



CALPINE CORPORATION

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Houston, Texas 77002

Submitted via email to climate.strategies@state.ma.us

November 15, 2017

Hon. Martin Suuberg
Commissioner
Massachusetts Department of Environmental Protection
One Winter Street
Boston, MA 02108

Re: 310 CMR 7.74 Auction Design

Dear Commissioner Suuberg,

Calpine Corporation (“Calpine”) submits the following additional comments on MassDEP’s October 3, 2017 Stakeholder Discussion Document regarding allowance auctions pursuant to 310 CMR 7.74, which was finalized on August 11, 2017. Calpine submitted comments on the draft proposal on November 21, 2016 and on the proposed rule on February 24, 2017.

Auction Transition Proposal

As indicated in our previous comments, Calpine does not support the use of an auction platform to allocate allowances under this rule. However, if MassDEP moves forward with the auction, we strongly urge the Department to incorporate a transition period before moving to a full auction. The 7.74 regulation is a first-of-its-kind experiment on how a single-state emissions auction will function in the context of an integrated regional power market. A transition period is the only practical way to assess and minimize potential adverse impacts, and there is no downside to doing so.

Specifically, Calpine recommends that MassDEP adopt a 5-year phase-in with 20 percent of the Total Aggregate Limit to be auctioned for 2019, 40 percent for 2020, etc., until 100 percent of the Total Aggregate Limit is auctioned for the 2023 compliance year (See Table 1, below). In parallel, the set-aside for new units, which is set at 1,500,000 metric tons (“MT”) for 2018, would be phased out by 20 percent per year. Existing generators would receive allowances from the remaining Existing Facility Allocation in proportion to their 2018 CO₂ emissions allocations (as adjusted by the October 13, 2017 Proposed Regulatory Amendment). Table 1 demonstrates how this would work in conjunction with the annually-declining cap. Appendix A calculates the direct allocations for existing facilities during the transition period.

Table 1. Summary of Auction Transition Proposal

	2018	2019	2020	2021	2022	2023	2024
Total Aggregate Limit	9,149,979 ¹	8,731,175	8,507,299	8,283,423	8,059,547	7,835,671	7,611,795
Existing Facility Allocation	7,649,979	5,784,940	4,144,379	2,545,369	997,509	-	-
New Facility Allocation	1,500,000	1,200,000	960,000	768,000	614,400	-	-
Auction percentage	0%	20%	40%	60%	80%	100%	100%
Auction Quantity	-	1,746,235	3,402,920	4,970,054	6,447,638	7,835,671	7,611,795

As discussed below, this transition proposal would appropriately balance the needs of the diverse stakeholders who have differing views on the merits of an auction, without any adverse impact on the Commonwealth’s ability to ensure compliance with the Global Warming Solutions Act (“GWSA”).

Calpine remains concerned that there is a high likelihood the auction will bind. Indeed, the only reason the cap would *not* bind is if Massachusetts generator CO₂ emissions decline on their own due to decreased power plant operations over time and at a pace equal to or greater than the required annual 2.5 percent reduction in the cap. It is simply not possible to accurately predict whether that will turn out to be the case.

The consequences of a binding auction are potentially severe. Generators in New England are subject to multi-year forward capacity obligations and face significant financial penalties for non-performance. These are important factors that will influence the results of the auctions and may affect local and regional power system reliability.

ISO-NE agrees that a transition period would be prudent. As noted in their October 16 comments:

“...the ISO and regional market participants have used transitions in the past when implementing significant changes to market rules. Furthermore, since the covered facilities have already bid into the Forward Capacity Market and have taken on capacity supply obligations through the 2020-21 commitment period without factoring in the potential costs related to the new regulation, a transition to a full allowance auction would be prudent.”²

The Commonwealth will meet its GWSA targets irrespective of whether the 7.74 regulations are administered via auction or direct allocation, because it is the declining hard cap, not the allocation method, that ensures the reduction in emissions. Conversely, an auction creates a high degree of market uncertainty with no demonstrable environmental benefit. A phase-in mitigates the downside risk with no impact to the overall goals of the regulation.

The proposed transition provides a prudent and equitable balance between:

- a) initiating the auction at a level that will provide robust price discovery;
- b) providing existing generators with a reasonable level of predictability in light of ongoing ISO-NE performance obligations; and

¹ Reflects revised cap (for 2018 only) based on October 13 Proposed Regulatory Amendment.

