

October 5, 2011

Submitted by Email to info@rggi.org

Regional Greenhouse Gas Initiative, Inc.
90 Church Street, 4th Floor
New York, NY 10007

Re: Comments on September 19, 2011 Stakeholder Meeting and 2012 Review

Dear RGGI Inc.,

The RGGI Working Group is made up of major electricity power providers and natural gas and electric utilities with operations in the RGGI region. Members of the RGGI Working Group have been active in state, regional, and federal greenhouse gas (GHG) policy development for a number of years and are interested in working with the RGGI States on the 2012 program review.

The RGGI Working Group appreciates that the RGGI states released the Proposed Schedule for Program Review. This is very helpful for stakeholders to understand the approach that the RGGI states plan on taking over the next several months. We also commend the states and RGGI Inc for the stakeholder meeting on September 19th in New York City. The discussions on the market fundamentals, IPM reference case modeling and perspectives on flexibility mechanisms were very helpful. We encourage the use of similar formats for future meetings including more time for stakeholders to provide their comments and viewpoints. We strongly believe that input and lessons learned from climate policy experts will enable the 2012 review process to move forward in a balanced, transparent and efficient manner.

We understand that the RGGI states plan on hosting another stakeholder meeting on October 11, 2011 on electricity market and imports and leakage issues. We are encouraged to see the RGGI states invited a representative from the California Public Utilities Commission to discuss their proposed approach to electricity imports under the California cap and trade program. We also encourage the states to release meeting materials in advance of the meeting so that we may provide our feedback to the states and other stakeholders at the meeting. We look forward to participating in the meeting on October 11 as well as in future RGGI stakeholder meetings. Our comments below specifically address the questions the RGGI states posed to stakeholders in the September 19, 2011 meeting announcement.

RGGI Market Fundamentals

For any proposed change to the RGGI program, states must consider the full range of energy market and economic impacts. Beyond allowance prices, states must also model the potential impact of program changes on: the region's electricity prices; electricity imports and emissions leakage; electricity consumers; and the broader regional economy. The RGGI Working Group looks forward to further energy and macroeconomic modeling in order to fully analyze these issues.

The RGGI Working Group would like to reiterate Point Carbon's caution that the RGGI region power sector has limited options to reduce emissions. Clearly, some of the largest and most cost-effective CO₂ mitigation options for the region's power sector include: increasing nuclear energy capacity through unit specific uprates, importing zero emitting energy capacity such as wind and hydro, fuel switching and demand-side energy efficiency.

Furthermore, emissions in the region have been reduced significantly below the cap since RGGI's inception. This should be acknowledged as a success for the RGGI program rather than a design flaw based on the level of the CO₂ emissions cap established by the states based on historic emissions. According to NYSEERDA's analysis, three categories of factors were the primary drivers of the decreased CO₂ emissions: 1) lower electricity demand due to weather, energy efficiency programs and the economy, 2) fuel switching from oil and coal to natural gas due to low natural gas prices, and 3) changes in the available electricity supply mix due to increased nuclear availability and uprates, reduced coal capacity and increased renewable capacity.

If the factors identified by NYSEERDA continue, as they are anticipated to, RGGI region emissions are likely to remain below the existing CO₂ emissions cap. The original design of RGGI identified demand side energy efficiency as the least cost option to reduce GHG emissions in the RGGI region. This sentiment was echoed by the New Energy Finance presentation.

Also, the conclusions of the Point Carbon presentation suggested that in order for the program to directly drive CO₂ emission reductions from the region's power sector, RGGI policymakers should develop a strategy for managing the bank of unsold allowances and may need to lower the CO₂ emissions cap. However, Point Carbon cautioned that the power sector in the region has limited options to reduce CO₂ emissions and a correction to the cap could result in high allowance prices.

The cap levels and scenarios modeled by Point Carbon are more aggressive than the RGGI Working Group can support at this time without understanding the potential costs and benefits. However, as we indicated in the May 31, 2011 joint letter from our companies and the environmental community, stabilizing emissions for two years (2013 and 2014), followed by the original 2.5% per year emission reduction path in the 2015-2018 timeframe seems reasonable for IPM modeling purposes.

