



December 4, 2015

Via E-mail

Re: RGGI 2016 Program Review

To Whom it May Concern:

Exelon Corporation ("Exelon") respectfully submits the attached comments on the Regional Greenhouse Gas Initiative's 2016 Program Review.

As a leading provider of clean energy in several RGGI states and across the country, Exelon supports the goal of continuing to reduce carbon dioxide emissions from the power sector within the RGGI region. Exelon supports adapting the existing RGGI program and market to enable RGGI states to use RGGI to satisfy their obligations to comply with the U.S. Environmental Protection Agency's Clean Power Plan ("CPP"). In particular, Exelon recommends that RGGI should be adjusted in ways that enable the RGGI states to design "emission standards" plans under the CPP, rather than "state measures" plans, and that the plans cover both existing and new sources. Several modifications are necessary to transition RGGI towards meeting the requirements of the CPP. In evaluating those modifications, RGGI should consider making as soon as possible those adjustments that will ease the transition to compliance with the CPP in 2022. With these modifications, RGGI will remain a proven model that promotes reliable, clean energy while securing a strong and environmentally-sound economic future for the RGGI states and all of their citizens.

Please do not hesitate to contact me if you would like additional information or clarifications.

Sincerely,

/s/ Christopher Wentlent
Christopher Wentlent

Enclosure

COMMENTS OF EXELON CORPORATION ON THE 2016 REGIONAL GREENHOUSE GAS INITIATIVE PROGRAM REVIEW: PROGRAM ELEMENTS AND EPA CLEAN POWER PLAN

DECEMBER 4, 2015

I. INTRODUCTION AND SUMMARY OF COMMENTS

Exelon Corporation is pleased to submit these comments regarding the 2016 Program Review of the Regional Greenhouse Gas Initiative (“RGGI”). These comments follow the November 17 RGGI stakeholder meeting conducted as part of the program review concerning certain RGGI program elements as they relate to the states’ efforts to comply with the U.S. Environmental Protection Agency’s (“EPA’s”) Clean Power Plan (“CPP”). Exelon strongly supports RGGI and its leadership in mitigating climate change. That leadership has demonstrated the feasibility of a long-term program of carbon reduction using allowances, open markets, and complementary programs fostering low-carbon generation and energy efficiency. While RGGI will need to be adapted to fulfill the obligations imposed by the CPP, RGGI’s core purpose to move towards a cleaner generation infrastructure by harnessing the power of open markets should not change. With certain accommodations, RGGI will remain a proven model that promotes reliable, clean energy while securing a strong and environmentally-sound economic future for the RGGI states and all of their citizens.

As a leading provider of clean energy in several RGGI states and across the country, Exelon supports the goal of continuing to reduce carbon dioxide (“CO₂”) emissions from the power sector. The targets in the CPP are more than achievable using technologies and practices that companies like Exelon have successfully deployed for decades to reduce emissions while providing affordable and reliable electricity. Exelon sees a straightforward path to compliance with the CPP by continuing to deploy these proven and cost-effective measures.

A. Exelon Corporation

Exelon is one of the largest competitive U.S. power generators, with one of the nation’s cleanest and lowest-cost power generation fleets. Exelon’s substantial investments in a lower-carbon portfolio have made it one of the least carbon-intensive generators in the United States. The company’s Constellation business unit provides energy products and services to more than 2.5 million residential, public sector and business customers, including more than two-thirds of the Fortune 100. The Constellation business unit platform includes energy efficiency, demand response, renewable energy, battery technology, microgrid development, and other emerging technologies. Exelon’s utilities deliver electricity and natural gas to more than 7.8 million customers in southeastern Pennsylvania (PECO Energy Company), central Maryland (Baltimore Gas and Electric Company), and northern Illinois (Commonwealth Edison Company).

