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May 16, 2016

Regional Greenhouse Gas Initiative, Inc.
90 Church Street, 4th Floor
New York, NY 10007

RE: April 29, 2016 Stakeholder Meeting: Request for Stakeholder Comment

Dynergy Inc. (Dynergy) submits the following response to the Regional Greenhouse Gas Initiative (RGGI) request for stakeholder comments following the April 29th stakeholder meeting in Boston. We appreciate the opportunity for continued participation in the stakeholder process associated with the RGGI 2016 Program Review.

Dynergy operates power generating facilities in eight states in the Midwest, the Northeast and the West Coast. The company's asset portfolio consists of nearly 26,000 megawatts of generating facilities, capable of generating enough electricity to power about 21 million homes nationwide. Dynergy operates seven power plants in RGGI states with a combined generating capacity of just over 5,000 MW. In addition, the company serves residential, municipal, commercial and industrial customers through its Homefield Energy and Dynergy Energy Services businesses in Illinois, Ohio and Pennsylvania.

Thank you for your consideration of our comments. If you have any questions concerning this response, please contact me at 713-767-5212 or Bruce.wilcoxon@dynergy.com.

Sincerely,

A handwritten signature in black ink that reads "Bruce Wilcoxon". The signature is written in a cursive style.

Bruce Wilcoxon
Environmental Affairs Director
Dynergy Inc.

Introduction

Dynegy supports the development of a broad-based, liquid market for emission allowances in states and regions that adopt a market-based approach to regulating CO2 emissions. As described in previous comments in the RGGI 2016 Program Review stakeholder process, we support linking existing CO2 allowance markets (California/Quebec and RGGI) and the utilization of interstate trading among states adopting a mass-based approach to Clean Power Plan (CPP) compliance. We believe regulated entities in RGGI states should be able to trade with regulated entities in non-RGGI states with approved CPP state implementation plans. Such trading should be permitted either with states designated as trade-ready or through bilateral agreements.

The potential benefits of expanded markets are well documented in both theory and practice and include reduced costs, reduced price volatility, greater market efficiency, increased innovation, expanded policy impact and the potential to eliminate emission leakage between states. If properly designed, broader, more liquid carbon markets comprised of linked state and regional trading programs have the potential to realize all these benefits - driving down the cost of compliance for consumers without jeopardizing the environmental integrity of the linked programs.

Should the RGGI states consider allowing trading with states that do not become participants in the RGGI program?

Dynegy recommends that RGGI states consider allowing emission trading with states that do not become participants in the RGGI program. However, before entering into such trading relationships the RGGI states should collectively decide on the goals of this program change. There are two over-arching objectives of expanding the pool of allowances that can be used for RGGI compliance to include those from non-RGGI states.

1. *Maintain acceptable RGGI program compliance costs*

Interstate trading with non-RGGI states is not necessary to achieve the RGGI emission goals through 2020. Further, achievable post-2020 emission goals can be designed within the current RGGI structure that prohibits trading with non-RGGI states, i.e. expanded trading relations are not necessary to achieve the *environmental objectives* of RGGI program. However, expanded trading has the potential to meet the *economic objectives* of the program, establishing a market price for CO2 emissions from the power sector that is both acceptable to generators and consumers and that incentivizes the deployment of lower emitting sources. This cost control value of an expanded market for emission allowances may increase if RGGI states 1) establish significantly more stringent CO2 emission reduction targets post 2020 and/or 2) plan to expand the program to incorporate other sectors of the economy (e.g. transportation) with higher marginal costs of CO2 abatement.

2. *Promote extra-regional climate change policy*

The other general reason for establishing trading relations with other states or regional programs is to support, promote and influence the development of climate change policy outside the region. RGGI states have an economic interest in the development of CO2 regulations elsewhere in the U.S. as a means of ensuring a level competitive playing field between states. While there is not necessarily a direct causal relationship between implementation of the RGGI program and electricity imports into the RGGI states, it is a fact that net imports of electricity from ISOs adjoining RGGI

states increased by about 22% 2009-2013¹. As RGGI states seek to strengthen the program post-2020, the impact on interstate economic competitiveness has the potential to increase if other states and provinces fail to adopt robust climate policies.

In addition to these economic interests, RGGI states may seek to expand their leadership role in the development of U.S. climate policy beyond providing a sound example of a well-functioning market-based approach to CO₂ reduction. The RGGI program influenced the design of the cap-and-trade provisions of California's Global Warming Solutions Act of 2006 (AB32) as well as the federal Waxman-Markey legislation that passed the House of Representatives in 2009. RGGI states have the potential for continued leadership, supporting and influencing the development of future state programs through a commitment to expanded interstate trading.

Given the diversity of the RGGI program stakeholder community, any decision to expand the allowance market beyond the existing state participants should be aligned with both these objectives.

When considering whether to trade with non-RGGI states, what program design features and other conditions, at a minimum, should be aligned with RGGI program elements in order for RGGI states to be able to trade with those other states?

Based on the objectives described above, we believe the following design elements represent the minimum requirements necessary for RGGI to realize the benefits of expanded interstate emissions trading.