The RGGI Working Group agrees with Point Carbon that allowance banking behavior over the next five auctions will have implications for the RGGI program. If it appears that the states will reduce the future RGGI cap in the second and third compliance periods, it is likely that the behavior of auction participants will be influenced. As a result, allowance banking will be an option seriously considered by market participants. However, RGGI should not limit the ability of compliance entities to bank allowances as part of their RGGI compliance strategies.

IPM Modeling Reference Case and Sensitivity Analyses

The conclusions of the RGGI Reference Case IPM modeling indicate that: 1) the RGGI CO₂ emissions cap is over allocated, 2) regional CO₂ emissions from the power sector are likely to stay well below the existing cap through 2018 and 3) allowances prices are projected to center around the reserve price for the duration of the program.

We have several comments on the IPM reference case modeling:

1. The assumption for the in service date for the Mid Atlantic Power Pathway (MAPP) should be changed from 2015 out to 2019-2021 based on PJM's recent RTEP analyses.¹
2. The firmly planned unit retirement assumptions should be updated. National Grid recently announced that Far Rockaway Power Station (Unit #4) and Glenwood Power Station (Units 4 & 5) will be retired in 2013.²
3. The modeling of dual fueled (oil and natural gas) units in IPM, especially in southeast New York, should be evaluated more fully to ensure that special conditions associated with those units, including but not limited to minimum oil burn reliability rules and transmission constraints, are fully represented.

While we understand the difficulties involved in constantly adjusting the modeling assumptions, the participating states should strive to keep the reference case as current as practicable. Please see the last section of this comment letter for additional recommendations regarding the IPM policy case scenarios.

Flexibility Mechanisms

The current flexibility mechanisms built into the RGGI program, the three year compliance period, allowance banking and carbon offsets, provide a solid foundation for the RGGI states to build from during the 2012 review. The RGGI Working Group strongly contends that the RGGI states should not restrict the use of allowances banked by private entities from the first compliance period. According to analysis from Point Carbon, the vast majority of banked (unsold) allowances are held by the RGGI states (roughly 117 million vs. roughly 10 million banked by auction participants), making the public bank more critical in driving CO2 reductions. All first compliance period vintage allowances banked by private entities should be recognized without discount.

The RGGI Working Group believes that if the RGGI states decide to reduce the CO2 cap significantly and/or retire unsold allowances, the states should also consider the following flexibility mechanism changes as part of this package:

1. Improve the transparency of the reserve price calculation going forward;
2. Eliminate the offset price triggers and instead permit compliance entities to cover 8-10% of their emissions compliance obligation with carbon offsets;
3. Expand the list of eligible offset categories to include the avoided deforestation and forest management category that the Maine Forest Service and its partners, Environment Northeast and the Manomet Center for Conservation Sciences developed;
4. Allow the use of Climate Action Reserve approved offsets; and
5. Develop a cost-containment allowance reserve that would provide assurance to affected generators by making additional allowances available at some predetermined price.

Improve the Allowance Reserve Price

The RGGI auction reserve price is one area of RGGI design that could be simplified. The current structure – either a minimum reserve price or the current market reserve price is overly complicated and introduces unnecessary uncertainty to the RGGI auctions and the emissions market more broadly. Under the current methodology, auction participants do not know which

¹ http://webapps.powerpathway.com/file_depot/0-10000000/0-10000/41/folder/66/08.18.11_PJM_Letter_to_PHL.pdf

² http://www.nyiso.com/public/webdocs/services/planning/planned_gen_retirements/072811_Glenwood_Far_Rockaway_-_Retirement_Notification.pdf

reserve price will be used from one auction to the next. A simpler approach would be to establish the market reserve price at a reasonable level and adjust it at a standard rate each year. This is similar to the mechanism expected to be employed in California and would provide increased certainty for market participants.