Within the RGGI states, Exelon Generation operates more than 8,600 MW of generation capacity producing some 38,100 GWh of electricity annually. More than half of Exelon’s RGGI

capacity and 95% of its RGGI generation are carbon-free nuclear, hydroelectric, wind and solar. Exelon-owned nuclear assets in RGGI represent 20% of the nuclear generation in RGGI states.¹

Exelon and its subsidiaries represent all corners of the energy industry and strongly support a clean energy future that starts with properly valuing the environmental attributes of reducing carbon through correct market signals. Our experience shows that deployment of low-carbon energy resources benefits consumers, protects system reliability, and makes good business sense. Over several decades, Exelon has successfully provided its customers with reliable, affordable electricity while maintaining a low-carbon generating profile. As but one example, in 2012, Constellation (now part of Exelon) completed an uprate at its Nine Mile Point station in Oswego, New York, which added another 158 MW of highly reliable, zero-carbon generation. The uprate alone displaces approximately 778,000 short tons of CO₂ annually.²

More broadly, nuclear plants are critical to achieving substantial reductions in CO₂ emissions and avoiding the associated increases in emissions of other pollutants that would arise from their displacement. In 2014, RGGI states' thirteen nuclear units at nine nuclear plants generated 32 percent of RGGI state electricity and 70 percent of RGGI state zero-carbon electricity. RGGI states' nine nuclear plants annually prevented over 59 million tons of CO₂ emissions as well as nearly 66,000 tons of sulfur dioxide emissions and 46,000 tons of nitrogen oxide emissions.³ Vermont Yankee has already retired, retirements have been announced for James A. FitzPatrick and Pilgrim, and there are questions whether Indian Point 2 and 3 will be relicensed. The loss of these plants will make the remaining units all the more critical to CPP compliance and for containing costs to consumers. Market mechanisms to properly value the carbon-free emissions and other attributes of nuclear generation are an essential element of implementing the Clean Power Plan and of helping retain large sources of carbon-free energy for many years to come.

B. Summary of Comments

Exelon supports adapting the existing RGGI program and market to enable RGGI states to satisfy their obligations to comply with the CPP. In particular, Exelon recommends that RGGI should be adjusted in ways that enable the RGGI states to design "emission standards" plans under the CPP, rather than "state measures" plans, and that the plans cover both existing and new sources. This approach will enable RGGI states to leverage existing infrastructure to cost-effectively comply with the CPP, and potentially will expand the number of states with

¹ Excluding the Pilgrim Nuclear Power Station and James A. FitzPatrick Nuclear Power Plant, which have announced retirements, and the Indian Point Energy Center nuclear plant, which is undergoing a relicensing process in New York whose outcome is not yet known, Exelon's nuclear assets would represent 31% of RGGI state nuclear generation.

² Calculated at the New York state non-baseload output emission rate of 1,223 lb/MWh.

³ These figures are calculated at 2014 plant capacity factors and 2012 eGrid state emission rates. These figures also include Vermont Yankee Nuclear Power Station, which is no longer operating, and Pilgrim and FitzPatrick nuclear plants, both of which have announced retirement to take effect prior to 2022.

which RGGI states may allow trading for purposes of the CPP. Emissions standards plans establish a framework that will allow trading with states that also develop mass-based plans covering both existing and new sources, without necessarily requiring new states to join RGGI. Several modifications are necessary to transition RGGI towards meeting the requirements of the CPP. In evaluating those modifications, RGGI should consider making as soon as possible those adjustments that will ease the transition to compliance with the CPP in 2022.

At the outset, Exelon encourages RGGI to continue its leadership role in reducing CO₂ emissions by considering a range of goals more stringent than the minimum requirements of the Clean Power Plan, including the goal of achieving 80% reductions from 1990 levels by 2050. In evaluating and choosing the goals, RGGI must ensure that allowance prices provide an adequate market signal to support investments in new and existing zero-carbon generation that are essential to achieving even modest emission reduction goals, and are sufficient to support the program goals that states achieve through auction revenues. For these reasons, the RGGI program review should also consider increasing the auction minimum reserve price.

