CON EDISON AND ORANGE AND ROCKLAND COMMENTS ON THE REGIONAL GREENHOUSE GAS INITIATIVE POTENTIAL POLICY SCENARIOS AND PROGRAM OPERATIONS REVIEW

April 3, 2012

Consolidated Edison Company of New York, Inc. ("Con Edison") and Orange and Rockland Utilities, Inc. ("O&R"; collectively, "the Companies") submit the following comments on the potential policy scenarios and program operations review presented by the Participating States of the Regional Greenhouse Gas Initiative ("RGGI") and RGGI, Inc. on March 20, 2012.

Introduction

The Companies continue to support the leadership that the Participating States ("the States") have displayed in designing, implementing, and overseeing the country's first multi-jurisdictional cap-and-trade program. RGGI, Inc., on behalf of the States, has also done an admirable job facilitating RGGI's market functions and coordinating a region-wide review of the current program, and the Companies appreciate the opportunity to provide stakeholder comments as part of that process. To that end, the Companies have reviewed the high-level modeling results presented at the March 20 stakeholder meeting and ask that additional, more detailed modeling results, as outlined later in this document, be made available to stakeholders in advance of the next RGGI stakeholder meeting. Providing additional levels of detail on the modeling results would allow parties to take a more complete look at possible changes to the RGGI program, the impact of those changes on the wholesale electric market, system reliability and our customers, and provide constructive feedback to the States. Additional detail would also increase the confidence of stakeholders in the accuracy and rigor of the analytical techniques being used to develop policy proposals.

In the comments that follow, the Companies identify areas where additional information or clarification is needed to augment our understanding of the potential policy scenarios. Additionally, we make suggestions regarding other factors that the States should consider in their policy scenarios, identify inconsistencies in Cross-State Air Pollution Rule ("CSAPR") allowance prices between RGGI's modeling and that of the U.S. Environmental Protection Agency ("EPA"), provide a recommendation for the States' use of incremental allowance auction revenues that may result from changes to the RGGI program, and offer feedback on the program operations review.

RGGI, Inc. Should Release Unit-Level IPM Scenario Results and Additional Information on Energy Transfers

At the March 20, 2012 RGGI stakeholder meeting, RGGI, Inc. stated that it would only release state-level results from the Integrated Planning Model ("IPM") scenario runs for stakeholder review. The Companies believe that this prevents stakeholders from understanding how the IPM optimizes economic factors and electrical constraints across the nine-state RGGI region to arrive at the high-level results that appeared in ICF Consulting's presentation. There is recent and applicable precedent to the release of unit-specific modeling results. IPM modeling results at the individual generator level – including information on the IPM's selection of plants for dispatch and emissions over time – were made available to all interested parties throughout the comment period on the EPA's CSAPR regulation. The interactions between the administering agency and the states in that rulemaking exemplify the importance of transparency in modeling because there were meaningful adjustments made to emission allowances under the final CSAPR rule as a result of input from the stakeholders during the comment period.[1]

Before the Companies can offer feedback on the usefulness of the States' policy scenarios for decision-making purposes, the Companies would need to be able to review the unit-level modeling results and tie-line flows. Specifically, the Companies ask that annual energy output from all modeled units be provided as well as annual energy transfers along modeled tie-lines between all areas. The Companies also request the release of the assumed limits on the modeled constraints for all of the areas from which New York imports energy. Additionally, it is difficult to evaluate the validity of the scenarios without a closer look at the supply curve for offsets, which perform a critical function in limiting the magnitude of modeled allowance price increases. Having these detailed results will allow the Companies to evaluate if the IPM is adequately reproducing a reasonable 'real-world' dispatch of units in the base case, as well as energy transfers between different ISO/RTO regions. Also, seeing the changes in individual unit outputs and import/export flows calculated by the IPM for the various scenarios will allow the

---

[1] See for example U.S. EPA 430-K-11-004, "Documentation Supplement for EPA Base Case v.4.1-_FTransport-Updates for Final Transport Rule," June 2011.

Companies to confirm if the IPM's estimation of the system response to those scenarios adequately represents local operational parameters.

By releasing further detail on the unit-level scenario results, tie-line energy transfers, assumed import limits, and offset supply curve, the States will make great strides in providing for a more transparent program review. The Companies can, in turn, offer constructive input to help improve modeling accuracy. Enhanced accuracy will result in a more precise estimate of the impact on wholesale energy prices for our customers as well as providing generators that are directly affected by auction costs with a more meaningful view of future environmental compliance costs, both of which will lead to better, more informed feedback to policy makers.

States Should Consider Increased Use of Offsets and Alternatives to Indian Point Retirement

There are two additional factors that should be studied as the States consider policy scenarios that lower the RGGI cap on carbon dioxide ("CO2") emissions. First, the Companies recommend creation of a scenario that examines the impact on allowance prices of an 8 percent limit on offsets and elimination of offset price triggers. The States' potential policy scenarios do not reflect stakeholders' previously-stated interest in expanding the role of offsets beyond the current 3.3 percent limit; instead they focus only on the impact of a zero-offset scenario. The Companies view this as a lost opportunity to explore a factor that could lower the total cost of RGGI compliance for covered entities while still contributing to the goal of verifiable carbon emissions reductions. Registering offsets with RGGI has a substantial transaction cost; raising the offset limit would allow entities with potential offsets to spread those transaction costs over a greater volume of offsets, making it more cost effective overall to participate in the offset market. Furthermore, offsets provide compliance flexibility and offer low-cost emissions reductions and other co-benefits across sectors, so it is in the best interests of electric customers throughout the RGGI region for the States to facilitate the emergence of a healthy offset market.