Eliminate Carbon Offset Triggers

As many organizations have indicated in the past, as well as at the recent stakeholder meeting, the RGGI offset trigger mechanism is unnecessarily complex. As an alternative to the offset trigger mechanism, we would rather that the RGGI states evaluate a straight forward carbon offset percentage usage limit for the duration of the program. If an allowance reserve is implemented by the RGGI states, then the offset price triggers could be eliminated from the program and one offset usage limit could be developed. As the past several years of market experience and feedback from offset project developers demonstrates, the offset limit should be high enough to attract market participants to bring offsets to the RGGI market.

Expand the Eligible Offsets to Include Avoided Deforestation and Forest Management

In July 2009, the Maine Forest Service and its partners, Environment Northeast and the Manomet Center for Conservation Sciences, provided recommendations to the RGGI states for expanding the category of forestry offset projects allowed under RGGI to include avoided deforestation and forest management. The RGGI Working Group requests that the RGGI states provide an update on the status of that protocol, the feasibility of including it as an eligible carbon offset category, and the timing for doing so. The RGGI Working Group contends that if the RGGI cap is reduced, carbon offsets could be necessary to mitigate price impacts.

Allow the Use of Climate Action Reserve Offsets

The RGGI Working Group recommends that the RGGI states allow the use of offsets from Climate Action Reserve (CAR) approved projects. This would provide a known source of supply for RGGI-affected sources to utilize if necessary, ensuring the allowance price moderating impacts that carbon offsets promise. According to CAR, as of August 2011, prices for CAR approved offsets range from ~\$6-9 per CRT for ARB-approved protocols to ~\$2-4 per CRT for other protocols.

There are 41 projects located in the RGGI region listed or registered with CAR. The 11 projects that are registered have created over 1.3 million Climate Reserve Tonnes (CRTS). The RGGI region project categories include improved forest management, livestock gas capture and combustion, landfill gas capture and organic waste composting. The map and screen shot of the CAR registry provided in Appendix A indicates the location, project type, registration status and CRTs registered for RGGI region projects. The map also suggests the potential for expanding the geographic scope of offsets by recognizing the CAR protocols.

Establish an Allowance Price Reserve

The presentation by RFF at the stakeholder meeting provided a good overview of the issues associated with an allowance price reserve. The RGGI Working Group believes that if the RGGI states decide to reduce the CO₂ cap, it would be reasonable to develop an allowance reserve that can provide assurance to affected generators, as well as RGGI state political and regulatory leaders, that a pool of allowances can be introduced into the market to moderate allowance prices.

While the “Hard Collar” approach described by RFF would likely provide the most certainty that allowance prices would not escalate beyond acceptable levels, the RGGI Working Group understands the environmental integrity concerns regarding potentially making unlimited allowances available to the market. Therefore, the “Soft Collar” approach described by RFF, where a fixed quantity of allowances are offered at auction for a price that is substantially higher than the

normal market reserve price, would likely provide adequate price certainty along with other program-level adjustments such as those recommended above on carbon offsets.

In terms of populating the allowance reserve, the RGGI Working Group understands that the options available include: some or all of the unsold allowances from prior auctions, assigning a percentage of the allowances to a reserve along with the cap adjustment, and bringing allowances forward from future compliance periods (similar to what the California ARB is proposing). While the RGGI states should evaluate of these options, it seems reasonable to the RGGI Working Group to assign some or all of the unsold allowances from the first compliance period into a reserve. In addition, it also may be reasonable to set aside a portion of unsold allowances going forward into the reserve as well. The size of the reserve should be evaluated in context to the size of the CO₂ emissions cap on a compliance period basis.

RFF indicated that the expected future RGGI allowance prices will depend on the design of the price collar. RFF noted that bidding, trading and banking behavior will be influenced by the price collar design and that simplicity is an important principle the RGGI states should follow. The RGGI Working Group agrees with this assessment and recommends that the RGGI states keep the allowance reserve design simple – at a specific allowance price a certain quantity of allowances will be made available to the market.