Beyond setting appropriate emission goals, RGGI must consider additional adjustments to show compliance with “emission standards” plans under the CPP. Pre-2022 banked allowances cannot be used for compliance with the CPP, so RGGI should ensure that those allowances are exhausted before 2022 or make offsetting downward adjustments to the state goals beginning in 2022. In this transition, RGGI should be careful to assure that the value of existing banked allowances is preserved. Similarly, the Cost Containment Reserve (“CCR”) and offset programs conflict with the CPP’s notion of a federally enforceable budget. These mechanisms should not be retained as part of the program to implement the CPP. The liquidity that the CCR program was designed to provide easily will be met through the increased trading opportunities available after 2021 with the CPP. Beyond that, the CCR substantially exacerbates the challenge of addressing pre-2022 banked allowances, and therefore should be eliminated, possibly even before CPP compliance begins in 2022. Even without the CCR, an adequate number of new and banked allowances will likely be available to cover emissions between 2018 and 2021. However, if the CCR is retained as a consumer protection measure, RGGI still must make adjustments to the CCR in the near term. It should lower the emission budget to ensure that the goals remain below the CPP requirements even with allowances from the CCR. It should raise the trigger price for the CCR to ensure the reserve does not interfere with the dispatch switching process that will drive emission reductions. RGGI should also consider reducing the number of allowances available from the CCR. With respect to offsets, if RGGI retains them, then RGGI must make adjustments to ensure that the states meet their CPP emission goals even including allowances credited to offsets. Further, RGGI should align its compliance periods beginning in 2022 to match the CPP, and extend the 2018-2020 compliance period to include 2021.

Exelon supports RGGI’s approach of covering the entire electric generation system, including “peaking” units, which helps to drive reductions from the entire generation industry and to move towards a cleaner fleet. Exelon encourages RGGI to maintain that approach, even though small units were not included in the CPP. Further, given that the RGGI states maintain and support energy efficiency and renewable energy incentive programs, it is not clear that EPA’s Clean Energy Incentive Program is appropriate for RGGI to include.

Larger markets with more liquidity are generally more efficient, and RGGI should look to broaden the market by allowing additional states to join the RGGI MOU. RGGI should also design an approach that enables RGGI sources to trade with sources in non-RGGI states that have adopted “trading ready” plans to comply with the CPP. Here, RGGI must adopt protections to ensure the integrity of the RGGI allowance market. Most importantly, RGGI should allow trading only with states that develop mass-based plans that include both new and existing units. Further, RGGI should consider whether, and if so how, it will allow trading with states that do not auction allowances or do not set a minimum auction reserve price.

II. COMMENTS ON KEY ITEMS FOR 2016 STAKEHOLDER DISCUSSIONS

1. EPA CPP: State Plan Approaches

Exelon supports the adaptation of the existing RGGI program and markets to satisfy the obligations of the RGGI states to comply with the CPP. As discussed below, certain features of RGGI will need to be altered or eliminated in order to qualify the RGGI program as an “emission standards plan” under the CPP, as opposed to a “state measures plan.” However, these changes would be marginal, and would preserve the most significant features of RGGI (such as covering both existing and new units) while providing RGGI states the benefits of adopting emission standards plans. In particular, states adopting emission standards plans that are “trading ready” are authorized to trade allowances with other similarly configured states.⁴ On the other hand, states adopting state measures plans are only able to engage in trading with partner states in a multistate agreement, and must establish “backstop” regulations to ensure compliance with CPP emission standards in the event that the state measures do not achieve the required reductions.⁵ While the RGGI MOU could serve as the basis for a multistate agreement and a state measures plan, this structure would limit the flexibility of RGGI to expand to include new states, and the RGGI states would be effectively excluded from the robust CO₂ allowance trading markets that are expected to emerge as a majority of states adopt mass-based compliance programs.

Accordingly, Exelon urges RGGI to reconfigure the RGGI program to meet EPA’s requirements for emission standards plans, and to satisfy EPA’s anti-leakage criterion by continuing to include both existing and new generation units in the RGGI program. This approach will allow the RGGI states to continue their leadership in mitigating climate change, and realize the long-delayed objective of RGGI to facilitate the transition to a national carbon regulation program.

