

RGGI Comments 2/8/2008

Good afternoon, my name is Robert Silvestri and I am the environmental operations leader for PSEG Power Connecticut. On behalf of PSEG Power CT I appreciate the opportunity to offer comments on Connecticut's Regional Greenhouse Gas Initiative or RGGI proposals. Including section 22a-174-31 which is the control of carbon dioxide emissions and section 22a-174-31(a) which is greenhouse gas emissions offset projects. As background, PSEG Power CT owns and operates Bridgeport Harbor and New Haven Harbor generating stations and is a subsidiary of PSEG Power, an independent power producing company and an indirect subsidiary of Public Service Enterprise Group Incorporated a diversified energy company headquartered in Newark, New Jersey. PSEG's other primary subsidiaries are Public Services Electric and Gas Company, which is called PSE and G and PSEG energy holdings. PSE and G distributes electric and natural gas energy to more than 2 million utility customers in NJ while PSEG Power and PSEG Energy holdings own and operate approx 16000 megawatts of electric generating capacity in New York, New Jersey, Connecticut, Texas, Pennsylvania, New Hampshire, California and Hawaii. PSEG believes

climate change is a real and growing environmental challenge. The company has long been a strong advocate for national action on climate change that includes mandatory greenhouse gas reductions delivered through a cap and trade program. PSEG has supported the Regional Greenhouse Gas Initiative as a way to encourage national action on climate change. My comments today cover 3 main areas: the first one is federal harmonization, the second one is the auction process, and the third is reasonable administrative costs. To start with federal harmonization; as a likelihood of congress enacting a national greenhouse gas cap and trade program increases, we believe the best course for CT and the region is to implement RGGI in a manner that will allow it to be harmonized with a comparable national program as quickly and efficiently as possible. PSEG believes that when a mandatory national climate change program is implemented, there must be a smooth transition for RGGI affected sources and related programs. The regulatory elements of the RGGI program including implementing regulations at the state level; should be aligned with the national regulatory program so as not to have redundant and possibly conflicting programs and compliance requirements. PSEG recommends definitive language to evaluate the continuance of RGGI and

the advent of a mandatory national greenhouse gas program. Such language has recently been included in RGGI enabling legislation that was enacted in NJ. That law finds and declares that any emissions allowance trading program that was established in NJ to reduce emissions of greenhouse gasses should transition to any federal program enacted by the federal government that is comparable to the emissions allowance trading program established in NJ. Specifically, NJ defined comparability by requiring the calculation of the projected percent reductions of greenhouse gas emissions from electric generating facilities serving customers in NJ as compared to the projected percent reductions of greenhouse gas emissions from electric generating facilities serving customers in NJ under the national program. Furthermore, reductions anticipated through the implementation of other state regulated carbon reduction initiatives including but not limited to a renewable energy portfolio standard, or any energy efficiency portfolio standard shall not be considered in determining the comparability of the programs. Second point is on the auction process, throughout the RGGI process, PSEG has recommended the adoption of strategies to moderate CO<sub>2</sub> allowance prices to keep the cost of the program within the forecast and the ranges. This will not only minimize the

impacts on RGGI regional consumers, but will also help to mitigate an increase on electricity imports and the associated emissions leakage. These strategies include expanding the categories of projects that are eligible for generating carbon offsets and expanding the allowable use of offsets by RGGI CO<sub>2</sub> budget sources. PSEG also continues to be concerned with the adoption of an open auction process at the start of the RGGI program. PSEG believes that unconstrained access to the auction from RGGI CO<sub>2</sub> budget sources and non-budget sources is likely to drive up allowance prices which will increase compliance costs for RGGI budget sources and increase the cost of the program for CT electricity consumers. PSEG believes that the auctioning allowances should be limited to budget sources only in the early years of the program while the region acclimates to the new cap and trade program and cost effective compliance solutions mature. PSEG recommends that CT limit participation in the auctions for the first 3 allowance vintage years 2009, 2010, 2011 to CO<sub>2</sub> budget sources and their agents only. Non-CO<sub>2</sub> budget sources could participate in the secondary market as well as auctions for future vintage allowances from the year 2012 onward. In the absence of cost effective compliance measures, the electric power sector will be vulnerable to competition from

hedge funds, and other financial institutions and entities that may drive up the price of RGGI allowances. The result will be higher energy prices and increased emissions with leakage. The Maine Department of Environmental Protection has proposed the regulations providing the authority to the DEP Commissioner to waive or suspend compliance obligations for CO<sub>2</sub> budget sources if there are high allowance prices or if issues not under the control of the budget source occur. PSEG encourages the CT DEP to review this regulation which could be found in Maine in chapter 157 CO<sub>2</sub> budget trading program waiver and suspension and add similar provisions to the CT DEP RGGI regulations. My final section is on reasonable administrative costs, which I have a couple quotes. To start with, this is on page 31-24 and I entitled this paragraph F- entitled CO<sub>2</sub> allowance allocations subparagraph 4 CO<sub>2</sub> allowance auctions and then section D. The section reads as follows and I quote " proceeds derived from the sale of CO<sub>2</sub> allowances held in the CT auction account shall be distributed as follows, 7 ½ % of auction proceeds shall be retained by the Commissioner" This language PSEG feels is too vague, and needs to be revised to reflect the legislative language in Public Act 07-242 section 93-c which reads. And I quote" the regulations adopted pursuant to section a of this section may

include provisions to cover the reasonable administrative costs associated with the implementation of the Regional Greenhouse Gas Initiative in CT and to fund assessment and planning of measures to reduce emissions and mitigate the impacts of climate change. Such costs shall not exceed 7½ % of the total projected allowance value". We believe the intent of the legislation was to provide for a reasonable administrative cost up to 7½ % of the total projected allowance value. PSEG Power of CT appreciates the opportunity to present these comments and we will be submitting written comments before the close of the comment period. Thank You.