The RGGI Working Group also was intrigued by the “coupon” concept introduced by the Nicholas Institute. The coupon would be associated with the purchase of allowances in a RGGI auction and provide the purchasing entity with the right to purchase a certain number of reserve allowances. This approach would ensure that entities active in the allowance auctions would have the ability to gain first access to reserve allowances. However, the coupon may introduce unnecessary complications in the system, especially if coupons could be traded independently from allowances purchased at auction. An alternative approach that restricts access to the allowance reserve auction to compliance entities, as in California, would likely achieve a similar result and may be administratively simpler.

The RGGI Working Group recommends that the participating states evaluate a range of price levels that would trigger the use of the reserve when conducting policy case and economic modeling. The level of the price trigger should depend on the following: the level of adjustment to the RGGI cap, the approach to banked and unsold allowances, and the approach to the offset triggers. Ultimately the appropriate price trigger should be informed by the IPM modeling and the auction allowance reserve price.

Other Topics Related to Program Review Including Policy Scenarios for 2012

There are several ways in which the RGGI states could address the unsold CO₂ allowances from the first compliance period as well as allowances that may be unsold in the second compliance period and beyond. These options include:

- Retire some percentage of the unsold allowances from the first compliance period;
- Place a percentage of unsold allowances, from the first and subsequent compliance periods, in an allowance reserve pool;
- Retire allowances offered for sale at auction but not sold in the second and third compliance periods; or
- Reduce the RGGI region CO₂ emissions cap by the quantity of unsold allowances in the first compliance period and reduce each state’s budget based on their proportional share of the RGGI regional budget.

The participating states should fully evaluate the potential impacts of any action or combination of actions before proposing any regional policy regarding unsold allowances.

As the RGGI states develop policy scenarios for the 2012 review, we recommend that low, medium and high cap scenarios be evaluated. Please see the May 31, 2011 joint letter from our companies and the environmental community for our thoughts on the policy scenarios. In addition, while we acknowledge that it may be challenging, especially given the shortened IPM modeling horizon of 2020, we recommend that the RGGI states evaluate incorporating a federal climate change policy sensitivity for the electric sector.

Thank you for your consideration of these comments. We look forward to continued participation in the RGGI 2012 program review process. If you have any questions on these comments please contact me directly at 978-405-1269.

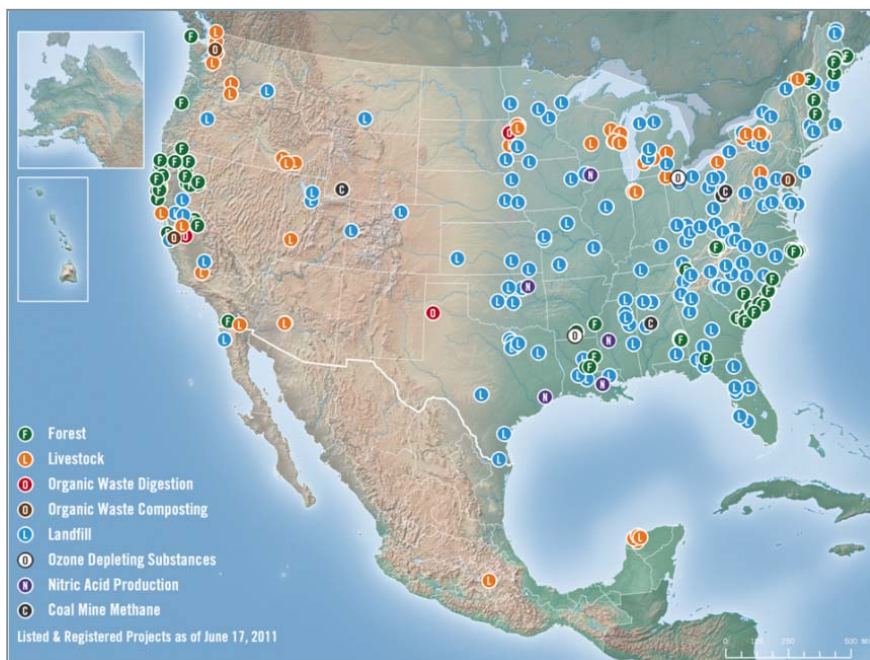
Sincerely,

A handwritten signature in black ink, appearing to read 'BJ', with a long horizontal line extending to the right.