2. CO₂ Emission Reductions

a. Emission Goals

In order to satisfy the CPP’s requirements for emission standards plans, RGGI’s emission goals must firmly assure compliance with the CPP emission budgets for existing and new

⁴ 80 Fed. Reg. 64,662, 64,832-33, 64,892-93, 64,910-11 (Oct. 23, 2015).

⁵ 80 Fed. Reg. at 64,827, 64,835-37, 64,944.

sources. However, the RGGI states have positioned themselves to reduce carbon emissions well below the emission budgets promulgated by EPA. Since the RGGI program went into effect, the RGGI states have been leaders in efforts to reverse climate change. That leadership continued even as prior attempts at national carbon regulation failed, and the RGGI states have adapted the program to achieve even more rigorous carbon reduction goals. Exelon encourages RGGI to continue that leadership tradition and to exceed CPP emission reduction goals rather than being content to merely meet them. The RGGI states should establish emission goals that continue the downward trajectory they have already embraced, and should consider even more ambitious long-term carbon reduction goals. Several RGGI states have expressed ambitions to achieve 80% reductions in carbon emissions from 1990 levels by 2050, a reduction goal that requires a reduction trajectory significantly more stringent than the CPP's relatively modest target of 32% reductions from 2005 levels by 2030.

At this stage of the program review process, RGGI should consider a range of carbon reduction goals for modeling purposes, including extending the existing trajectory incorporating reductions of 2.5% per year past 2020, the more aggressive trajectory achieving 80% reductions by 2050, and perhaps alternative goals falling between these two paths. RGGI should allow stakeholders to comment on the details of the modeling scenarios developed to evaluate the various possible carbon reduction goals, to ensure that the results will offer the most helpful data possible to analyze potential options and their impacts. The modeling results should be carefully evaluated for technical and economic feasibility.

Evaluating the possible carbon reduction goals should include an assessment of the allowance prices that would prevail across the range of scenarios. The introduction of the CPP creates a number of new dynamics to consider in this context. Because the CPP will impose some obligation on all states, it will reduce the downward pressure on RGGI allowance prices due to leakage. However, to the extent the RGGI states authorize allowance trading with other states – that is, agree to accept allowances issued by other states for compliance – the price of RGGI allowances will be driven down to the level of the least costly allowance available to satisfy the RGGI compliance obligation. Nevertheless, though the modeling of allowance prices in RGGI takes on added complexity, the information will be essential to help the RGGI states balance compliance costs with the desire to pursue greater carbon reductions and to achieve other state objectives through the application of allowance auction revenue.

Ultimately, in choosing emission goals, RGGI must assure that allowance prices remain sufficient to serve two purposes. First, RGGI allowance prices must be sufficient to provide an adequate market signal to support investments in new and existing zero-carbon generation. Those investments are essential to ensure a diverse generation fleet necessary to enable RGGI states to meet their emission reduction goals while maintaining reliable delivery of electricity at reasonable cost to consumers. Second, the prices must be sufficient to support the goals the RGGI states expect to achieve using allowance auction revenues. Currently the CO₂ allowance auction minimum reserve price serves as a price support. However, if RGGI sources can use allowances from other states for compliance, the minimum reserve price alone could be insufficient to support auction revenues critical to important state programs. Instead, prices may rely more heavily on emission goals.

