The Clean Energy Group

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

Re: Proposed development of a "Reference Case" for analysis of electricity and CO_2 allowance markets.

To Whom it May Concern:

The Clean Energy Group (CEG) appreciates the opportunity to comment on RGGI, Inc.'s (RGGI) proposed development of a "Reference Case" for analysis of electricity and CO_2 allowance markets. The Clean Energy Group is a coalition of electric utilities and electric generating companies that share a commitment to responsible environmental stewardship. Among the members are some of the largest electric and natural gas utilities, serving over 33 million electric customers and over 35 million natural gas customers. They are also some of the nation's largest generators of electricity, with nearly 213,000 megawatts of generating capacity throughout the U.S., which represents approximately 20 percent of the total U.S. generating capacity.

We appreciate the opportunity to provide input on issues and assumptions related to the development of the Reference Case. This letter outlines the Clean Energy Group's recommendations regarding the assumptions that were presented at the recent RGGI Stakeholder meeting on September 13, 2010. Overall, the Clean Energy Group agrees with the assumptions that RGGI are leaning towards for the Reference Case. The assumptions seem reasonable and largely consistent with other IPM modeling exercises in which CEG member companies have participated.

The Clean Energy Group requests that RGGI release more detailed work plans

CEG requests that the RGGI release an estimated timeline/work plan for the IPM modeling. Specifically, CEG is interested in understanding when the reference case assumptions will be finalized and if stakeholders will have another opportunity for review and comment. In addition, CEG is interested in the timeline for the Reference Case modeling and sensitivity runs once the assumptions are finalized.

The Clean Energy Group highly recommends that RGGI conduct several Reference Case Sensitivity Runs

As indicated at the stakeholder meeting, based on the modeling work performed for the original RGGI analysis in 2004-2006, the most critical drivers of the projections include:

- Electrical energy load growth
- Fuel prices, particularly natural gas
- Regulation impacting the power sector, including new pollutant and energy requirements

CEG, therefore, recommends that RGGI develop the following sensitivity scenarios –

- Energy Efficiency
    - High, medium, and low realization of Energy Efficiency goals – *high* can be similar to the original RGGI analysis sensitivity scenario from 2004-2006 that assumes an

unlimited (i.e., constrained by economics only) replacement of load with Energy Efficiency, *medium* can be what RGGI are leaning towards, while *low* can be the assumption that Energy Efficiency spending remains at current levels throughout the modeling horizon;

- Natural Gas Prices
  - High, medium, and low natural gas resource availability assumptions – *high* can be similar to the assumptions in the primary EPA IPM v4.10 base case used to model EPA's proposed Transport Rule[1], *medium* can be what the RGGI states are leaning towards (i.e., NYMEX futures for the short term, EIA AEO 2010 for the long-term), while *low* can be a resource limited scenario where natural gas prices are, on average, 30-40 percent higher than the RGGI reference scenario;
- A scenario that assumes that units at Indian Point Energy Center become unavailable when their federal licenses expire in 2013 and 2015;
- A scenario assuming offsets are unavailable;

The Clean Energy Group recommends that RGGI revise specific assumptions to increase accuracy of IPM model run results

CEG recommends that RGGI take into account non-market based factors that may influence a company's decision to operate a unit. For example, units with power- or steam-purchase contracts may be required to operate to fulfill contractual requirements even when IPM determines, using a least cost unit dispatch method, not to run the unit.

Another area of concern is the IPM model's treatment of dual-fuel oil and gas units. A least cost model may not be able to accurately factor in local seasonal or physical constraints that may require a company to run a unit on oil instead of natural gas. Such a model may also be unable to handle units located in load pockets with high demand that may be required to run to maintain electric system reliability that would otherwise remain idle on a least cost economic basis.

CEG recommends that RGGI adjust the model, as necessary, to handle these limitations appropriately.

Further, when reviewing RGGI's draft modeling assumptions, CEG member companies have noted incorrect assumptions. In an effort to strengthen RGGI's basis for the Program Review, CEG member companies will contact RGGI separately with technical corrections, where appropriate.

Conclusion

The Clean Energy Group looks forward to continuing work with RGGI on developing the Reference Case. If you have any questions, please do not hesitate to contact me or Brian Jones at bjones@mjbradley.com or (978) 369-5533.

Sincerely,

Michael Bradley

Director

The Clean Energy Group

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[1] U.S. EPA, *Documentation for EPA Base Case v.4.10*, at p. 10-37, http://www.epa.gov/airmarkt/progsregs/epa-ipm/docs/v410/Chapter10.pdf