² Comments of ISO NE Inc., October 16, 2017

- c) ensuring that new generators will have an opportunity to secure an adequate number of allowances to meet their performance obligations.

Treatment of New Facilities

The current rule establishes a 1.5-million-ton set-aside for the 2018 compliance year and presumes that new facilities will subsequently compete for allowances in the auction. The proposed transition addresses new facilities by phasing out the set-aside while phasing in the auction.

Calpine asked M.J. Bradley & Associates (“MJB&A”) to evaluate the total number of allowances that would potentially be required for Footprint, West Medway II, and Canal 3.³ The MJB&A analysis uses permitted CO₂ emission rates and conservatively high capacity factor assumptions to determine an upper bound estimate of the number of allowances that the new units may need. The analysis finds that new facilities may require up to 2,114,325 allowances for operations during 2019 (see Appendix B).

Under the proposed transition, 1,746,235 MT would be sold via auction and 1,200,000 MT would be set-aside for new units for the 2019 compliance year. Therefore, the total pool of allowances for new units, including direct allocation and opportunity in the auction, would increase significantly from 1.5 million tons in 2018 to more than 2.9 million tons in 2019 (and then 4.3 million tons in 2020). This is substantially above the MJB&A estimate and, therefore, treats new facilities equitably.

Additional Auction Design Criteria

The following summarizes additional key auction design considerations Calpine urges MassDEP to include in any final auction program.

- Calpine continues to support quarterly auctions. Assuming the auction format will be used starting with the 2019 compliance year, we recommend holding at least one auction in 2018.
- Calpine re-states its concern about third-party participation. However, if MassDEP chooses to allow non-compliance entities to participate in the auction, Calpine recommends the inclusion of strict purchase and banking limitations on those parties.
- Calpine strongly supports unlimited banking of allowances for compliance entities. However, based on discussions during the October 31 stakeholder meeting, Calpine understands that MassDEP may not be inclined to revisit the existing banking provisions at this time. Importantly, (and as a clarification to our October 11 comments), Calpine believes that, if the existing banking limitations remain in place, there is no need for any additional purchase limitations. (In our October 11 comments, we recommended imposing an annual purchase limit in addition to the existing auction-specific purchase limit. That concept was proposed as an alternative to the banking limitation.) The banking limit in the existing rule (combined with oversight from an independent market monitor) provides a significant disincentive for over-procurement of allowances, without any need for additional mitigation.
- Calpine continues to support the participation of an independent market monitor and was pleased to learn during the stakeholder meeting that MassDEP agrees. Again, Calpine believes the scope of the market monitor should include an assessment of regional power market impacts as well as an assessment of the competitiveness of the auction itself.

³ These are likely to be the only new facilities that will be in commercial operation for all or part of 2019.

Conclusion

Thank you for your consideration of our views in this matter. Please do not hesitate to contact me at Steven.Schleimer@calpine.com or (713) 830-8923 if you have any questions or need any additional information.

Sincerely,

/s/ Steven Schleimer

Steven S. Schleimer
Senior Vice President Governmental and Regulatory Affairs

cc: William Space
Beth Card

APPENDIX A

Existing Facility Allocations Based on 2018 Limits and Calpine's Proposed Auction Phase-in

Facility	2018 Limits - metric tons	Percent %	2019	2020	2021	2022
ANP Bellingham	860,250	11.2%	650,524	466,041	286,230	112,171
ANP Blackstone	787,429	10.3%	595,456	426,590	262,000	102,676
Bellingham	233,789	3.1%	176,792	126,655	77,788	30,485
Berkshire Power	437,049	5.7%	330,498	236,771	145,419	56,988
Braintree Electric	24,425	0.3%	18,470	13,232	8,127	3,185
Canal Station	101,922	1.3%	77,074	55,216	33,912	13,290
Cleary Flood	50,453	0.7%	38,153	27,333	16,787	6,579
Dartmouth Power	48,348	0.6%	36,561	26,193	16,087	6,304
Dighton	330,396	4.3%	249,847	178,992	109,932	43,082
Fore River Energy	1,433,568	18.7%	1,084,069	776,636	476,990	186,928
Kendall Square	502,191	6.6%	379,759	272,062	167,093	65,483
MASSPOWER	304,108	4.0%	229,967	164,751	101,186	39,654
Medway Station	1,603	0.0%	1,212	868	533	209
Milford Power, LLC	148,912	1.9%	112,608	80,673	49,547	19,417
Millennium Power	667,082	8.7%	504,450	361,392	221,957	86,983
Mystic	1,516,066	19.8%	1,146,454	821,329	504,439	197,686
Pittsfield Generating	79,959	1.0%	60,465	43,318	26,605	10,426
Stony Brook	68,844	0.9%	52,060	37,296	22,906	8,977
Tanner Street	36,655	0.5%	27,719	19,858	12,196	4,780
Waters River	1,587	0.0%	1,200	860	528	207
West Springfield	15,343	0.2%	11,602	8,312	5,105	2,001
TOTAL	7,649,979		5,784,940	4,144,379	2,545,369	997,509

