Edison Electric Institute
Power by Association[SM]

July 19, 2012

Nicole Singh
Acting Executive Director
Regional Greenhouse Gas Initiative, Inc.
90 Church Street, 4th floor
New York, NY 10007

Dear Ms. Singh:

In response to RGGI's July 12, 2012, request for stakeholder input, please find enclosed comments by the Edison Electric Institute (EEI) in furtherance of the 2012 program review required by the RGGI Memorandum of Understanding. These comments address the 2012 assumptions used for the planned IPM reference case and related sensitivity analyses as part of the ongoing program review.

EEI is the association of U.S. shareholder-owned electric companies, international affiliates and industry associates worldwide. EEI represents approximately 70 percent of the U.S. electric power industry. EEI has been participating in this review process as an interested observer and stakeholder, as demonstrated by our participation in the various public stakeholder sessions and our comments submitted in February and May of this year in response to various stakeholder meetings.

We appreciate the opportunity to comment on these additional issues raised in the RGGI review process, and plan to comment further as the review moves forward over the summer and thereafter. We urge RGGI to make materials available as early as possible on which they seek stakeholder comment, and preferably in advance of stakeholder meetings. If you have any questions about our comments or would like to discuss them further, please contact Eric Holdsworth (202-508-5103, eholdsworth@eei.org) or me (202-508-5617, bfang@eei.org).

Sincerely,

William L. Fang
Deputy General Counsel and
Climate Issue Director

Enclosure

WLF:eh

EDISON ELECTRIC INSTITUTE COMMENTS ON 2012 UPDATES TO MODELING ASSUMPTIONS FOR IPM REFERENCE CASE AND SENSITIVITY ANALYSES

July 19, 2012

On July 12, the Regional Greenhouse Gas Initiative (RGGI) held a stakeholder meeting in furtherance of the second RGGI control period comprehensive program review by the nine participating states required by the initial RGGI Memorandum of Understanding (MOU).[1] The stated purpose was to present the RGGI Draft 2012 Reference Case and Sensitivity Analyses Assumptions in the form of slides[2] and to solicit comments on the proposed assumptions.

The background papers explain that the modeling, together with other information being gathered throughout 2012 by RGGI and the participating states, will be considered in evaluating any potential modifications to the RGGI CO_2 Budget Trading Program for the next control period. According to the RGGI website, another stakeholder webinar will be scheduled in August for stakeholder comment on the IPM reference case and sensitivity analyses results. While the Edison Electric Institute (EEI) appreciates the opportunity to review the Draft Assumptions, hear an explanation of the assumptions and raise issues at the session, we urge that for the August webinar any slides or other written papers be made available to stakeholders much earlier than the day of the meeting.

[1] The initial MOU is dated December 20, 2005. It was amended in 2006 and 2007.
[2] The presentation was prepared by ICF under contract with RGGI, Inc.

EEI also appreciates the opportunity to provide written comments on the Reference Case and Sensitivity Analyses draft assumptions, which are due by 5 p.m. today.[3] However, as with our last set of comments, the comments below are necessarily brief and focused on only a few issues due to the extremely limited amount of time to comment on the assumptions. EEI also would appreciate a much longer notice-and-comment period in accordance with state administrative procedure laws.

EEI notes that RGGI has revised the "anticipated 2012 Schedule" for the program review covering both the summer and fall of 2012 to include a plan to solicit stakeholder comment on "key" CO_2 trading program (Program) design elements with no timeframe specified, and to hold another stakeholder meeting in November on IPM potential scenarios, macroeconomic modeling results and key Program design elements that states may address. We welcome these additions, but once again urge that RGGI make available the design elements under consideration, as well as the scenarios and modeling results, well in advance of the solicitation and meeting in order to enable stakeholders to make meaningful and timely comments on the 2012 review called for in the MOU.[4]

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[3] As in the case of comments submitted by EEI on February 10 and May 31, 2012, as part of the comprehensive program review, EEI requests that these comments be posted and listed under this July review. Both of our prior comments also are particularly relevant here regarding, for example, flexibility mechanisms, and are hereby incorporated by reference.

[4] Among other matters, the MOU calls for a review of all components of the Program, including but not limited to whether the Program is meeting its goals, the impact as to system reliability, whether additional reductions after 2018 should be implemented, measures regarding leakage, and evaluate the offsets component of the Program.