Relatedly, to further support the program's goals – both the consumer benefit programs supported by the allowance auction revenues, and the substantial CO₂ emissions reductions that are the fundamental purpose of RGGI – RGGI should consider increasing the CO₂ allowance auction minimum reserve price as part of this program review. A more robust reserve price provides a strong signal to support investment in the very assets that will drive RGGI states towards meeting their emission reduction goals, while potentially increasing the revenue available for energy efficiency and other programs that help reduce emissions in a cost-effective manner and protect consumers from higher electric prices.

b. Disposition of Banked Allowances

In order to show compliance with an emission standards plan, RGGI states must achieve the budgets established by EPA in the CPP. These budgets must be achieved in 2022 and subsequent years, and the CPP does not authorize the states to exceed those budgets based on pre-2022 reductions. Therefore, RGGI states will have great difficulty demonstrating that they have achieved CPP budgets if pre-2022 allowances are available to be used for compliance in 2022 and beyond. It is essential, therefore, that banked RGGI allowances be exhausted by 2022, or that the budgets of the RGGI states be adjusted after 2022 to account for existing banked allowances so that even if the banked allowances are all surrendered, the states will still meet their CPP budgets in 2022 and beyond.

It is important that the existing value of currently held RGGI allowances be preserved. Market transparency and integrity are important characteristics of the RGGI system, and it is critical that the expectations of RGGI market participants be met. Therefore, RGGI should not adopt an expiration date or otherwise tamper with the value of extant allowances. Rather, RGGI should ensure CPP compliance by adjusting the volume of new allowances issued before and after the CPP compliance period begins. Alternatively, RGGI could consider a redemption program under which holders of pre-2022 allowances could redeem them for post-2022 allowances eligible for CPP compliance, with corresponding reductions in the number of allowances available for auction in those future years.

It is equally important that the number of banked allowances not increase. The release of allowances in the CCR exacerbates the problem of banked allowances. As discussed below, it is critical that the CCR either be eliminated during the next compliance period starting in 2018 or the trigger price be adjusted to assure that banked allowances are not increased during the period before 2022. Without such an adjustment, the preservation of existing banked allowances may unduly reduce the future stream of RGGI auction revenues and disrupt state programs that rely on those revenues, causing a fiscal cliff for many state programs relying on allowance revenues.

3. RGGI Flexibility Mechanisms

As noted above, in order for the RGGI program to serve as an emission standards plan that satisfies each RGGI state's CPP obligation, a number of adjustments must be made to the program. The flexibility mechanisms discussed in this section are features that could interfere with achievement of the CPP budgets. Therefore, these features must be modified or eliminated to allow RGGI states to fulfill their CPP obligations.

a. Cost Containment Reserve

In tailoring the RGGI program to comply with the CPP, it is not possible to continue the CCR as currently structured. The CCR presents clear conflicts with the notion of a federally enforceable emission budget, because it introduces a supply of new allowances that effectively increases the amount of authorized emissions in the RGGI states. In the preamble to the CPP, EPA makes clear that budget trading programs that include cost containment reserve provisions that functionally expand the emission budget would be state measures plans,⁶ which as noted above require federal backstops and which reduce trading options with other states. Therefore, retaining the CCR as currently constituted would preclude the RGGI states from designing an acceptable emissions standards plan. It also would significantly complicate RGGI states' efforts to design a program to achieve compliance with the CPP and result in foregone opportunities to improve market efficiency and liquidity through a broadened RGGI market. Thus, the CCR should not be retained as part of the program to implement the CPP.

The CCR was intended as a consumer protection measure to provide relief if allowance prices climbed above a threshold auction price. By injecting a fixed supply of extra allowances into the market, the CCR was designed to increase liquidity and to reduce the upward pressure on allowance prices. However, if RGGI authorizes trading with other trading-ready states, the resulting market will be much larger and the additional liquidity that the CCR offers will be unnecessary. For example, if Pennsylvania adopts a trading-ready mass-based program covering both existing and new sources, Pennsylvania's CPP emission budget would be larger than the combined budgets of all RGGI states. The much larger *de facto* market that would result would inherently provide much more liquidity than the small, fixed CCR allowance pool.

