



Regional Greenhouse Gas Initiative
info@rggi.org

September 20, 2010

Via E-Mail Transmission

Re: Comments on “Assumptions Development for IPM Modeling to Support RGGI Program Review,” September 1, 2010

Ladies & gentlemen:

I am writing on behalf of the American Coalition for Clean Coal Electricity (“ACCCE”) regarding the proposed RGGI modeling exercise discussed at the RGGI Stakeholder meeting in New York City on September 13, 2010. We understand that this modeling is intended to examine the economic and energy impacts of potential revisions to the RGGI cap-and-trade program for carbon dioxide emissions from major stationary sources. An electronic copy of these comments is being furnished to the RGGI comment website.

Background

ACCCE is a national membership organization representing major U.S. railroads, coal producers, electric generating firms and numerous other industrial interests. ACCCE members have direct and substantial interests in the production, transportation and use of coal for electric generation in states participating in the RGGI program.

ACCCE contributed several economic and environmental analyses during the initial RGGI stakeholder process. Comments submitted by our predecessor organization, the Center for Energy & Economic Development, on the RGGI Model Rules (May 22, 2006) reflected concerns about: 1) the impacts of the sharp escalation of energy prices since the RGGI process commenced in April 2003; 2) our opposition to a mandatory regional cap-

and-trade program for carbon dioxide emissions from electric generators; 3) our support for voluntary greenhouse gas mitigation programs such as carbon sequestration and advanced clean coal technologies; and 4) the absence of evidence demonstrating any impact of the RGGI program on global sea levels, global temperature trends, or any other environmental effect associated with global greenhouse gas emissions.

General Comments

ACCCE supports enactment of national climate change legislation covering all emitting sectors, with reasonable targets and timetables for achieving emission reductions linked to the commercial availability of emission control technologies such as carbon capture and storage, and effective cost-containment measures.

ACCCE does not support piecemeal state or regional cap-and-trade programs, and believes that such programs should be preempted under comprehensive federal legislation. All of the principal national climate change bills developed by the House and Senate during the 111th Congress have contained such preemption provisions. We recommend that any amendments to the RGGI Model Rules or Memorandum of Understanding should incorporate explicit sunset provisions terminating the program upon the enactment of national climate change legislation, or the promulgation of greenhouse gas emission regulations affecting stationary sources by U.S. EPA. We reserve comment on the underlying legality of the RGGI program under state and federal laws and the U.S. Constitution.

Specific Comments

Cost and Performance of New Generation

ACCCE agrees with the choice of EIA AEO assumptions for modeling the cost and performance of new generation with RGGI region-specific cost adjustments. We recommend that a sensitivity analysis be performed using cost and performance input data from the Electric Power Research Institute, such as that incorporated in EPRI's "Prism" analysis.¹

¹ See, http://my.epri.com/portal/server.pt?Abstract_id=0000000000001015461 (2007), and 2009 update, at <http://mydocs.epri.com/docs/public/0000000000001019563.pdf>

Coal Plant Construction in RGGI

The initial 2004-06 RGGI modeling explicitly precluded the construction of new coal plant capacity in the RGGI region. We disagreed with that assumption in the course of the RGGI stakeholder meetings, favoring one of the options now under consideration for the updated modeling exercise: allowing new coal additions on an economic basis without limit. We disagree with the states' "leaning" option that "only coal with carbon capture can be built in the RGGI region."

It is inappropriate to constrain reference case modeling by the use of an assumption that only coal units with carbon capture can be built in the RGGI region for two reasons:

- 1) Artificially constraining new coal units added on an economic basis would add a downward bias to the costs of any control options, since cost differences would be measured against an inflated cost baseline; and
- 2) Requiring the use of carbon capture at new coal capacity, in the absence of economic incentives such as the bonus allowance provisions incorporated in proposed federal climate legislation, would unduly penalize coal relative to other fuel options, including natural gas units (that also emit carbon dioxide) and renewable energy sources such as wind (that receive significant federal subsidies.)