I. General Comments

The slide presentation by ICF was helpful, as it set forth the 2011 RGGI Reference Case assumptions and described the basis for the 2012 proposed approach, as well as a "Leaning" approach for the region (referring to the approach and assumptions that RGGI states have stated a preference for using). We understand that the assumptions are proposals and include regional energy and peak demand, cost and performance of new generation, coal and nuclear plant construction in RGGI, firmly planned transmission capability and additions, fuel prices, federal and state environmental policies, renewable portfolio standards, and reserve margins and local requirements. Data sources in the presentation appear to be the same for both the potential and Leaning assumptions.[5]

The only flexibility mechanism addressed is the use of offsets, but as discussed below, even under the "Leaning" approach, the use of that mechanism appears to be more limited than it currently is in the Program. As to the CO_2 allowance budget, the presentation is brief and limited. As noted in our May 31 comments, the assumptions or changes that are under consideration now concerning the realignment of the emissions budget to alleviate a reported surplus of allowances could greatly influence stakeholder thinking about the review and its potential results.

II. Offsets

The amended MOU provides that offsets allowances may be awarded anywhere inside the U.S., including within the participating states, for use by units subject to the program. At the May

[5] The "Data Sources" appear in the slides between the 2012 Reference Case Assumptions and the Sensitivity Analyses Assumptions, so it is not clear whether they apply to both.

2012 RGGI stakeholder meeting, it was noted that there have been no offsets applications, nor offsets projects requested pursuant to the MOU, since 2005. It was explained then that the states have been evaluating the lack of use of the offsets authority under the MOU to identify why there have been no applications, projects or allowances, and to see if there are ways to operationalize this authority and, in fact, utilize such a flexible mechanism in the region, while maintaining environmental integrity. As part of the materials for that stakeholder meeting, RGGI listed some potential improvements to the offsets authority limitations, such as reviewing the existing RGGI offsets project categories, adding some project category types for RGGI and state acceptance, and broadening the geographic limits for offsets projects.

The RGGI Assumptions Development for the offsets element states that in determining the least-cost means of compliance with RGGI and the CO_2 allowance price, IPM will utilize offsets to the extent they are "cost-effective" relative to on-system reductions "and subject to program limitations."[6] For the 2012 Proposed Approach, the offsets slide does not mention any new domestic offsets project categories – or any broadening of the geographic limits on offsets project eligibility – from those listed in the MOU, which could help to bring more offsets into the program (as noted in our earlier comments referred to above).

We also seek clarification that RGGI is not seeking to establish a price floor of $10/ton before allowing the use of offsets, but rather that the modeling assumptions presented at the July 12

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[6] The term "cost-effective" is not defined or explained. We understand offsets projects and offsets allowances to be viewed as providing a flexible, cost-effective means themselves to achieve the stated Program goals for the utilities, their regional customers, the states and the RGGI region. Concerns about the quality of offsets projects should be addressed through project standards and requirements, not limitations on the types of projects or the quantity of offsets that can be used.

webinar indicated that offsets would not appear in the RGGI market until allowance prices reached $10/ton (in other words, the model would not start choosing to use offsets for compliance until a marginal market price of $10/ton is reached). This point was not clearly explained on the webinar, and some stakeholders may have been left with the mistaken impression that the RGGI states had chosen to incorporate a price floor for offsets in the modeling. Indeed, while the latter is simply one of the assumptions used in setting up the model, the former would be an artificial restriction on the use of offsets that would only serve to increase the costs of compliance. Since one of the goals of the RGGI program is to reduce CO_2 emissions in a cost-effective manner, such a limitation would be illogical. In addition, there is no explanation of how RGGI arrived at the $10/ton figure, particularly since the offsets slides noted that RGGI projects that international offsets will be available at $8/ton from 2013-2020, based on Point Carbon historical and projected data.

Notably there is also an absence of any discussion of 1) the impact or application of the California cap-and-trade program on domestic offsets availability for the RGGI program, and 2) the existing MOU limitations on the use of offsets from programs in non-RGGI states. EEI comments last February and May addressed the potential impacts–positive and negative–of those provisions (see MOU amended section 2.F.(2)(a)) on the domestic offsets program in the RGGI region. In particular, we urged that the existing limitations on the use of offsets from programs in non-RGGI states be loosened.

In summary, in order to encourage the utilization of offsets in the region, the current limitations on offsets that need to be addressed by RGGI and the participating states are the key program design elements in the MOU, which should be made less rather than more stringent.