Moreover, even maintaining the CCR as currently configured between now and 2022, before CPP compliance is triggered, exacerbates the challenges RGGI states face in modifying the program to serve as the mechanism to comply with the CPP. In particular, continuing the CCR may result in up to another 50 million allowances being issued between 2016 and 2020. Already, however, there are a substantial number of allowances that have been banked for future compliance. Releasing even more allowances for auction serves only to increase the challenges associated with exhausting the banked allowances by 2022 or configuring a program to allow some pre-2022 allowances to be redeemed for allowances in future years. In addition, the fact that a pool of banked allowances already exists and is available for sources to use between now and 2021 suggests that the CCR in its current form may not be necessary to ensure a sufficient supply of allowances at a price that the market can bear.⁷

The simplest means to resolve the problems created by the CCR would be to suspend it or to eliminate it altogether as of 2018. This would both prevent the CCR from exacerbating the

⁶ 80 Fed. Reg. at 64,891.

⁷ Moreover, because several coal plants are expected to retire between now and 2022, the number of allowances necessary to cover all emissions in those years may decrease. The plants that have announced plans to retire are Brayton Point (1 GW), Chalk Point (667 MW), Dickerson (537 MW), Goddard (5 MW), and Huntley (378 MW).

problem of excess banked allowances and make the RGGI program compliant with the requirements of the Clean Power Plan.

If the CCR is maintained, however, RGGI should consider alternatives based on sound modeling that would demonstrate compliance with the requirements of the CPP and the prevention of mechanisms that would interfere with a reliable stream of auction income to support state programs. The CCR can continue to exist after 2021 only if the RGGI states adopt emission goals that – when combined with the CCR – will nonetheless remain at or below the states’ combined budgets under the CPP throughout the compliance period. RGGI might suspend the CCR effective in 2018 to prevent the increase in banked allowances from creating an inconsistency with the requirements of the CPP, and then consider whether to restore the CCR in 2022 with measures that would assure that the RGGI cap remains below that required under the Clean Power Plan. Further, RGGI might also reduce the size of the CCR, which increased from 5 million allowances in 2014 to the current level of 10 million annually.

If the CCR is maintained for any period of time from 2018 onward, RGGI should raise the current “trigger” for the CCR release. Currently, the trigger price is relatively low: the trigger price was \$6.00 in 2015, and will be \$8.00 in 2016 and \$10.00 in 2017, and then is slated to increase by 2.5% each year thereafter. A low threshold is inconsistent with the fundamental operating principle of the CPP and RGGI: that mass-based systems will drive fossil generation from high carbon intensity sources (e.g., coal) to lower carbon intensity sources (e.g., gas). By dampening the upward price pressure on allowances, the CCR interferes with this dispatch switching process. As such, RGGI should raise the price threshold for the CCR to a level above which it expects allowances to trade.

b. Offsets

Just as with the CCR, maintaining the offset provisions in RGGI as currently constituted essentially will mean RGGI states develop state measures plans rather than emissions standards plans for compliance with the CPP, foreclosing the advantages attendant in the latter.⁸ Thus, RGGI should consider whether to eliminate offsets moving forward. As it is, given the allowance prices that have prevailed in RGGI to date, there has been little or no economic incentive to undertake projects to produce offsets, and therefore there is no experience on which to judge RGGI’s current offset provisions. Eliminating offsets is the simplest way to ensure compliance with the CPP.

As noted above with respect to the CCR and banked allowances, compliance with CPP budgets must be paramount. Therefore, to the extent offset projects generate allowances recognized by RGGI for purposes of compliance, an equal amount of allowances should be withdrawn from the RGGI auction. Alternatively, RGGI could set aside a fixed portion of allowances for offsets and withhold that portion from the auction each year to be distributed only to projects satisfying the offset criteria, and capping offset allowances at the set aside. These approaches would allow offsets while preserving the integrity of the RGGI emission goals.

⁸ 80 Fed. Reg. at 64,891.

c. Control Periods

RGGI was formed in anticipation of a national carbon program, and was always intended to be aligned with that national program. Alignment of the RGGI control periods with the CPP control periods offers an obvious opportunity to allow RGGI to operate in harmony with the CPP. By adopting the CPP control periods, RGGI also will simplify allowance trading with non-RGGI sources, which is important to promote a more expansive trading footprint. Moreover, RGGI's current schedule calls for a 2021-2023 compliance period which includes both non-CPP and CPP compliance years, complicating the demonstration of compliance in 2022 and 2023.⁹ Unaltered, the mismatch between RGGI and CPP compliance periods would continue indefinitely, as the CPP compliance period changes to two years beginning in 2028.

