and c) the extension of the control period. In addition, to simplify the administration of the program, the states are considering the replacement of the potential extension of the control period to four years with other flexibility mechanisms.

TransCanada understands the need to simplify the administration of the program and supports replacement of the potential extension of the control period to four years by other flexibility mechanisms.

On flexibility mechanisms though, **TransCanada believes that RGGI States should keep both offsets and the CCR in their cost containment tool kit.** The CCR signals that RGGI States are in control of the costs of the program for consumers. For their part, offsets allow wider participation in GHG reduction goals and can be an important cost containment mechanism. The fact that offsets have not been used for compliance in the RGGI program does not negate these attributes of offsets.

Furthermore it is important that RGGI be consistent with emerging offsets systems in North America such as WCI, California (AB32) and Quebec. **Consequently, TransCanada believes that the 3.3% limitation for offsets should be adjusted to at least 8%. In addition, RGGI states should keep the ability to expand offsets use including the use of international offsets as a result of trigger events.** This will provide a clear signal that RGGI States take the cost of compliance seriously. Finally, **if states adopt Interim True-up (see above), states should consider ways of reducing the current lag time where the earliest a trigger event can occur is 26 months after commencement of the control period.**

6. U.S. Forests Offset Protocol

RGGI States are seeking comments on whether they should adopt a U.S. Forests Offset Protocol that is mostly similar to that adopted by the California Air Resources Board (ARB).

TransCanada supports this approach. In addition, TransCanada recommends that RGGI States consider adopting further protocols including several developed by organizations such Climate Action Reserve and Verified Carbon Standard whom the ARB itself has drawn upon in developing its own offsets protocols.

7. Reserve Price

States are seeking comments on whether to: a) remove provisions in regulations for a “current market reserve price (CMRP)”, defined as the higher of the Minimum Reserve Price, currently \$1.93 and CMRP, defined as 80% of the current market price, where applicable; and b) replace the CPI adjustment with an annual increase of 2.5%.

In the previous round of comments TransCanada recommended doing away with CMRP. We commend the RGGI States is showing movement toward eliminating any consideration of CMRP in this round of comments.

TransCanada still maintains that RGGI States remove provisions for a CMRP in the Model Rule and in their cap and trade regulations.

With regard to “simplifying” the CPI adjustment, TransCanada believes that the CPI provides an objective mechanism to adjust the reserve price. In addition, the applicable CPI is readily available, easy to understand and apply and because it is usually adjusted over time, it is clearly superior to any arbitrary number. **TransCanada recommends that RGGI States maintain the use of CPI in adjusting the reserve price.**

8. Early Reduction CO2 Allowances

RGGI States are seeking comments of whether to remove any references to “Early Reduction CO2 Allowances” from the Model Rule.

TransCanada supports removing reference to “Early Reduction CO2 Allowances” from the model rule. Designed to reward actions of compliance entities resulting in CO2 reduction activities that occurred between 2006 and 2008, this provision is no longer necessary. **TransCanada, however, recommends that RGGI should consider inclusion of early action offsets created by credible offsets programs such as Climate Action Reserve and Verified Carbon Standard.**

We thank you for the opportunity to provide feedback on your review of RGGI. We welcome further discussion on any of the above noted topics. Please do not hesitate to call me with any questions or comments.

Sincerely,

Njoroge Ngure
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TransCanada Energy Ltd.