Brian Jones
MJB&A
on behalf of:

**Calpine Corporation • Dominion Energy New England • National Grid •
New York Power Authority • Northeast Utilities • NRG Energy, Inc. • Public Service Enterprise Group**

Appendix A: Climate Action Reserve Project Location



| Project ID | Project Developer | Project Name | Project Type | Status | Project Site Location | Project Site State | Project Site Total Number of CRTs Registered |
|------------|---|---|----------------------------------|------------|--|--------------------|--|
| CAR655 | Northeast Wilderness Trust | AgReFresh - Alder Stream Preserve/NWT | Improved Forest Management | Listed | Piscataquis County, Maine | MAINE US | |
| CAR681 | Northeast Wilderness Trust | AgReFresh - Howland Research Forest | Improved Forest Management | Listed | Penobscot County | MAINE US | |
| CAR717 | Charles Fitzgerald | AgReFresh - Alder Stream Preserve-Fitzgerald | Improved Forest Management | Listed | Piscataquis County | MAINE US | |
| CAR808 | AgReFresh | AgReFresh-Chapud Family Farms Anaerobic Digester | Livestock Gas Capture/Combustion | Listed | North Troy | VERMONT US | |
| CAR690 | Hampshire Country School | AgReFresh-Wapack Wilderness | Improved Forest Management | Listed | Rindge | NEW HAMPSHIRE US | |
| CAR607 | Aurora Ridge Dairy, LLC | Aurora Ridge | Livestock Gas Capture/Combustion | Listed | Cayuga County | NEW YORK US | |
| CAR460 | City of Bath | Bath Landfill Gas Capture & Combustion Project | Landfill Gas Capture/Combustion | Listed | Bath, Maine | MAINE US | |
| CAR610 | Environmental Credit Corp. | Berkshire Cow Power | Livestock Gas Capture/Combustion | Listed | Richford, VT; Franklin County | VERMONT US | |
| CAR411 | TerraPass Inc. | Beulah Municipal Landfill (Dorchester County, MI) | Landfill Gas Capture/Combustion | Registered | Hurlock | MARYLAND US | 35609 |
| CAR680 | The Nature Conservancy | Bunnell | Improved Forest Management | Listed | Columbia and Stratford, Coos County, New Hampshire | NEW HAMPSHIRE US | |
| CAR424 | Chautauque County | Chautauque County | Landfill Gas Capture/Combustion | Listed | Complete Elery, New York | NEW YORK US | 459916 |
| CAR527 | New England Waste Services of NY, Inc. | Chemung County Landfill Methane Destruction Project | Landfill Gas Capture/Combustion | Listed | Chemung County | NEW YORK US | |
| CAR471 | New England Waste Services of NY, Inc. | Clinton County Landfill Methane Destruction Project | Landfill Gas Capture/Combustion | Registered | Morrisville, NY | NEW YORK US | |
| CAR335 | Covanta Semass, L.P. | CMW Landfill Methane Reduction Project | Landfill Gas Capture/Combustion | Listed | Carver | MASSACHUSETTS US | |
| CAR480 | PPL EnergyPlus, LLC | Colebrook Landfill | Landfill Gas Capture/Combustion | Registered | Coos County; Colebrook | NEW HAMPSHIRE US | 17535 |
| CAR813 | Environmental Credit Corp. | Coyne Farms | Livestock Gas Capture/Combustion | Listed | Livingston County, Avon, New York | NEW YORK US | |
| CAR398 | EcoSecurities International Limited | Development Authority of the North Country (DAN) | Landfill Gas Capture/Combustion | Registered | Rodman, NY | NEW YORK US | 472314 |
| CAR582 | Trinity Carbon Management LLC | East Windsor Landfill | Landfill Gas Capture/Combustion | Listed | East Windsor | CONNECTICUT US | |
| CAR492 | RCM International LLC | Emerling Dairy | Livestock Gas Capture/Combustion | Listed | Perry, NY | NEW YORK US | |
