

January 23, 2013

Nicole Singh  
Acting Executive Director  
Regional Greenhouse Gas Initiative Inc.  
90 Church Street, 4<sup>th</sup> Floor  
New York, NY 10007

Dear Ms. Singh:

In response to the request for comments regarding the ongoing Program Review of the Regional Greenhouse Gas Initiative (RGGI) by the participating states, National Grid is pleased to offer the following comments on behalf of its operating utility companies, Niagara Mohawk Power Co. of New York, Massachusetts and Nantucket Electric Cos. in Massachusetts, and the Narragansett Electric Co. of Rhode Island, and National Grid's generation subsidiaries in New York, which are compliance entities under RGGI. These comments encompass views on the proposed changes to the Model Rule, including the potential for a revised cap level and the modeled impacts of these changes on customers in the RGGI region.

National Grid has been both an advocate of a national program to reduce greenhouse gas emissions and a strong supporter of RGGI as a precursor to federal action. National Grid broadly supports the overall goals of the RGGI states to reset the future cap levels to better reflect recent emissions levels, and adjust the Model Rule in ways that will help to simplify the program and contain future costs.

As is well understood by participants in this process, actual emissions across the RGGI region have declined sharply since the inception of RGGI, largely due to fuel switching by generation facilities and reduced generation fleet utilization levels and retirements, but also from changes in the economy, changes in weather, effective energy efficiency programs, and increased installation of non-emitting renewable energy across the region. As a result, current emissions levels are dramatically below the initial goals of the RGGI program.

Given this dynamic, the new cap level following this review should seek to largely maintain the reductions in emissions that have been realized and lessen the degree of a return to higher emissions levels should the relative cost of fuels or the level of overall economic activity create upward pressure on GHG emissions. Ideally, the new cap levels and Model Rule will allow the RGGI states to cost-effectively maintain or provide incremental contributions to GHG emissions reductions that are needed globally to lessen the extent of future climate change. However, customers should not be penalized for the

region's realized GHG reduction; a revised program cap level as described below along with the proposed Cost Containment Reserve mechanism would help to avoid sharply higher costs that may result from economic counter trends, while helping to maintain emissions levels that are far below the program's initial goals.

This approach should be combined with the focus already adopted in many states on using the proceeds from allowance auctions to support energy efficiency and clean energy investments. Such use of proceeds will further reduce demand and consequently CO<sub>2</sub> emissions, and National Grid fully supports such reinvestment.

In addition, the RGGI program could potentially fulfill the need for emissions regulation under standards to be adopted by the U.S. Environmental Protection Agency to meet the requirements of the Clean Air Act, and should thus be sufficiently flexible to adjust if a federal regulation is promulgated. Put another way, the low-emissions generation in the RGGI region should not be precluded by a new RGGI cap from supplying clean generation to higher emitting non-RGGI regions once a federal program is in place. Further, we must ensure that benefits realized in the region are recognized and receive credit under any new federal program.

Absent such a federal standard for existing sources, however, National Grid is concerned about the apparent impact of leakage. Under the modeled scenarios, a significant amount of emission reductions in the RGGI region will be undone by increases in emissions in adjacent control areas. Even the 91 Cap Alt Bank scenario, with a nominal seven year price tag of more than \$3.3 billion, only achieves approximately 33 million tons of actual emissions reductions (compared to the Reference Case) after leakage to the rest of the Eastern Interconnect and Canada. This equates to a cost of about \$100 per ton actually reduced. This is an extremely expensive and far less effective approach to abating CO<sub>2</sub> emissions compared to other programs such as energy efficiency, renewable portfolio standards, and potential investments in other sectors. We recognize that the impact of federal regulation of GHG emissions from existing sources should eventually lessen any leakage, but such regulations may not be in place until late in the period modeled by ICF for the Program Review or maybe never. The RGGI region and its electric customers must not carry the U.S. GHG reduction burden on its own.

National Grid strongly encourages the RGGI states to address this issue head-on: explore more fully leakage and potential mitigation mechanisms in the review process; monitor leakage after the program is reset; and if warranted, implement appropriate mechanisms to eliminate or mitigate this weakening of the program's intended impact, especially if federal controls are not in place by the start of the next control period, a likely scenario. Leakage not only dilutes the net environmental benefits of RGGI but also discourages repowering of older fossil generation within the RGGI region since such repowered units would have to compete with identical gas fired combined cycle units outside the region whose generation is transmitted by existing transmission tie lines into the region but which do not have the incremental cost burden of RGGI allowances. Such disincentive to repower older fossil units will eliminate significant numbers of RGGI region jobs and



local real estate tax revenue from host communities and further degrade already stressed local and state economies.

In addition, National Grid would encourage the states to consider future scenarios under any federal regulations whereby the region's clean generation resources might be called upon to serve load outside the region because it is less carbon intensive. Such reverse leakage will result in net positive GHG reductions and should be allowed even if it will increase emissions within RGGI itself. At that time, we would like the States to again review the RGGI program to determine how best to capture the current gains of this program in the context of the larger national program.

The remainder of this letter focuses on specific areas of proposed changes proposed or modeled in the Review Process, as presented and requested by the RGGI states.