Exelon urges RGGI to consider falling into step with the CPP beginning in 2022. RGGI should extend the 2018-2020 compliance period to include 2021, setting the budgets for those years at a level that will assure any banked allowances will be eliminated before 2022. RGGI should then follow the CPP's default interim compliance periods of 2022-2024, 2025-2027 and 2028-2029.

4. RGGI Regulated Sources

RGGI reflects the member states' drive to improve their environment by reducing pollution from electric generation, and to move towards a cleaner energy fleet. RGGI's choice to cover the *entire* electric generation system, including not only large plants but smaller combustion turbines used for "peaking," reflects a properly inclusive understanding of the electric system. The inclusion of peaker units, which are often higher-emitting units, avoids the circumstance in which a compliance cost imposed on a lower-emitting unit might make that unit more expensive to operate than a higher-emitting unit with no comparable compliance cost. Exelon urges RGGI to maintain its current scope, and to do so while still outperforming the CPP emission budgets.¹⁰ RGGI has historically met budgets comparable to those imposed by the CPP despite including these sources, and this trend should continue.

5. EPA CPP: Promoting Renewable Energy and Energy Efficiency

Pursuant to the MOU, RGGI states are required to maintain renewable energy incentive programs and energy efficiency programs complementary to the RGGI allowance program.

⁹ Under current RGGI rules, 2021 vintage allowances could be used for compliance in 2022 and 2023, but could cause the RGGI states to exceed their CPP budgets during the CPP's 2022-2024 compliance period.

¹⁰ This is also true of other instances where RGGI provides for broader coverage, including differences in the exemption for units that supply less than one-third of their output to the grid and combined heat-and-power units. *Compare*, 40 C.F.R. § 60.5850 *with* RGGI Model Rule XX-1.4. The CPP exempts units that supply less than one-third of their output to the grid, while RGGI will cover those units, but allows states, at their option, to exempt units that supply ten percent or less of their output to the grid.

Energy efficiency programs are supported by allowance auction proceeds. Given these integral elements of the RGGI program, it is not clear that the Clean Energy Incentive Program (“CEIP”) proposed by EPA would markedly improve the incentives for renewable and energy efficiency projects in RGGI. Indeed, there was little interest expressed in the CEIP at the RGGI stakeholder meeting, and RGGI’s resources during the program review would be better directed to other implementation issues. However, if the CEIP mechanism is considered by the RGGI states, any CEIP-related allowances awarded should reduce the CPP budgets established by EPA. Otherwise, the early action clean energy projects could have the unintended consequence of dampening the CO₂ price signal to the detriment of the project, and any other clean energy projects being considered in the future.

6. Broadening the RGGI Market/Increasing RGGI Trading Partners

Exelon supports a broadening of the RGGI market, either through additional states joining the RGGI MOU or through developing a “trading ready” system that allows sources in RGGI states to meet their compliance obligation by surrendering allowances issued by other states, and vice versa. Bigger markets generally are better, more efficient markets, with more liquidity and fewer opportunities for concentration of market power. EPA clearly encourages states to adopt trading-ready implementation plans, and removed in the final rule many constraints that might have prevented states from collaborating to form sound markets. By broadening its roster of potential trading partners, RGGI can improve its market in a manner entirely consistent with EPA’s expectations for CPP implementation.

There are, however, material differences between the risks and rewards of adding additional RGGI states and taking on non-RGGI trading partners. Presumably new RGGI members would fully participate in RGGI programs. Budgets for the new states would be based on the same principles used to establish the budgets for the existing RGGI states (possibly lower than CPP budgets). New states would participate in the auctions, subject to the auction floor and other elements of the RGGI auction process. New states would be required to deploy auction revenues and to adopt complementary programs as directed in the MOU and Model Rule. New RGGI states would be fully aligned with existing RGGI states.

