



MEMORANDUM

June 27, 2007

To: ISO New England
From: Alice Liddell, Policy Analyst and
Derek K. Murrow, Director, Policy Analysis
RE: 2nd Draft of Scenario Analysis Report

Rockport, ME
Portland, ME
Boston, MA
Providence, RI
Hartford, CT

Environment Northeast previously submitted comments on the draft Scenario Analysis report (dated May 23, 2007) and most of those comments are still relevant to the revised report. The following are additional comments we would like ISO New England to consider before the final report is issued.

Regional Greenhouse Gas Initiative

- RGGI should be defined when it is first mentioned. It is the Regional Greenhouse Gas Initiative (RGGI) which is a regional cap and trade program designed to cap and lower carbon dioxide emissions from 2009 to 2018. We appreciate that this draft report has been changed and no longer mentions there is a New England CO₂ cap. RGGI is a regional cap (currently among 10 states from Maine to Maryland) and trading can and will happen across the region (NY and some PJM states). As a result, while the New England states allocation will be 50.2 million tons in 2018, the state caps essentially represent each state's apportionment of the regional total and the number of permits they will release to the regional market. The regional cap for the ten states should be clearly stated in the report and it be noted that the states can trade carbon allowances throughout the RGGI region.
- The RGGI program includes banking which may well allow allowances from early periods to be used in later years like the period modeled by the ISO.
- The RGGI program includes the use of offsets which allow companies to pay for emissions reductions in other sectors instead of reducing emissions within the electric sector. The offsets are limited to 3.3% unless the price of carbon exceeds \$7 (in 2005 dollars) for a 12 month rolling average in which case it would expand to 5%. In addition, if the price of carbon reaches \$10 (in 2005 dollars), the percent of offsets that a source could use would increase to 10%. This is important since the ISO modeling used three carbon prices, \$3, \$20 and \$40 and at both \$20 and \$40 a ton, sources can use offsets for 10% of their emissions.
- It should be stated that in modeling carbon, the \$20 price was used for most of the results, with sensitivities run for both the \$3 and \$40 case. The detailed modeling assessment completed for the RGGI process yielded forecasts of allowances prices significantly below \$20/ton.
- In section 5.3.1.3 Carbon Dioxide Emissions, on p. 65, the report states that "the RGGI cap does not require power plants in each RGGI state to limit their total emissions to the amount of allowances allocated for free to each state". The RGGI program calls for at least 25% of the allowances to be auctioned with the revenues to be invested in "consumer benefit or strategic energy purposes" i.e., to support energy efficiency, renewable energy, innovative energy technologies or consumer rebates. Through rulemaking or legislation, VT, CT, MA, RI, and ME have all stated that they plan on auctioning 100% of the allowances and using the money primarily for energy efficiency investments. Assuming that carbon is \$3 a ton in 2018, in addition to other energy efficiency

programs and monies, the New England states will be investing \$150.6 million dollars a year of RGGI auction proceeds in expanded energy efficiency projects. The higher the price of carbon, the more money that will be invested in energy efficiency and consumer benefit programs.

- The Figure 5-10 and corresponding text is misleading in that it appears as if the New England region will only meet the New England cap carbon allocation in a few scenarios such as expanding nuclear, and even doubling EE will not meet this. It would be prudent to add that allowances can be banked and offsets can be utilized to help reduce carbon emissions.
- Finally, it is important to note that the modeling effort did not explicitly model a cap and trade program, as there was no cap applied; this modeling assessment looked at a fixed carbon price; in reality the RGGI program will be a hard cap and the sector will have to comply with the RGGI cap through changes in dispatch, new cleaner plants, or the purchase of offsets.

Energy Efficiency

- We are confused by the figures on p. 52 and p. 53. In Figure 5-4c, is Energy Efficiency the double EE scenario? It appears so since figure 5-4d: demand response says EE/DR Expansion-Demand Response, however, it makes sense to clearly state this and differentiate between the two.
- On p. 42 (4.2 Scenario #2—Demand Side Resource), the report states that “Demand side EE resources...reflect annualized costs in the range of \$110 to \$400/kW-year...based on capital investment costs of \$920 to \$3,300/kw... demand-response reflects annualized costs ranging from \$8 to \$10/kW.” The cost of efficiency and demand response should be expressed clearly and separately. It should also note that demand response has to be paid for every time it is called on.
- We are pleased that the double EE scenario is discussed more in this draft and has been added to table 5-1. With many states heavily investing in energy efficiency projects, we think that the findings from some of the double EE scenarios should be highlighted and discussed more. For instance, the double EE was assumed to provide 36 million MWh of no-cost “energy” which is comparable to the nuclear and coal IGCC scenarios. While the DR/EE scenario (scenario 2) assumes that infrastructure would be reduced by \$100 to \$325 million, there is no data on what doubling EE could provide.
- As we have stated before, the way energy efficiency was modeled is also inconsistent with reality. It was modeled as a resource that bids in at no cost, when efficiency projects cannot in fact bid into the energy market. This appears to under represent the benefits since it assumes the load serving entities (LSEs) would still have the same load to meet, when in fact their load would decline due to the efficiency investments. Efficiency investments should depress the marginal clearing price, as the report indicates, AND reduce load. We think that this should be included in the body of the report on p. 60 (5.2.1.6 Energy Use and Power Production) and not just as a footnote in Table 5-1 on p. 47.

Thank you for the opportunity to review the draft report and submit comments. We would welcome an opportunity to discuss the report and these comments with ISO New England staff.

For additional information on this memo or follow up questions, please contact Alice Liddell at (203) 495-8224, aliddell@env-ne.org or Derek Murrow at (203) 285-1946, dmurrow@env-ne.org.