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Re: PSEG Comments on the Connecticut RGGI Pre Proposal

On behalf of Public Service Enterprise Group (PSEG), PSEG Services Corp. is pleased to offer comment on Connecticut's Regional Greenhouse Gas Initiative (RGGI) pre proposal (Section 22a-174-31. Control of Carbon Dioxides Emissions and Section 22a-174-31a. Greenhouse Gas Emission Offset Projects).

PSEG is a diversified energy company headquartered in Newark, New Jersey. Its main operating subsidiaries are: Public Service Electric and Gas Company (PSE&G), PSEG Power LLC and PSEG Energy Holdings LLC. PSE&G distributes electric and natural gas energy to more than two million utility customers in New Jersey, while PSEG Power LLC and PSEG Energy Holdings LLC own and operate approximately 16,000 megawatts of electric generating capacity in New Jersey, New York, Connecticut, Texas, Pennsylvania, New Hampshire, California, and Hawaii.

Throughout the RGGI process, PSEG has recommended the adoption of strategies to constrain CO_2 allowance prices in order to keep the costs of the program within reason while waiting for a national program to start. This strategy will not only minimize the impacts on RGGI region consumers but also help to mitigate an increase in electricity imports and the associated emissions leakage. These strategies include (1) limiting the share of allowances that are auctioned in the early years of the program, (2) expanding the categories of projects that are eligible for generating offset credits, and (3) expanding the allowable use of offsets by RGGI CO_2 Budget Sources and (4) creating a leakage mitigation program at the point of Load Serving Entity (LSE).

As I stated in my February 12 introductory comments, PSEG is very concerned with the adoption of a 100% open auction process at the start of the RGGI program. A 100% open auction approach is both unprecedented and very risky. Auctioning a significant share of allowances and allowing unconstrained access to the auction (from Budget Sources and non-Budget Sources) will drive up allowance prices, aggravating the electricity imports and emissions leakage problem. However, given the trend towards a 100% auction in some states, we are aware of the pressures this brings to Connecticut to pursue a similar track.

PSEG believes that the auctioning of allowances should be limited to budget sources only and at a low percentage of total allowances in the early years of the program while the region acclimates to the new cap-and-trade program and additional compliance solutions mature; namely, energy efficiency programs, renewables, and cost effective offsets.

In the absence of these compliance measures, the electric power sector will be vulnerable to competition from hedge funds and other entities that may drive up the price of auction allowances. The result will be higher energy prices and increased emissions associated with leakage. Specifically, we recommend exploring auction dynamics as a portion of the MOU 25% "hold-back" with the remaining up-to-25% being made available for sale at the RGGI modeled price for that time period. This proportion could be maintained and applied to a higher percentage of allowances "held-back" over a period of 5-10 years after a thorough review of market dynamics resulting from RGGI.

We believe this one element (100% open auction) may greatly exacerbate leakage, may greatly increase the transport of pollutants from non-RGGI states into the RGGI region in the same timeframe that the RGGI states are striving to meet ambient air quality goals; it could maximize the cost of the RGGI program to consumers, and possibly impede the development of a national program that PSEG has been supporting for many years.

PSEG is encouraged by the language in Connecticut's draft pre proposal that indicates Connecticut's openness to approach allowance auctions and in a more reasonable manner – namely a transition to an auction over time. The draft language states as follows:

> *the commissioner shall, by no later than the end of the second compliance period, allocate up to one hundred percent of the remaining Connecticut CO_2 trading program base budget to the consumer benefit account.*

Although PSEG acknowledges Connecticut's recognition that starting at 100% holdback is not in the best interest of the state, we recommend a longer ramp-up to 100% than the proposed 2015; perhaps to the end of the third compliance period of 2018 or longer. Our rationale is to provide adequate time for a national program to become fully engaged and our recognition that the leading proposed national programs have a considerable and longer ramp-up timeframe.

PSEG is also encouraged by the definition of "Consumer benefit or strategic energy purpose account" in the draft pre proposal. The definition appears to provide the commissioner the discretion to sell or distribute allowances. In addition, the definition is sufficiently broad, including the uses identified in the RGGI MOU. PSEG encourages Connecticut to include a similar provision for funding the addition of new eligible offset categories such as that included in the proposed RGGI legislation in Maine.[1] The definition reads as follows:

[1] LD 1851 includes a provision that indicates that the trust established to receive and spend the consumer benefit funds may fund research approved by the Department of Environmental Protection in an amount of up to $100,000 per year to develop new categories for carbon dioxide emissions offset projects.

a general account established by the commissioner pursuant to subsection (f) of this section from which allowances may be sold or distributed in order to provide funds to encourage and foster the promotion of energy efficiency measures, direct mitigation of electricity ratepayer impacts attributable to the implementation of the CO_2 Budget Trading Program, promotion of renewable or non-carbon-emitting energy technologies, stimulation or reward of investment in the development of innovative carbon emissions abatement technologies with significant carbon reduction potential, or the administration of Connecticut component of the CO_2 Budget Trading Program.

However, later in the draft, paragraphs seem to conflict with the discretion of the commissioner to sell or distribute allowances. The draft states the following:

by October 1 of each allocation year, the commissioner or a trustee selected by the commissioner shall auction the allowances held in the consumer benefit account and use the proceeds from such auction to promote the purposes of the consumer benefit and strategic energy purpose account.

PSEG is also encouraged by additional discretion provided to the commissioner in the draft to support highly energy efficient power generation although this is not defined. The paragraph reads as follows:

The commissioner may set aside a portion of the Connecticut CO_2 trading program base budget to directly support highly energy efficient power generation, any other strategic energy purpose set forth in the Regional Greenhouse Gas Initiation Memorandum of Understanding or the voluntary renewable energy provisions set forth in the Regional Greenhouse Gas Initiative model rule.

In summary, PSEG welcomes the opportunity to work with Connecticut on possible alternatives to a 100% open auction including a transition over time combined with a direct allocation to CO_2 Budget Sources. We believe that in the face of an upsurge of national attention on climate change, policy warrants a moderate approach that can harmonize with a national program as quickly and efficiently as possible is the best course for Connecticut.

Please contact me with questions and clarifications,

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