FirstLight™
Power Resources

November 15, 2007

**VIA ELECTRONIC MAIL:** rggicomm@gw.dec.state.ny.us

Frank Litz, Chairman
Regional Greenhouse Gas Initiative
New York State Department of Environmental Conservation
625 Broadway
Albany, NY 12233-1500

**Re: Auction Design for Selling CO2 Emission Allowances under the Regional Greenhouse Gas Initiative, Final Report, October 26, 2007 (Report).**

Dear Mr. Litz:

Pursuant to the request for comments issued by the Regional Greenhouse Gas Initiative Working Group, and in response to the above-referenced Report, FirstLight Power Resources, Inc. (FirstLight) hereby respectfully submits these comments to selected findings of the report, presented in order of importance.

FirstLight offers the following comments on the Report's findings:

**Finding 11. There should be a joint and uniform auction for allowances of a given vintage sold from all RGGI states.**

FirstLight strongly agrees that all RGGI states should participate in a joint and uniform auction.

The generators in RGGI states participate in an electricity market that includes New England, New York, the states included in the Pennsylvania-New Jersey-Maryland RTO, which stretches south to Virginia and west to Illinois, and Eastern Canadian provinces of Quebec and the Maritimes. Levelizing the cost of allowances over the widest possible region will limit the inequities faced by generators in any one state relative to other generators in the region. The regional auction will also ensure that the allowances are fungible across all participating states.

Inconsistent treatment of allowances across states has the potential of creating disadvantages for a state's generators with the likely outcome of higher power prices in that state, the potential for plant shutdowns and an increased dependence on generation outside of that state. For example, if a neighboring state decides to give a share of its allowances to its in-state generators, those privileged generators will enjoy a decided advantage relative to generators that need to purchase allowances and offsets in a competitive process. Those privileged generators will be able to bid lower prices and generate more electricity than the generators that have higher costs due to the price of allowances which could lead to the shutdown of generators and the loss of jobs and tax revenues in some states and a windfall for other states whose generators are able to produce electricity at a lower cost. Additionally, any such inequities among generators in the various RGGI states will undoubtedly discourage companies from building new, needed generating plants in the disadvantaged states.

**Finding 9. Auctions should be open to anyone willing and able to meet financial prequalifications, but no single entity should be allowed to purchase (or take a beneficial interest in) more than 33% of the allowances for sale in any auction.**

FirstLight strongly recommends that the auction should be a closed auction, open only to generators that require the allowances to operate. Participation in the auction should be limited to the generators that are located in the state or states participating in the relevant auction. If a state does not participate in RGGI, its generators should not be allowed to participate in any auction. Given the number of generators in the RGGI states, there should be ample participation in the auctions to ensure a competitive market and fair pricing.

Unlike $SO_2$, NOx, and Hg, there is no currently available technology to remove $CO_2$ from the flue gas of fossil-fired generating plants. For those constituents for which control technology is available, the price of allowances has effectively been capped at the cost of those technologies since generators had the installation of equipment as an alternative to purchasing allowances. Without available backend technologies to reduce $CO_2$ emissions, allowances and offsets are the only mechanisms available to generators to enable them to continue to generate much needed electricity.

Allowing bidders other than generators in the RGGI states to participate in the auction will undoubtedly drive up the allowance prices. The bidders other than the RGGI generators have no use for the allowances except to turn a profit and will resell allowances that they procure in the auction at a profit to generators that have no choice but to buy them. As a result, electric customers in the RGGI states will be paying higher electric prices while providing significant profits to such bidders if they are allowed to purchase allowances. These higher electricity prices will force businesses out of the RGGI states and will further impact consumers who are already facing significant increases in electricity rates due to recent increases in the price of natural gas and oil.

**Finding 6. A reserve price should be used at each auction.**

As stated above, there should be more than sufficient participation in the auctions by RGGI generators to produce fair and competitive prices. FirstLight recommends that the overall objective of the auction should be to minimize allowance price so that electric customers are not burdened with higher than necessary energy prices. FirstLight strongly disagrees with the contention that the price of the allowances will have no impact on electric prices. Rather, we believe that the cost of the allowances will be directly and immediately reflected in electricity prices and will result in significant added cost to consumers. The cost of RGGI allowances will be a cost that all fossil-fueled generators required to buy them will bear. Since fossil-fueled generation is on the margin in New England in virtually all hours, the added cost of the allowances will be included in the prices bid by generators. Therefore, it is a virtual certainty that the cost of the allowances will lead to increased electricity costs experienced by consumers.

Studies that have indicated that conservation and efficiency improvements will reduce demand and negate higher costs seen by the generators are suspect. Over the past decade electricity prices have nearly doubled due to a fourfold increase in the cost of natural gas and oil and a doubling of coal prices. Despite these extreme price increases, electricity demand continues to grow. Although increased prices may have some small effect on conservation efforts, empirical evidence demonstrates that any such savings are minimal and are completely overshadowed by the negative impacts that increased prices have on electric customers.

If policymakers wish to have customers pay more for energy efficiency initiatives they should raise those moneys through other means that are more visible to consumers rather than through imposition of a minimum price on RGGI Allowances.

At a minimum, if the RGGI states believe a reservation price is necessary, it should only be applied in a construct in which only generators in the RGGI states are allowed to participate in the auction, as this would eliminate the risk of speculators further escalating the price of allowances with no corresponding benefit.

If you have any questions on these comments, please contact me at (860) 895-6918 or jginnetti@firstlightpower.com or Cynthia Vodopivec at (860) 895-6961 or cvodopivec@firstlightpower.com .

Respectfully submitted,

James A. Ginnetti CEV

James A. Ginnetti
Vice President-External Affairs

Cc: C. Vodopivec