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Dominion®

By Electronic Delivery: info.rggi.org
November 30, 2010

Mr. Jonathan Schrag
Executive Director
Regional Greenhouse Gas Initiative, Inc.
90 Church Street, 4th Floor
New York, NY 10007

Re: Comments of Dominion Energy New England, Inc. on the Request for Stakeholder Input In Preparation for the 2012 Regional Greenhouse Gas Initiative Program Review

Dear Mr. Schrag:

Dominion Energy New England, Inc. ("Dominion") appreciates the opportunity to submit comments to the Regional Greenhouse Gas Initiative (RGGI), Inc. on issues related to the economic model runs and the preparation for the 2012 RGGI program review. Dominion owns three fossil-fired generating stations in the RGGI region subject to state RGGI implementation rules, which include Dominion Energy Brayton Point in Somerset, Massachusetts, Dominion Energy Salem Harbor in Salem, Massachusetts and Dominion Energy Manchester Street in Providence, Rhode Island.

Dominion appreciates and attended the stakeholder meeting held by RGGI, Inc. on November 12, 2010. As a result, we have several areas we would like to provide feedback relative to the IPM modeling efforts and the preparation for the 2012 RGGI program review.

Regional Energy and Peak Demand in the RGGI Region

The IPM reference case assumptions regarding regional energy and peak demand are based on Independent System Operator (ISO) projections, adjusted for projected energy efficiency program results (provided by the states). Based on slides provided at the September and November stakeholder meetings, it is our understanding that ISO New England is projected to have negative load demand, which is primarily driven by the aggressive energy efficiency investment policies expected to be implemented in Massachusetts, as required by state statutes. Other states show a decreased load demand when adjusted for energy efficiency. We ask that RGGI, Inc. direct its consultant, ICF International, to run a sensitivity case which does not adjust for energy efficiency investment, so the public can understand the magnitude of the impact of the energy efficiency programs, in the event that all of the energy efficiency program results are not realized.

Leakage

At both the September and November stakeholder meetings, ICF International stated that it did not account for leakage as part of the modeling assumptions. However, ICF indicated that they could adjust the model to respond to leakage on a "limited basis."

The original RGGI IPM modeling done for RGGI Inc.'s 2008 leakage report[1] generally projected an increase in imports, with associated emissions leakage in cap scenarios relative to business-as-usual cases. Taking all of the modeling into account, 25-50% of the RGGI CO2 emissions benefits of the RGGI program could be lost. As pointed out in the April 2006 proposal and notes for discussion presented to the RGGI staff working group by Richard Cowart of the Regulatory Assistance Project entitled *Addressing Leakage in a Cap-and-Trade System: Treating Imports as Sources*, it only takes a small shift in purchasing patterns to result in quite large leakage percentages.

Since leakage remains an important concern in RGGI program implementation, we suggest that RGGI Inc. direct its consultant, ICF International, to account for leakage under any future reference case or sensitivity model runs.

IPM Reference Case Results - Leakage

The IPM reference case results indicate that CO2 emissions from RGGI compliance entities are projected to be less than the regional CO2 allowance budget for the foreseeable future. However, the CO2 emissions levels projected in the reference case do not account for imports. As stated above, we ask that RGGI Inc. direct its consultant, ICF International, to account for leakage under any future reference case or sensitivity model runs. Without taking imports into account, it is inconceivable that the RGGI states could undergo an appropriate program review and entertain possible program adjustments.

IPM Reference Case Results – Budget

The IPM reference case results project a bank of accrued CO2 allowances from the first control period (representing both CO2 allowances distributed to the market and CO2 allowances that go unsold at auctions). The bank is an unforeseen consequence of the economic downturn combined with weather and fuel pricing effects. At this time, we do not agree that that RGGI Inc. should adjust the regional CO2 allowance budget based on the bank. Such an adjustment would create market uncertainty and drive up the cost of RGGI allowance prices.

However, if the RGGI participating states consider changes to the regional CO2 allowance budget, option c. of the potential examples is the best alternative. Option c. creates a strategic reserve of CO2 allowances as a cost containment mechanism. It keeps the unsold allowances

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[1] *Potential Emissions Leakage and the Regional Greenhouse Gas initiative (RGGI)*, Final Report of the RGGI Emissions Leakage Multi-State Staff Working Group to the RGGI Agency Heads, (2008).

from being totally withdrawn from the market and therefore available to meet a future demand need. Further, it provides a revenue stream back to the states when/if the allowances are eventually circulated.

The second best option would be option a. which retires any unsold allowances at the end of each control period. In this way, compliance entities would have the option to buy extra allowances at the reserve price for future compliance, creating more market certainty.

IPM Reference Case Assumptions – Firmly Planned Control Installations

Slide 42 from the November stakeholder meeting showed the firmly planned pollution control installations by state, plant and unit. However, it did not show the planned flue gas desulfurization (FGD) planned for our Brayton Point station scheduled for commercial operation in first quarter 2014. We ask that the reference case assumptions be adjusted to reflect this firmly planned control.

Once again, we appreciate the opportunity for stakeholder input and your consideration of these issues. If you have any questions, please contact Paula Hamel at (804)-273-3024 or paula.a.hamel@dom.com.

Sincerely,

Pamela F. Faggert

Pamela F. Faggert

Cc: Dan Weekley, Dominion