Edison Electric Institute

Power by Association℠

August 20, 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 27, 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 (MOU). These comments address the August 13, 2012, draft Reference Case and Sensitivity Analyses Assumptions (revised) and Results, as part of the ongoing MOU 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, May and July of this year in response to various stakeholder meetings.

We appreciate the opportunity to comment on the additional issues raised in the RGGI review process, and plan to comment further as the review moves forward over the remainder of 2012. We appreciate RGGI making available to stakeholders the above-referenced Assumptions and Results in advance of the August 13, 2012, webinar presentation, and urge RGGI to continue making materials available for stakeholder participation and comment in advance of future 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

William L. Fang
Deputy General Counsel and
Climate Issue Director

Enclosure

WLF:eh

EDISON ELECTRIC INSTITUTE COMMENTS ON THE DRAFT 2012 IPM ELECTRICITY SECTOR REFERENCE CASE AND SENSITIVITY ANALYSES ASSUMPTIONS AND PROJECTED RESULTS

August 20, 2012

On August 13, 2012, 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, as required by the RGGI Memorandum of Understanding (MOU).[1] The stated purpose of the meeting was to solicit stakeholder input on IPM electricity sector modeling and comment on the August 13 draft versions of the 2012 Reference Case and Sensitivity Analyses Assumptions, and Projected Results from the modeling.[2]

The background papers explain that the modeling, together with other information being gathered during 2012 by RGGI and the participating states, will be considered in evaluating any potential modifications to the RGGI CO_2 Budget Trading Program (Program) for the next control period.

The Edison Electric Institute (EEI) appreciates RGGI providing the above-referenced drafts in advance of the August 13 stakeholder webinar. We also welcome the opportunity to provide written comments by 4 p.m. today on these matters.[3] However, as with our prior sets of written comments, the comments below are necessarily brief and focused on only a few issues due to the extremely limited amount of time after the webinar to comment on the draft assumptions and results. EEI also would appreciate a much longer notice-and-comment period in accordance with

[1] The initial MOU was signed by the then Signatory States and dated December 20, 2005. It has since been amended in 2006, 2007 and 2011.
[2] The draft notes that these projections may change as ICF makes refinements based on review and input by the states and presumably stakeholder comments. The projections are for "run years" that represent individual years or groups of years. For this draft, the projections are for 2012, 2013, 2014, 2015, 2016, 2018 and 2020.
[3] As in the case of comments submitted by EEI on February 10, May 31 and July 19, 2012, as part of the comprehensive program review, EEI requests that these comments be posted and listed under this August review. Our prior comments also are particularly relevant here regarding, for example, flexibility mechanisms, and are hereby incorporated by reference.

state administrative procedure laws.

I. General Comments

EEI notes that RGGI has revised the anticipated 2012 schedule in support of the Program review covering both the remainder of the summer and the fall. The schedule includes a plan to solicit stakeholder comment on key 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 appreciate these additions to the schedule and again urge that RGGI make available the design elements under consideration, as well as the scenarios and modeling results and other presentations, well in advance of any solicitation and meeting in order to enable stakeholders to make meaningful and timely comments on the 2012 Program review called for in the MOU.[4]

II. Offsets

The only flexibility mechanism addressed in the modeling materials is the use of offsets and related "Additional Clarification," which is discussed below. 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. As to the issue of offsets availability, at the May 2012 RGGI stakeholder meeting it was noted that there have been no offsets applications or offsets projects requested pursuant to the MOU since 2005. It was also explained then that the states have been evaluating the availability of the offsets under the amended MOU to identify why

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[4] Among other matters, the MOU calls for a review of all components of the Program, including, but not limited to, whether the Program has been successful in meeting its goals, the impact as to system reliability, whether additional reductions after 2018 should be implemented, the effectiveness of any measures regarding emissions leakage, and the evaluation of the offsets component of the Program "with attention to availability" of offsets and their environmental integrity, as well as price.

there have been no applications, projects or allowances, and to see if there are ways to operationalize this Program authority and, in fact, utilize this 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. However, there have been no results by RGGI made available concerning such review.

Both ICF drafts of August 13 on offsets assumptions and results clarify the July 12 draft version on assumptions in both the Descriptions and the 2012 Proposed and Leaning Approaches. In the case of the Descriptions, the five eligible categories, consistent with the amended MOU, are expressly listed. In addition, the July 12 draft statement that IPM will utilize offsets to the extent that they are "cost-effective" relative to on-system reductions and subject to program limitations in determining the least-cost means of compliance is appropriately deleted, which we welcome. For the 2012 Proposed Approach (Domestic), the model "conservatively assumes[5]" that no domestic offsets will be available for use in the RGGI market "until CO_2 allowance prices reach $10/ton." It also explains that this dollar figure assumption was selected as a result of "market research" considered by the nine states.[6]

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[5] The word "assume" is defined, in part, to mean "**4** to take for granted; suppose (something) to be a fact," Webster's New World College Dictionary, Fourth Ed., 2005 (p. 86).

[6] Even with such research, given the circumstances of the economy of the region, the $10 figure is essentially the equivalent of an educated guess. The draft explains that the "market research" was on potential supply and prices (presumably for offsets allowances), costs for offsets project developers and the potential demand from other regulatory offsets programs. It would be helpful in understanding the basis for this selection for RGGI to make available to stakeholders information about the details of that research, its findings, what other regulatory offsets programs were referenced and what period of time is covered.