The same may not be true of non-RGGI trading partners, and RGGI must adopt protections to assure the integrity of the RGGI allowance market. Here the differences between RGGI’s implementation choices and those of other states may become material. Two issues have particularly significant effect: coverage of new units and method of distribution of allowances. RGGI needs to adopt trading limitations that will balance the goal of broadening the trading market and the goal of protecting the integrity of the RGGI allowance market. The objective is to ensure that RGGI recognizes only non-RGGI allowances that are genuinely comparable with RGGI allowances.

First and foremost, RGGI must ensure that its program is not undermined by recognizing allowances from states that do not include new units in their compliance plans. In any state, allowance prices are likely to be lower if the state program covers only existing units. Notwithstanding EPA’s requirement that existing-only states address leakage, the interstate nature of the electric grid assures that new power plants that have no compliance obligation under the CPP will reduce demand for electricity generated by existing power plants, in turn

reducing demand for allowances and suppressing allowance prices. Put another way, an allowance from a state that includes new sources represents full carbon control, while an allowance from an existing-only state represents only partial control. If RGGI sources can achieve compliance by purchasing allowances from sources in existing-only states, they will do so because those allowances, representing only partial control, are not worth as much and will be cheaper. Trading them as though they had the same value as a “full” allowance dilutes the environmental impact of the allowance requirement, erodes the economic integrity of the CO₂ price signal, reduces demand for RGGI allowances, and ultimately will reduce allowance revenue for RGGI states. In order to preserve the environmental and economic integrity of its program, RGGI should permit trading only with other mass-based states that include new units, both as an incentive for potential trading partners to include new units and as a backstop leakage provision.¹¹

Second, RGGI should consider whether it will allow trading with other states that do not auction allowances, or do not set a minimum price comparable to the RGGI auction floor (*i.e.*, the auction reserve price). RGGI adopted an auction floor in order to assure continued carbon reductions and continued auction revenues even in times of relatively low demand. Even among states that cover new units in their programs, allowance prices may vary significantly, and could theoretically settle at or below the RGGI floor. RGGI must weigh the potential revenue loss against the likelihood that fewer states will be willing to adopt auction floors than would be willing to include new sources in their CPP plans. Of course, RGGI is not the only program model that includes an auction floor. California’s program includes a floor (much higher than the current RGGI floor), and presumably if other states wish to develop programs that allow flexibility to trade with California sources, those states may need to include an auction floor in their plans anyhow.

7. RGGI CO₂ Allowance Auctions & Tracking System

Exelon believes that RGGI’s existing auction and tracking systems are excellent and do not require significant change. RGGI’s quarterly auctions, secondary markets, secondary market monitor and regular market monitor reports combine to create a robust, transparent market that promotes price discovery and enables long-term planning.

III. CONCLUSION

Exelon is pleased to offer these preliminary comments on the 2016 Program Review and looks forward to the opportunity for further input. RGGI states have been leaders in clean energy development. It is critical that RGGI get the key program components right to ensure that the integrity of the RGGI program is maintained and a quality CO₂ price signal is provided. In particular, Exelon encourages RGGI to seek additional stakeholder comment on the emission

¹¹ Kathryn Zyla, Lissa Lynch, & Gabe Pacyniak, *Working Paper: Supporting State Plan Compatibility and Interstate Compliance with the Clean Power Plan*, Georgetown Climate Center (July 2015) at 5, available at http://www.georgetownclimate.org/sites/www.georgetownclimate.org/files/GCC_InterstateCompatibility_July2015_0.pdf.

goal and allowance price modeling, the means of ensuring the exhaustion of banked allowances by 2022, the modifications necessary to prevent the CCR from exacerbating the banked allowance problem, and an appropriate allowance floor price and CCR trigger price, if maintained in the future program design.