We note that the states' "leaning" option with respect to new nuclear capacity is that "nuclear can be built on an economic basis at existing plant sites." Since most new coal capacity development in the RGGI region is likely to occur at existing plant site locations, due to the proximity to transmission capacity and other considerations, using a parallel assumption for coal plant additions appears reasonable.

Firmly Planned Generation and Retirements

ACCCE agrees in principle with the states' "leaning" option for firmly planned generation and retirements: "ISO studies and queues, supplemented with additions by States (including additions for Cape Wind, Bluewater Wind, continued operation of Indian Point and retirement of Vermont Yankee." However, in view of the recent sharp downturn of wind power development due to unfavorable economic conditions, we suggest

that RGGI consider a sensitivity analysis that eliminates offshore wind development.²

Firmly Planned Transmission Additions

We concur with the states' "leaning" option for this modeling assumption: "Use ISO timing for capability expansion –TrAIL in 2011; MAPP in 2014; PATH in 2015; Susquehanna-Roseland by 2014."

Fuel Prices

ACCCE agrees with the states' "leaning" option for fuel price analyses: "Oil and Gas - NYMEX near-term phasing into EIA AEO 2010 long-term, with transportation costs based on 10-year historical averages; Coal - ICF supply curves calibrated to EIA AEO 2010." We suggest that sensitivity analyses should be performed for a range of delivered natural gas prices, similar to the sensitivity analyses conducted in the initial RGGI modeling exercise.

Regional Energy and Peak Demand

We agree with the states' "leaning" option to use ISO projections adjusted for efficiency as provided by the states.

Federal Environmental Policies

The "leaning" option is to use the Clean Air Transport Rule for SO₂ and NO_x controls, with an assumed 90% reduction of mercury from the inlet. We believe that it is premature to assess the stringency of mercury emission limits potentially required under EPA's Utility MACT rules. These rules are not expected to be proposed until 2011, and may require controls on additional hazardous air pollutants similar to those proposed in EPA's current MACT proposals for industrial and commercial boilers. Existing state mercury rules may be incorporated in the modeling without engaging in speculation about future federal controls.

² See, e.g., http://www.boston.com/business/articles/2009/01/31/wind_turbine_firms_feel_downturns_pinch/

Renewable Portfolio Standards

The “leaning” option is to analyze existing state RPS requirements using three regional markets by ISO (Northeast, PJM and Midwest ISO), with costs up to alternative compliance payments as specified by the states. ACCCE recommends that a sensitivity analyses be performed to assess costs based on a single regional market.

State Environmental Policies

ACCCE concurs with the “leaning” option to include existing state requirements for SO₂, NO_x and mercury, and to avoid speculation about potential state programs.

Cost and Performance of Pollution Controls and Firmly Planned Control Installations

The “leaning” option is to rely on FGD and NO_x control cost data developed by the Midwest Ozone Group, U.S. EPA cost assumptions for Activated Carbon Injection, and state data on firmly planned control installations. We agree generally with this approach (subject to our above comments on mercury controls), but suggest that RGGI contact the Midwest Ozone Group³ for updates to MOG’s 2007 FGD and NO_x control cost estimates provided to LADCO. It also will be important to scale retrofit costs based on unit size, because larger units generally are more cost-effective to retrofit than smaller units.

Offsets

The costs and availability of emission offsets are critical inputs to this modeling exercise. While we agree generally with the “leaning” approach to rely on U.S. EPA marginal abatement cost curves by offset category, adjusted to reflect recent market activity in U.S. and international markets, ACCCE urges that RGGI not impose any quantitative or geographic limits on the potential use of emission offsets by affected sources. If such limits

³ www.midwestozonegroup.org or by email to David Flannery at dmflannery@jacksonkelly.com.

are imposed in the reference case, sensitivity analyses should be conducted based on unlimited access to domestic and foreign offsets.

Thank you for the opportunity to submit these comments. We look forward to further development of the RGGI modeling exercise, and to the RGGI stakeholder process.

Respectfully,

/s/

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