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CONCORD, MA - MANCHESTER, NH - WASHINGTON, DC

47 JUNCTION SQUARE DRIVE
CONCORD, MA 01742

978-369-5533

www.mjbradley.com

June 20, 2012

Submitted via email to info@rggi.org

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

Re: Comments on May 21, 2012 Materials for Stakeholder Comment

Dear RGGI Inc.,

The RGGI Working Group is comprised of major electricity power providers 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 goal of the companies in this process is to promote cost-effective emission reductions and drive investment in innovative technologies and low carbon generation in a responsible manner that does not overly burden ratepayers in the region.

General Comments

The RGGI Working Group is concerned about the ongoing trend of short timeframes in which stakeholder are asked to provide comment. For example, RGGI Inc. provided only eight business days between the release of materials on the afternoon of May 21, 2012 and the informal comment deadline on May 31, 2012. In the future, we request the states provide stakeholders with more time to interpret materials and draft comments. This would allow for more in-depth and useful comments.

Furthermore, we cannot provide detailed comments on potential program changes before the RGGI states determine whether to alter the regional CO_2 budget and, if so, by how much. Without a concrete proposal by the states about this central issue, stakeholders cannot develop meaningful positions about other program design elements or offer constructive input regarding the effects of such changes. We encourage the states to focus primarily on additional modeling of potential changes to the regional CO_2 budget and effects of such changes, including macroeconomic impacts.

Offsets

Despite the fact that no offsets have been created or utilized in the RGGI program thus far, if the RGGI states plan on reducing the CO_2 budget significantly downward, we encourage the RGGI states to continue to streamline the offsets program while expanding its scope to provide flexibility for compliance entities.

Administration and Project Standards

In order to leverage scare administrative resources, enable the most cost-effective GHG reductions, and expand options for compliance, RGGI should consider accepting offset credits that have been certified by the Climate Action Reserve (CAR) or California's cap-and-trade program.

The RGGI states should also consider allowing projects to generate both offsets and renewable energy credits (RECs). Currently, the value of RECs created by electricity-generating projects dwarf the potential value of RGGI offset credits. Allowing projects developers to generate and retain both environmental attributes may spur offset creation. While this change could raise additionality issues for certain project types, the RGGI states could develop new criteria to ensure that emission reductions would not have occurred otherwise. For example, CAR allows projects, such as landfill gas and livestock methane, that generate RECs to receive offset credits while still maintaining a high standard for additionality.

Offset Triggers

Numerous organizations, including the RGGI Working Group, have previously commented that the RGGI offset trigger mechanism is unnecessarily complex. As an alternative to these adjustable offset limits, we request that the RGGI states evaluate switching to a single, straightforward percentage limit on the use of offset credits for compliance. If the RGGI states decide to create a Cost Containment Reserve, eliminating the offset triggers will also help avoid potential confusion between different and conflicting price triggers. The RGGI Working Group suggests establishing a limit on offset usage in the 8 to 10 percent range of an entity's compliance obligation. While it is unlikely that affected generators would use this quantity of offsets for compliance, it sends a more robust market signal for offset developers in order to advance the supply of offsets in the market.

Geographic Restrictions

Geographic restrictions on where RGGI-eligible offsets can be generated severely limit the potential quantity of offsets available for compliance entities. The process by which non-RGGI states can enter into a memorandum of understanding (MOU) with RGGI states to ensure the credibility of offset credits located within their borders has never been clearly defined or explained. This MOU process is a barrier to the development of an offset market for RGGI. We suggest that the participating states allow any qualifying projects within the U.S. to generate RGGI offset credits. Additionally, the RGGI states should evaluate the feasibility of expanding the geographic scope of eligible projects to all of North America.

Cost Containment Reserve

A Cost Containment Reserve (CCR) is potentially a useful flexibility mechanism to help mitigate short-term allowance price spikes and provide assurance to affected generators, as well as RGGI state decision makers, that allowance prices are unlikely to exceed some predetermined level. Whether or not to establish a CCR depends on what steps the participating states decide to take regarding the regional CO_2 budget.

Distributing CCR Allowances

The Working Group supports limiting CCR purchases to only covered entities. This approach could help control speculation in the allowance market by non-compliance entities.

Although in the materials released in May, RGGI Inc. identified only various ways to auction the CCR allowances, the states should also consider offering them to covered entities at a predetermined fixed price that adjusts annually. While auctioning would be the most efficient and administratively simple means of distributing allowances, fixed price sales provide more certainty for both generators and regulators. However, the Working Group stresses that if the RGGI states elect to sell CCR allowances at a fixed price, the mechanism for determining the price must be established through an open stakeholder process and should be tied to the market price.

CCR Size
The size of a potential CCR should depend on proposed changes to the regional CO_2 allowance budget, if any, and modeling results. The Working Group does not have a position on the appropriate size of the CCR at this time. However, the RGGI states could consider populating the reserve by setting aside a percentage of the annual cap through 2018 or beyond.

Unsold CCR Allowances
Allowances that are placed in the CCR should remain there until they are purchased, even if they are offered at separate auctions and remain unsold. Once sold, CCR allowances should be treated the same as any other allowance. Covered entities should be allowed to use the CCR allowance for compliance, sell it, or bank it for future use. The RGGI states should also consider adding allowances that are not sold through the normal regional auction to the CCR at the end of the year or the end of the compliance period. Moving these allowances to the CCR rather than retiring them would provide greater flexibility for covered entities later in the program if allowance prices were to rise unexpectedly.

CCR Interaction
As previously noted, the RGGI states should eliminate the existing offset trigger prices. If the RGGI states decide to create a CCR, this should be the only mechanism that is triggered based on allowance prices.

Control Period
The Working Group cautions against altering the length of the RGGI control period or the true up process when both have worked well thus far. As RGGI Inc. recently announced, 97 percent of covered entities met their compliance obligations for the first control period. The total shortfall of allowances retired was just over 1 percent of the regional emissions from 2009 through 2011. Changing the control period process may introduce unnecessary complexity into the system and increase the administrative burden for covered entities in managing allowances and the surrender process annually. Unless the RGGI states offer compelling reasons to change the current system, the Working Group prefers to retain the current three-year compliance process.

The Working Group does not believe that changing the length of the control period would have a major impact on the allowance prices or availability given current market conditions. However, the RGGI states must provide ample notice to the markets if they decide to make such changes. The Working Group recommends waiting until after the second compliance period before considering changes to the allowance true up process. Altering the system in the middle of a control period could raise issues related to the vintage of allowances used for compliance. The RGGI states will likely still need to address such allowance vintage issues even if they do not change the true up process until after the second compliance period.

Current Market Reserve Price
The RGGI auction reserve price is one area of the program design that could be simplified. Despite the fact that the current market reserve price (CMRP) has not, to date, been used to set the auction reserve, the possibility of the switch adds potential uncertainty to the RGGI auctions and the emissions market more broadly. Under the current system, auction participants do not necessarily know which reserve price will be used until the auction noticed is released. Furthermore, the methodology for calculating the CMRP is ambiguous and trading in the secondary market could change between the release of the notice and the date of the auction. The RGGI states should eliminate the CMRP as a potential approach for establishing the auction reserve price.

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,

Brian Jones
MJB&A
on behalf of:

Calpine Corporation • NRG Energy• Dominion Energy New England