| CAR831 | Environmental Credit Corp. | Fessenden Dairy | Livestock Gas Capture/Combustion | Listed | Cayuga County; King Ferry | NEW YORK US | |
| CAR657 | Downeast Lakes Land Trust | Finite Carbon - Farm Cove Community Forest Pro | Improved Forest Management | Listed | Near Grand Lake Stream | MAINE US | |
| CAR656 | Downeast Lakes Land Trust | Finite Carbon - Fourth Machias Lake | Improved Forest Management | Listed | Near Grand Lake Stream | MAINE US | |
| CAR672 | New England Forestry Foundation | Finite Carbon - NEFF | Improved Forest Management | Listed | North of Concord, NH | NEW HAMPSHIRE US | |
| CAR646 | AMC Maine Woods, Inc. | Katahdin Iron Works Ecological Reserve | Improved Forest Management | Listed | Piscataquis County, Maine; east of Greenville | MAINE US | |
| CAR571 | Waste Management of New York, LLC | Mill Seat Landfill | Landfill Gas Capture/Combustion | Listed | Bergen | NEW YORK US | |
| CAR568 | Mountainview Landfill, Inc. | Mountainview Landfill | Landfill Gas Capture/Combustion | Listed | Frostburg | MARYLAND US | |
| CAR483 | Androscooggin Valley Regional Refuse Disposal | Mt. Carberry Landfill | Landfill Gas Capture/Combustion | Registered | Berlin | NEW HAMPSHIRE US | 90707 |
| CAR863 | Environmental Credit Corp. | New Milford Farms OWC Project | Organic Waste Composting | Listed | New Milford | CONNECTICUT US | |
| CAR548 | Wicomico County, Maryland | Newland Park Landfill | Landfill Gas Capture/Combustion | Registered | Wicomico County | MARYLAND US | 31260 |
| CAR464 | Environmental Credit Corp. | Noblehurst Farms, Inc. | Livestock Gas Capture/Combustion | Registered | Linwood; Livingston County | NEW YORK US | 5229 |
| CAR674 | Oneida Herkimer Solid Waste Authority | Oneida Herkimer Landfill #1, NY | Landfill Gas Capture/Combustion | Registered | Ava, NY | NEW YORK US | 7487 |
| CAR602 | Environmental Credit Corp. | Patterson Farms | Livestock Gas Capture/Combustion | Listed | Cayuga County; Auburn, NY | NEW YORK US | |
| CAR796 | Environmental Credit Corp. | Peninsula Composting | Organic Waste Composting | Listed | Wilmington, DE | DELAWARE US | |
| CAR630 | City of Presque Isle | Presque Isle Landfill | Landfill Gas Capture/Combustion | Listed | Northern Maine; Aroostook County; Presque Isle | MAINE US | |
| CAR550 | Town of South Hadley | South Hadley Landfill Methane Destruction Project | Landfill Gas Capture/Combustion | Listed | South Hadley | MASSACHUSETTS US | |
| CAR452 | Steuben County | Steuben County Landfill Gas Flaring project | Landfill Gas Capture/Combustion | Registered | Bath | NEW YORK US | 141962 |
| CAR490 | RCM International LLC | Sunny Knoll Farms | Livestock Gas Capture/Combustion | Listed | Wyoming County | NEW YORK US | |
| CAR606 | Sunnyside Farms Inc | Sunnyside Farms Inc | Livestock Gas Capture/Combustion | Listed | Cayuga County | NEW YORK US | |
| CAR448 | TerraPass Inc. | Tri-Community Recycling and Sanitary Landfill | Livestock Gas Capture/Combustion | Listed | Fort Fairfield, ME | MAINE US | |
| CAR501 | Town of Windsor Connecticut | Windsor-Bloomfield Methane Reduction Project | Landfill Gas Capture/Combustion | Registered | Town of Windsor, Connecticut | CONNECTICUT US | 78540 |
| CAR486 | TerraPass Inc. | Worcester County Central Landfill Gas-to-Energy | Landfill Gas Capture/Combustion | Registered | Newark, MD | MARYLAND US | 41227 |