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October 26, 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 October 18, 2012 Program Design Concepts

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.

This comment letter addresses the specific program design elements that the RGGI states indicated they are considering. Whatever consensus is reached on these program design elements, we recommend that the RGGI states provide a clear and timely notice to the market with ample opportunity for public review and comment prior to final implementation.

Treatment of Unsold Allowances

According to the allowance auction results posted on the RGGI website, over 42 million or approximately 40% of the allowances offered in the first three auctions in 2012 were unsold. The RGGI states indicated that they were discussing whether to permanently retire the unsold allowances either annually or at the end of every compliance period, similar to what occurred at the end of the first compliance period. We contend that some portion of the unsold allowances be used to populate a cost containment reserve, as suggested by a stakeholder on the webinar and as discussed below.

Treatment of the Private Bank of Allowances

According to the RGGI states, there are approximately 47 million tons of allowances in private hands from the first compliance period. The private bank of allowances that currently exists should be allowed for use going forward in RGGI without limitation. We agree with the comments submitted by *Pace Energy and Climate Center: Joint Comments from Electric Industry Companies and Environmental Nonprofit Organizations* which states that the RGGI states should "Preserve(s) the compliance value of allowances in the private bank, i.e. one privately banked allowance will cover one ton of emissions without discounting in any forward year."

Length of the Control Period

The RGGI states presented a change to the control period compliance determination that raises concerns. First, the RGGI states indicated that they are considering requiring affected sources to cover 75%-85% of annual emissions over the first two years of the control period. We understand that the motivation for this proposed change is to address a noncompliance issue that occurred during the first control period due an unforeseen bankruptcy and to align with other Federal emission control programs in terms of emissions reporting and compliance determination. We note, however, that RGGI affected sources have achieved 97% compliance and have reduced CO_2 emissions 33 percent below the cap. We are concerned that addressing noncompliance anomalies through adjustment of the control period will result in widespread effects upon all covered entities. Additionally, the requirement to cover 75%-85% of emissions seems excessive when compared to the policy California has developed for its cap and trade program where 30% of annual emissions must be covered with allowances.

The Working Group strongly cautions against altering the length of the RGGI control period or the true up process when both have worked well thus far. 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. We are concerned that such a change to the RGGI program would force compliance entities to purchase current vintage allowances in order to comply with annual requirements which could have unintended consequences on allowance prices and limit the flexibility of the existing three year compliance periods. Unless the RGGI states offer compelling reasons to change the current system, the Working Group requests the retention of the current three-year compliance process.

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.

We agree with the consideration of the inclusion of a CCR as well as the details that were presented on the webinar including the availability of a fixed quantity of allowances in addition to the cap and the availability of the CCR allowances at fixed prices. If the RGGI states elect to sell CCR allowances at a fixed price, we request that the mechanism for determining the price be tied to the market price of RGGI allowances.

The Working Group does not have a position on the appropriate size of the CCR at this time without further modeling information. However, we recommend the RGGI states evaluate and consider populating the reserve with some portion of allowances offered for sale at auction but unsold. The size of a potential CCR should depend on proposed changes to the regional CO_2 allowance budget, if any, and modeling results.

While a CCR could serve as an important flexibility in the RGGI program, other forms of flexibility should not be eliminated or limited by a CCR. For example, CCR allowances should not be required if more cost effective options are available.

Carbon Offsets

As stated in previous comments, if the RGGI states incorporate a CCR into RGGI, the states should eliminate the existing offset triggers prices and switch to a single, straightforward percentage limit on the use of offset credits for compliance. We agree that if the RGGI states decide to create a CCR, eliminating the offset triggers will also help avoid potential confusion between different and conflicting price triggers.

The RGGI states presented a revised approach of retaining the 3.3% limitation on the use of offsets and eliminating the offset triggers. While the RGGI Working Group agrees with the approach generally, the offset percentage use limitation should be re-evaluated and the RGGI states should consider a higher percentage. As noted during the webinar, the 3.3% limit on the use of offsets was developed using the principle that at least 50% of the modeled emission reductions come from

RGGI affected sources. The RGGI states should evaluate a similar approach as the CO_2 cap adjustment is evaluated and modeled.

Furthermore, it is encouraging that the RGGI states are considering adoption of the California Forest Protocol. The RGGI Working Group encourages the RGGI states to consider other California offset categories and aligning the offset provisions of the program with the California approach. This would likely result in a more robust compliance offset market in the U.S.

Reserve Price

The RGGI states indicated they are considering simplifying the administration of the auction reserve price by changing from a CPI adjustment to an annual increase of 2.5%. In light of historic average CPI values over the last few decades, we encourage the RGGI states to identify a reserve price and allow the RGGI allowance market to work. The allowance auctions have cleared at the reserve price due to the fact that current emissions are lower than the cap. If the states revise the cap downward, more in line with current emissions, the level and rate of change of the reserve price will be less of a factor and the allowance clearing price will reflect market forces.

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