Con Edison and O&R Comments in Response to RGGI, Inc.'s May 2012 Request for Stakeholder Comments on Program Review

May 31, 2012

Consolidated Edison Company of New York, Inc. and Orange and Rockland Utilities (together, "the Companies"), respectfully submit the comments below in response to RGGI, Inc.'s *Request for Stakeholder Comments on Program Review*, issued on May 21, 2012.

Introduction

The Companies have supported the Regional Greenhouse Gas Initiative (RGGI) since its early inception and continue to support the overall goals of RGGI and development of an environmentally sustainable economy. The Companies make the suggestions outlined below with the intention of assisting the Participating States ("the RGGI States") in making informed decisions that meet the twin objectives of encouraging cost-effective carbon reduction while mitigating the impact of cost increases borne by utility sector customers. However, the Companies note that it is challenging to provide detailed feedback on the issues outlined in the *Request for Comments* without a more concrete understanding of why the RGGI States are interested in additional feedback at this time, and how, if at all, this request for information may relate to the States' consideration of the IPM policy scenarios and macroeconomic modeling that will play a major role in their final proposal for changes to the RGGI program. The Companies look forward to learning more about the States' deliberations and where this *Request for Comments* lies in that context.

Cost Containment Reserve Design

Section IV of the *Request for Comments* revisits the concept of a price collar mechanism, specifically the development of a Cost Containment Reserve (CCR) that would provide flexibility at the upper end of a price collar by introducing additional allowances into the market if a pre-determined trigger price is reached in a RGGI auction. In general, the Companies support adoption of a CCR because it would place an economic limit on allowance costs, enabling RGGI States to balance the benefits of carbon price signals with reasonable cost protection for utility customers. To achieve this balance, RGGI States should implement a CCR with a pre-determined trigger price set low enough to meaningfully limit any electricity cost impacts ultimately borne by customers under RGGI's cap-and-trade paradigm. The band between the auction reserve price, or floor, and the CCR trigger price – i.e., the price collar – should initially be set narrowly, especially if the RGGI States agree to lower the CO2 emissions cap. Furthermore, in order to ensure that the additional allowances released from the CCR have the intended effect of lowering the cost of compliance borne by electricity customers, the Companies recommend that only covered entities (i.e., generators) should be eligible to purchase CCR allowances.

Additionally, the Companies recommend that the CCR trigger(s) be set at a level that considers the possibility of leakage (where generators have an economic incentive to import power into neighboring control areas because they are not subject to the same emissions requirements as in-area generators) between RGGI states and their non-participating neighbors. Unlike other cap-and-trade schemes where there are effective, proven methods for a covered entity to reduce its emissions of the pollutant, there is no such method for the control of carbon. Covered entities' economic viability is governed in large part by electric market pricing, and if RGGI compliance costs were to become substantial, those costs could drive leakage and inadvertently undercut states' efforts to support electric system reliability. The Companies recommend that the establishment of the CCR trigger price should recognize the lack of proven carbon reduction technologies and be informed by the import or export fee for a generator delivering power across Independent System Operator or Regional Transmission Organization boundaries from states not participating in the RGGI program. This is a particularly important issue for New York, with non-RGGI states to its south and west.

Use of Current Market Reserve Price

Section VI of the *Request for Comments* explores stakeholders' perspectives on use of a Current Market Reserve Price (CMRP) as an option for establishing an auction reserve price, or floor price for emissions allowances. Instead of relying on the minimum reserve price, currently $1.93 per ton, the States may elect to use the CMRP, or 80 percent of the "current market price," as a reserve price for allowances. The Companies prefer the elimination of the CMRP option because it creates the potential for high reserve prices should the market prices for allowances increase sharply, depending on how the CMRP is calculated. In the interest of affording reasonable protection for customers from exposure to high allowance prices, the Companies cannot support use of a reserve price that will guarantee higher cost burdens than otherwise may be necessary to establish a market price for carbon emissions. Therefore the Companies recommend that the RGGI States continue use of the current inflation-indexed minimum reserve price.

Conclusion

The Companies look forward to continued participation in the RGGI Program Review process, especially as it relates to the IPM modeling issues addressed in our preceding stakeholder comments, submitted to RGGI, Inc. on April 3, 2012.