Second, the Companies maintain that the States should analyze the sensitivity of IPM results to the continued operation of Indian Point Units 2 and 3 until 2020, in contrast to the Reference Case and the various policy scenarios, where in all instances Indian Point is assumed to be fully retired by 2015. Given that there is no concrete resolution of the uncertainty over Indian Point's relicensing application, it is in the best interest of our customers and New York

State policy makers to understand the impact of the plant's alternative futures on the RGGI market. As stated in comments to RGGI, Inc. on October 5, 2011,[2] the Companies continue to believe that from a resource planning perspective, the regional resource studies such as the NYISO Reliability Needs Assessment ("RNA"), the NYISO Load and Capacity document (the "Gold Book") and the PJM Regional Transmission Expansion Plan reflect the 'best available information,' and should only be modified for the RGGI Reference Case if future expectations have changed as a result of definitive events. The most recent RNA models Indian Point as in service throughout the ten-year planning horizon of the assessment; the Companies believe that it is appropriate for the States and RGGI, Inc. to model Indian Point as in service. The States have chosen not to accept the Companies' comments on this matter, but that should not preclude the States from conducting a sensitivity analysis to show the impact of Indian Point retirement.

CSAPR Estimates of Allowance Prices Should be Incorporated into RGGI Modeling in the Reference Case and Policy Scenarios

The documents provided after the March 20 RGGI stakeholder meeting indicate that the cases considered in the States' scenario modeling failed to include the projected emissions allowance costs for nitrous oxide ("NOx") and sulfur dioxide ("SO2") as modeled by EPA in the final CSAPR, and in most cases, the projected NOx and SO2 allowance costs are significantly lower than those projected by EPA. Additionally, it is not clear from the meeting materials that the IPM accounts for the fact that not all of the RGGI States are covered by CSAPR, which leads the Companies to question if the IPM is capable of registering how the differential costs associated with NOx and SO2 allowance prices would impact transfers of power from one state to another state. The States cannot adequately evaluate the effect of a different cap on CO2 allowance prices, and the interactions between CSAPR allowance prices and CO2 allowance prices, unless their choice of allowance price model inputs is either better justified or modified to reflect EPA's extensive modeling in this area.

Increased Auction Revenues Should Offset Existing Collections for Public Purpose Programs

Annual auction revenues stand to increase significantly if the States agree to lower the CO2 cap during the 2012 program review. Depending on the policy scenario used, New York

[2] http://www.rggi.org/docs/Consolidated_Edison_11_10_05.pdf

State alone will see an incremental revenue increase of between $32 million and $200 million annually by 2020. The Companies have long held that RGGI auction revenues should be re-invested in public purpose programs that benefit electric sector customers and lower their cost of compliance with the RGGI program directly on their electricity bill, where the costs will reside. At this juncture in the program review the Companies encourage the States to begin considering how they plan to allocate additional revenue that may result from changes to the CO2 cap. As an example, we urge the States, New York in particular, to consider using incremental RGGI funds to offset collections for clean energy programs. Existing program vehicles should be used, such as the Energy Efficiency Portfolio Standard program ("EEPS") and the Renewable Portfolio Standard program ("RPS"). By investing incremental RGGI dollars in existing program vehicles, the States not only invest in carbon reduction, they also ensure that customers mitigate the overall bill impact of the increase RGGI costs. The Companies note that the EEPS and RPS programs are overseen by the New York State Public Service Commission (the "PSC"). The Companies are proposing that increased RGGI funds be used to replace RPS and EEPS collections authorized by the PSC, but believe that the PSC is best placed to oversee the RPS and EEPS programs, regardless of where the funding comes from, and are not advocating for any change in the oversight of those programs.

Additional Clarifying Questions on IPM Modeling

There are two additional questions that the Companies would like to pose to RGGI, Inc. and the States to clarify the results of the policy scenarios. First, do the policy scenarios assume that all allowances are offered and sold by the States during each compliance period? In past auctions the States have chosen to hold back some of their allowances for state-specific set asides and other reasons, and the Companies are interested to know if the policy scenarios assume this will continue to be the case. If RGGI, Inc. is assuming there are no allowance hold-backs, it may be useful to model a sensitivity showing how such hold-backs could impact allowance prices. Second, the Companies expect to see increases in emissions from non-RGGI sources as the caps ratchet down and power imports grow. Will these emissions increases be quantified and factored into the macroeconomic analysis?

Comments on Program Operations Review

Generally speaking, Con Edison has found the RGGI allowance auction process and COATS system effective and relatively easy to use. However, there are two minor changes that Con Edison suggests to improve covered entities' interactions with the program. First, offering a data warehouse with information on number of allowances sold, annual emissions cap information, etc., would make it easier for users to conduct financial analysis. As an example, to know how many allowances were sold at multiple auctions one must review detailed data for each individual auction result. Posting an excel document at with consolidated auction data would give participants access to such information in a more useful format. Second, RGGI currently allows for one primary auction representative and one secondary auction representative. However, only the primary representative has bidding rights unless an Auction Notice Appendix G is submitted in advance of the auction date. If the primary was unexpectedly unavailable on the day of the auction, the secondary representative cannot represent the company to bid. Con Edison suggests that the primary and secondary representatives have equal bidding rights.

Conclusion

Since its inception in 2005, one of the RGGI program's notable successes has been its sustained emphasis on partnership in policy development across jurisdictions and industry segments. To that end, the Companies encourage the States and RGGI, Inc. to release additional information on the IPM scenario modeling results and contributing assumptions, and to consider suggestions regarding additional factors that should be examined, as requested herein. We look forward to continued participation in the 2012 program review