#### Interim Control Periods

The RGGI states have proposed an interim holding or retirement requirement for allowances each year within control periods. National Grid would discourage the states from adopting this approach. Such a requirement will be akin to annual retirements in practice, and undo a great deal of the flexibility that is currently built into the program design.

#### Treatment of Unsold Allowances

Within each control period, it is possible that not all allowances will be sold. National Grid would recommend that the states establish a policy under which all unsold allowances are offered in every future auction within each control period. National Grid does not believe that this would change the buying strategies of the compliance entities but would mitigate seasonal and/or annual variations in emissions and ensure the availability of all allowances within a control period. At the end of a given control period, all unsold allowances held by states should be retired. This policy should be established upfront through this program review and then left in place going forward. This will help to establish certainty around the volume of available allowances in any period, maintain the integrity of each control period, and control the buildup of unneeded allowances between periods, should the cap levels turn out to be less binding than anticipated.

#### Flexibility Mechanism Changes

National Grid supports the changes to the flexibility mechanisms proposed by the states as simplifications of the program that are largely replaced by the new Cost Containment Reserve mechanism. This includes the removal of international offsets, removal of the 4<sup>th</sup> year compliance year language, and removal of price triggers for offsets.

#### U.S. Forests Offset Protocol

The Company sees the adoption of this standard, which will link with the California Air Resource Board program's requirements, as a step in the right direction of creating national standards. However, we recognize some questions exist about the qualifications



requirements of this Protocol as being too stringent, and urge the states to work with California and other carbon control programs to create sound, administrable offset programs for forestry and agriculture-related mitigation efforts.

#### Reserve Price Simplification

National Grid believes the proposal of the states to adjust the Reserve Price upward by 2.5% per year instead of CPI is a reasonable and simple change, and supports it, although the reason for the change has not been made clear. We would have more concern with any approach that a) sharply increased the base reserve price, or b) more steeply inflated the reserve price. Such policies would encourage speculative holding of allowances, create guaranteed windfalls for current holders of allowances, and establish a more substantial minimum tax on emissions that would penalize customers if emissions are able to decline for reasons outside of RGGI, such as improvements in technology, changes in weather, or further fuel switching or repowering to natural gas.

#### Reset Cap and Adjustments for Banked Allowances

National Grid supports a newly set cap level for 2014 that would reflect recent levels of emissions. We would recommend adopting an initial level of 100 million tons in 2014, which is slightly less than the average of the period 2010-2012 for the RGGI region of 103 million tons per year, along with a decline by 2.5% each subsequent year out to 2020. This would bring the emissions cap down by 15% from the starting level by the end of that period, and to approximately 52.5% of the level of emissions in 2005, much lower than the original RGGI targets ever anticipated. National Grid believes this proposed level, combined with controls on leakage, balances the continued contribution of the region to the global problem of GHG emissions with the economic impacts a tighter cap might impose on electric customers in the region.

In addition, National Grid supports the proposed interim adjustments of the cap levels to eliminate the large current and projected privately-held bank of allowances from the first two control periods. However, the rate and shape of the adjustment mechanism should be further considered; slightly frontloading the adjustment may help to eliminate the bank of excess allowances sooner, and reduce the difference in the number of offered allowances between the final year of the adjustment period and the following year. This may help accelerate changes to accommodate the new cap level and ease the transition between the adjustment period and the following year, rather than creating a lip at the end of the adjustment period. In short, the modification of the cap levels to address banked allowances should be established and communicated as soon as possible by the states to create transparent regulatory certainty for compliance entities and other market participants.

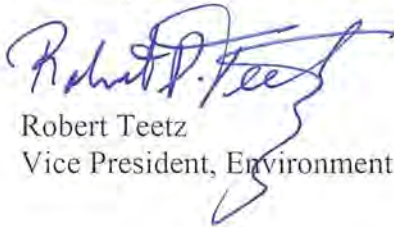
#### Cost Containment Reserve

The changes to the Model Rule also propose establishing a Cost Containment Reserve mechanism. As understood from the presentations of the RGGI states, the CCR would offer up to 10 million allowances per year at or above a trigger price. Those trigger prices are proposed to be \$4 in 2014, \$5 for 2015-2017, and \$7 for 2018-2020. The states

have also modeled a smoother, steeper rise in the CCR trigger, starting at \$4 in 2014, and rising \$2 each year to \$10 for the period 2017-2020. When these latter trigger prices are combined with the assumption that more banked allowances would be retired early in the modeled period, the result is much lower allowance costs in the near term, and less reliance on the CCR's available allowances. National Grid believes this second approach is worth adopting to create a cost-effective buffer to sharp, short-term fluctuations in emissions levels, and maintain the environmental integrity of the program. Such an approach also appears to push the more restrictive and expensive period of the program out to later years. This is beneficial as it provides a greater opportunity for long-term adjustments in the generation fleet and improvements in technology that may allow for lower emissions and a lower cost than the model now shows. National Grid would urge the states to select the trigger price mechanism and price schedule that creates the lowest overall cost per ton of reduced emissions, and seek additional expert opinion on that issue if needed. We hope the states will further model the complete cost and net emissions reduction related to their preferred set of policies and release these results for stakeholders to consider and comment on before the Review Process is concluded.

Again, National Grid is pleased to offer these comments to the RGGI states, and looks forward to future opportunity to comment on the final proposal the states put forth.

Sincerely,



Robert Teetz  
Vice President, Environment