However, during the August 13 webinar presentation, the $10/ton figure was referred to as a "floor." In our July 19 comments, we asked for 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 webinar merely 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). We said that this point was not clearly explained in July, which could result in the mistaken impression that the RGGI states had chosen to incorporate a price floor for offsets in the modeling. We added that 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, we noted no explanation then of how RGGI arrived at the $10/ton figure.

While the clarifications in the August 13 drafts for the Proposed Approach and the Leaning Approach (Domestic) are helpful, the "floor" comment during the webinar raises confusion, particularly since under the Leaning Approach the market projections for international offsets could be available at $8/ton from 2013-2020 (based on published data from Point Carbon) and since there was no mention of the price availability of offsets prices domestically, such as from the California cap-and-trade program.

While it is certainly true that the CO_2 allowance price in the RGGI market is likely to be a contributing factor affecting the availability of offsets for use in the region, it is not the only factor. Clearly, it has been recognized by California and internationally that offsets provide a compliance flexibility mechanism that reduces the compliance cost of cap-and-trade programs. These programs support the notion that varied and environmentally based emissions reduction opportunities may be used to meet compliance requirements, resulting in lower-cost impacts on consumers as well as utilities. But in the case of RGGI, their availability has never materialized.

As noted above, the reason for their unavailability is being evaluated by the Signatory States, which we applaud. However, the draft assumptions do not give recognition to that evaluation, which is presumably ongoing. Just as importantly, the market research referred to above apparently does not include a discussion of the potential impact or application of the California cap-and-trade program, nor international offsets, other than to note that the latter could be available at $8/ton. EEI comments last February and May addressed the potential impacts – positive and negative – of those provisions on the dormant domestic offsets program in the RGGI region. In particular, we urge that 1) the existing limitations on the use of offsets from programs in non-RGGI states be modified to help establish the actual availability of an offsets program and 2) RGGI not wait until the price of CO_2 allowances potentially increases.

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 stringent rather than more stringent.

III. <u>More Transparency Is Needed With Modeling In Support Of Comprehensive Review.</u>

The latest draft material, which incorporates some revisions from the July 12 version, is helpful insofar as it sets forth an updated draft of 2012 RGGI Reference Case and Sensitivity Analyses Assumptions, the latter of which we understand continue to be proposals. It also describes the basis for the 2012 Proposed Approach, as well as for the Leaning Approach for the region (referring to the approach and assumptions that RGGI states have stated a preference for using).

Data sources in the presentation appear to be the same for both Proposed Approach and Leaning Approach assumptions.[7]

As noted above, while we appreciate that RGGI officials made available the materials for the most recent webinar the Friday before the Monday webinar, we reiterate previous concerns about RGGI's timeliness in this regard. On a positive note, RGGI officials were able to post in a timely fashion the IPM reference case and sensitivity analyses results for stakeholder review.

In the case of modeling, we have previously been critical of the RGGI process for a lack of availability of the detailed modeling results and, most importantly, their underlying assumptions. The release of such results is important for a better understanding of the potential impacts of the Program. We commend RGGI for making available on August 14 the detailed modeling results and underlying assumptions used in the reference case and sensitivity analyses for the Program review. However, we remain concerned about transparency issues with RGGI modeling results, including key missing details and a lack of adequate time to review and comment on the detailed results. Two major deficiencies in the results released on August 14 that are critical to a public policy debate of this nature are 1) the overall costs of the Program and 2) the differences between the reference case and policy cases that represent potential changes to the Program. Although RGGI has posted the modeled electricity price impacts, it has failed to identify either the capital cost or the annual "system cost"— which is the annual cost that includes capital costs -- and fixed and variable operations and maintenance costs. Both capital cost and system cost are standard IPM outputs that can easily be reported to stakeholders as a part of the Program review. Such

[7] While the "Data Sources" continue to appear in the slides (pp. 36-37) between the 2012 Reference Case Assumptions and the Sensitivity Analyses Assumptions, we assume they are intended to apply to the Assumptions for both.

information is essential in understanding the overall impact/total cost to the regional economy of the program, which is not readily apparent in a small change on a per kiloWatt-hour or per consumer basis.

IV. Stringency Of Caps After The 2015-2018 Period

The CO_2 allowance budget presentation is brief and limited. As noted in our earlier 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. Furthermore, any consideration given by RGGI to making the cap more stringent for the post-2015-2018 period is premature in the current economic situation. Reductions below the current caps are due largely to the economic downturn and subsequent slow economic growth, and to the increased use of natural gas in the RGGI region. Should economic growth become more robust than currently anticipated, accommodations can be made. If the economy continues to be sluggish, and the cap is set too low, the impact on electricity prices could stall or slow an economic recovery. Such a result would not be desirable, and must be considered. In addition, any modifications should not focus on more stringent caps for the electric utility sector, but instead should focus on addressing other sectors[8] and incorporating an expansion of qualifying offsets activities, since some projects that currently qualify as offsets would not be available since they would be covered under the expanded program.

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[8] A May 2010 white paper jointly produced by RGGI, the Midwest Governors Greenhouse Gas Reduction Accord and the Western Climate Initiative – titled "Ensuring Offset Quality: Design and Implementation Criteria for a High-Quality Offset Program" – refers to the emissions reduction or removal that occurs "outside" the "capped sector," i.e., "a specific category or categories of emissions sources regulated through a cap-and-trade program (e.g. electricity generation facilities . . . or industrial facilities . . .)" (p. 6 n.2). This language suggests an expansion of RGGI to other industries.