THE
NORTHEAST
REGIONAL
GREENHOUSE
GAS COALITION

September 26, 2005

Dear RGGI Environmental and Energy Agency Heads,

The Northeast Regional Greenhouse Gas Coalition (GHG Coalition) commends the RGGI Staff Working Group members for their efforts over the past two plus years.[1] As an official member of the RGGI Stakeholder Group, the GHG Coalition has participated in all of the stakeholder group meetings and submitted numerous recommendations on ways to design a program that will serve as an effective national model, result in real, cost effective GHG emission reductions and minimize the cost impacts on consumers and electric generators in the RGGI region.

The GHG Coalition has evaluated the RGGI package proposal and IPM modeling and remains concerned that market uncertainties could result in higher costs than predicted. While IPM modeling suggests low allowance costs for the package proposal, we believe that the modeling assumptions used do not reflect the most likely future market realities (e.g., natural gas prices, renewable and natural gas capacity additions, nuclear unit availability, natural gas availability, electricity transmission expansion into RGGI). Therefore, the GHG Coalition is suggesting the following revisions to the RGGI package proposal to account for these uncertainties.

Set Asides

The GHG Coalition is very concerned with the market implications resulting from a large allowance set aside as contemplated in the proposal through the Strategic Carbon Fund and Public Benefit Allocation. The timing, price and availability of these set aside allowances is particularly important to RGGI affected companies in light of their likely impact on operational and compliance decision making. Depending on the details of these three variables, a large set aside could create significant distortions in both the electricity and emission trading markets.

With the goal of minimizing the potential for adverse market impacts, the GHG Coalition believes the MOU should contain a total maximum set aside of no more than 10 percent. The MOU should also obligate every RGGI state to implement the same set aside percentage – no more and no less – in order to avoid creating an uneven playing field for electric generators or distortions in the regional electricity markets. Finally, the MOU should include assurances that all of the set aside allowances are made available to affected electric generators prior to the first compliance period so market liquidity is not adversely affected and companies have adequate time to plan least cost compliance strategies.

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1. The GHG Coalition members endorsing these comments include BP America, Inc.; Calpine Corporation; Consolidated Edison, Inc.; Public Service Enterprise Group, Inc.; United Technologies Corporation; and Waste Management, Inc.

Offsets and Early Action Credits

The GHG Coalition supports the incremental, regional approach to the development of standardized offset protocols for use in RGGI as outlined in the proposal. The short list of qualified offset projects is a positive first step, but the MOU should clearly commit to the expeditious expansion of this list prior to the first compliance period to include a variety of strategies that reduce all six GHGs. The MOU should also outline the process for crediting offsets and early action, and allow affected companies to start banking offsets and early action credits as soon as practical in 2006.

Rather than imposing geographic and absolute limits on the use of offsets, RGGI should develop standardized protocols designed to achieve real, surplus, verifiable, and permanent GHG reductions. Projects located anywhere in the U.S. should be eligible to generate offsets and early action credits from 2002 forward for use in RGGI and those credits should be available to off system projects.[2] The GHG Coalition continues to believe that a limitation on the quantity of offsets for compliance with RGGI is an unnecessary constraint, which may have negative cost implications and will negatively impact the desired result of maximizing GHG reductions.

Because there is no effective CO_2 control equipment for fossil fuel-fired power plants as was available in the acid rain and ozone programs, unconstrained offset development can serve as a surrogate to fill this role in the RGGI program to promote reductions faster and more economically in an active trading regime. Furthermore, a flexible offsets program offers the most effective means to control program costs by promoting diverse, low-cost compliance options. Finally, a flexible and fair early action program will encourage companies to continue to implement voluntary measures.

Leakage

The GHG Coalition remains concerned about the environmental and economic implications of leakage and believes that addressing the issue is critical to the credibility of RGGI. Establishing a monitoring program and investing in emission reduction projects through the SCF (as the package proposal indicates) does not adequately address the environmental and economic impacts related to electricity imports and the associated emissions leakage.

According to the latest RGGI IPM modeling, increases in electricity imports and the associated CO_2 emissions leakage from the Eastern Interconnect and Canada reduce the CO_2 emission reduction benefit of the RGGI package by at least 25% in 2012, 41% in 2015, and 44% in 2024. While the greater use of offsets for compliance purposes is likely to reduce leakage, if business as usual natural gas prices and CO_2 emissions are greater than predicted, leakage is also likely to increase.

The GHG Coalition recommends that RGGI states commit to directly address the CO_2 emissions associated with electricity imports in the MOU. Identifying a specific policy in the MOU is unrealistic at this time. However, the RGGI states could make a commitment to create a panel of experts to develop policy solutions within the next year. The panel should consist of electricity market experts from the three RGGI region independent system operators (ISO New England, NY ISO, and PJM), state public utility commissions and other key market experts.

2. This start date is reasonable given the clear indication that the majority of the RGGI region was intent on capping GHG emissions based on the goals established in the Conference of New England Governors and Eastern Canadian Premiers, Climate Change Action Plan of 2001.

Program Review

The GHG Coalition supports the provisions in the proposal committing the RGGI states to conduct a comprehensive review of the RGGI program in the future. However, the GHG Coalition does not believe that 2015 is early enough. The GHG Coalition recommends that the RGGI MOU include a commitment to undertake a program review after every compliance period beginning in 2012.

During these regular reviews a number of issues could be addressed including the following: emission trading liquidity and allowance prices, success in meeting emission reduction goals, electricity price impacts, offset categories and use, electricity imports and leakage, and allowance set asides. The review should also focus on the sunset of RGGI when a national program is adopted.

Finally, the GHG Coalition continues to believe that in light of the cost uncertainties associated with the package proposal that a price control mechanism, either a safety valve or circuit breaker (or both) should be included in the MOU.

Next Steps

While the RGGI package proposal is an important milestone, the GHG Coalition also recognizes that significant issues must still be addressed and looks forward to remaining an active and constructive participant in the RGGI process. In particular, issues of interest to the GHG Coalition include, unit level allowance allocations (e.g., methodologies, baselines), early reduction crediting, new source set asides, offset protocol development and project crediting and registration, accounting for and encouraging biomass co-firing, combined heat and power and other net zero/non-emitting generation, and the development of the Regional Greenhouse Gas Registry to name a few.

In conclusion, the GHG Coalition looks forward to continuing discussions with RGGI states and other stakeholders to reach an agreement on these suggested revisions to the package proposal.

Sincerely,

Michael Bradley

Michael Bradley

cc: RGGI Staff Working Group