1. RGGI trading partners should adopt a mass-based system for CO₂ regulation that establishes a defined cap on emissions from covered entities.
 - While technically not impossible to establish emission trading with states adopting a rate-based system CO₂ regulation, administrative efficiency, transparency and public acceptance should compel RGGI states to seek trading partners that have established a mass-based system for CO₂ regulation.
 - In addition, stakeholder support for RGGI linkage with a state program that does not cap CO₂ emissions may be difficult to secure.
2. The CO₂ emission reduction goals of RGGI trading partners should be similar in stringency to RGGI reduction goals.
 - The compatible emission reduction target stringency may be defined by policy (e.g. similar reduction goals in the same time frame) but will likely be most easily determined by examining the actual or modelled marginal cost of CO₂ abatement in each state, as expressed in the RGGI program as the market price of emissions allowances.
 - While compatible emission target stringency is optimal, many states, especially those just beginning to regulate CO₂ emissions, may be unwilling or unable to adopt targets as stringent as the RGGI program. Such a situation does not necessarily preclude trading with RGGI states if a suitable allowance exchange rate can be determined and codified. For instance, a state with a

¹ CO₂ Emissions from Electricity Generation and Imports in the Regional Greenhouse Gas Initiative: 2013 Monitoring Report (http://www.rggi.org/docs/Documents/Elec_Monitoring_Report_2013.pdf)

marginal CO₂ abatement cost of \$3/T may trade with RGGI states realizing a \$6/T carbon price at an exchange rate of two non-RGGI allowances for each RGGI allowance. Such an exchange rate system comes with its own set of non-trivial policy issues to resolve (e.g. ongoing maintenance of the appropriate exchange rate).

3. Trading partners should operate in competitive, deregulated power markets where emission sources do not receive a regulated rate of return or other out-of-market payment or subsidy.
 - Emission sources covered by the RGGI program operate within fully deregulated power markets where competition serves as a driver to continually optimize plant performance in response to changing market conditions.
 - Emission sources receiving rate-regulated treatment where cost recovery is guaranteed have different incentives to operate, which may drive allowance trading decisions that could distort an integrated carbon market.
 - As a result, hybrid market models that mix rate-regulated utilities with competitive generators do not work and could leave RGGI state generators at a competitive disadvantage.

4. The scope of power sector coverage within the states eligible to trade with RGGI states should include both new and existing emission sources.
 - RGGI and non-RGGI trading systems need *not* be restricted to covering identical sectors of the economy (e.g. a non-RGGI state system could include transportation as well as electricity generation) provided each system has a comparable marginal cost of abatement or the appropriate allowance exchange rate can be created (see requirement #2 above).
 - However, in order to maintain the integrity of the competitive power markets in the Northeast, non-RGGI trading partners should include both existing and new fossil fuel electricity generation in the CO₂ emission cap.
 - Such an approach also supports the environmental integrity of state programs by reducing the potential for emission leakage between new and existing generation.

5. Trading partners should not use allowance value to confer competitive advantage on power market participants.
 - Allowance value, either in the form of allowances given freely to generation sources or auction revenues used to support generation sources, has the potential to distort competitive power markets by favoring one source of generation (e.g. non-emitting sources) over others. In competitive markets the price of carbon embedded in power prices will provide the appropriate price signal to incentivize lower-emitting sources.
 - RGGI states should seek trading partners that do not use allowance value to provide out-of-market incentives for generation and that auction all or the majority of their program emissions allowances.

6. Provisions to ensure the quality emission offsets within trading partner programs should be as stringent those within RGGI.

- Dynegy generally supports the use of offsets for compliance in market-based environmental regulatory programs as an effective tool for cost containment. We recommend that restrictions on the use of offset credits be based on quality criteria rather than arbitrary quantitative or geographic limits
 - RGGI states should seek trading partners capable of ensuring that awarded CO2 offset allowances represent CO2-equivalent emissions reductions or carbon sequestration that is real, additional, verifiable, enforceable, and permanent.
7. Trading partners should adopt administrative designs, market oversight procedures and enforcement provisions compatible with the RGGI program.
- Adoption of specific RGGI design elements, such as the COATS platform for recording and tracking data for each state's CO2 Budget Trading Program, by states outside the RGGI system is *not* necessary for effective and efficient interstate trading. However, the adoption of *compatible* systems is a requirement in order to ensure the integrity of the CO2 market.

The alignment of other interstate trading market design elements such as the length of compliance periods, true-up dates, banking provisions, price collar structures, use of allowance value (apart from supporting power generation sources), etc. may not be *critical* for establishing fair and efficient trading with states outside the RGGI system. However, RGGI states should recognize that linking systems with disparate market designs may have the effect of informally harmonizing these programs. For instance if RGGI states permit trading with states that do not have a cost containment provision similar to the Cost Containment Reserve (CCR), allowance prices in those non-RGGI states will be dampened if the CCR is triggered in RGGI states as demand for allowances flows to the states with the lowest costs. RGGI states should fully consider the implications of such informal harmonization when planning for trading with states outside the program.

Implications for Clean Power Plan compliance

The adoption of a mass-based emission standard approach to CPP compliance that incorporates interstate emissions trading has the potential to satisfy the design requirements for interstate trading outlined above.

CPP implementation should be based on the principles of efficiency, transparency and stability. Dynegy recommends that all states, including RGGI states, adopt a mass-based emission standards approach to CPP compliance that incorporates interstate emissions trading. States should include both existing and new fossil fuel generation sources under the state emission cap as the most efficient approach to the EPA requirement to address the potential for emission leakage.

We believe RGGI states should seek trading ready status as a means of promoting development of a broad-based and efficient carbon market that extends beyond the RGGI program. Such a broad-based market will result in lower compliance costs for implementing the CPP, benefiting rate payers and generators while protecting the environmental objectives of the policy.