APPENDIX B



M.J. Bradley & Associates, LLC

TO: John Flumerfelt, Calpine Corporation
FROM: Christopher Van Atten, MJB&A
DATE: November 10, 2017
RE: Analysis of New Source Emissions

The following analysis provides an estimate of the potential CO₂ emissions from “new” electricity generating facilities covered by the Massachusetts CO₂ emissions limits (310 CMR 7.74). A new electricity generating facility is defined in the regulation as one that was not listed among the 21 existing fossil generating facilities within the Commonwealth. The new facilities included within this analysis include: (1) the Salem Harbor Footprint Station (674 MW NGCC; advanced stages of construction), (2) West Medway Facility (200 MW CT; under construction); and (3) the Canal 3 Development (350 MW CT; pre-construction).

MJB&A estimated the potential emissions for these three plants based on the CO₂ emissions standards in their Final Prevention of Significant Deterioration (PSD) permits and conservatively high capacity factors (80% for the Footprint NGCC and 20% for the two CT facilities). Footprint and West Medway are both assumed to be on-line and operating at full capacity in 2018. Canal 3 is not assumed to be on-line until June 2019; therefore, the analysis assumes only a 10% capacity factor for this facility in 2019.

Table 2 summarizes the estimated annual CO₂ emissions for each new facility and the total aggregate emissions of all three facilities. Table 3 summarizes the number of allowances that would either be (1) allocated to new facilities or (2) available to new facilities through the state allowance auction, as proposed by Calpine Corporation from 2019-2022 (auction transition proposal). The allowances available to new sources exceed the estimated emissions from new facilities through the entire auction transition period by a substantial margin (see last rows of Table 2 and Table 3).

Table 1. Summary of Assumptions for Emissions Estimation

Facility	Facility Capacity (MW)	Assumed Capacity Factor	Assumed Emission Rate (lb/MWh)*	Annual Emissions (Metric Tons)
Medway	200	20%	1,151	182,939
Footprint	674	80%	825	1,767,559
Canal	350	10%-20%	1,178	163,826-327,652

*Source: Final Prevention of Significant Deterioration (PSD) Permit: Exelon West Medway Facility (CO₂ limit burning natural gas); Prevention of Significant Deterioration (PSD) Permit Approval: Footprint Power Salem Harbor Development LP (CO₂ limit for EU1 and EU2); Final Prevention of Significant Deterioration (PSD) Permit: NRG Canal 3 Development LLC (CO₂ limit burning natural gas).

Table 2. Estimated Emissions (metric tons) from New Facilities: 2019-2022

Facility	2019*	2020	2021	2022
Medway	182,939	182,939	182,939	182,939
Footprint	1,767,559	1,767,559	1,767,559	1,767,559
Canal	163,826	327,652	327,652	327,652
TOTAL	2,114,323	2,278,149	2,278,149	2,278,149

*Note: Canal was assumed to operate at a 10% capacity factor in 2019, and a 20% capacity factor in subsequent years.

Table 3. Allowances Allocated or Available to New Sources Through Proposed Calpine Auction Transition Period (metric tons)

	Proposed Calpine Auction Transition Period			
Source	2019	2020	2021	2022
Allocation	1,200,000	960,000	768,000	614,400
Auction	1,746,235	3,402,920	4,970,054	6,447,638
TOTAL	2,946,235	4,362,920	5,738,054	7,062,038



By Email (submitted via climate.strategies@state.ma.us)

MassDEP
One Winter Street
Boston, MA 02108

Re: Southeastern Public Generators Comments on Emission
Allowance Auctions Pursuant to 310 CMR 7.74

To whom it may concern:

The Braintree Electric Light Department ("BELD") and Taunton Municipal Lighting Plant ("TMLP") (together, "Southeastern Public Generators") hereby submit through Energy New England, LLC, the following comments on the MassDEP's *Stakeholder Discussion Document: Allowance Auctions* issued in connection with 310 CMR 7.74, *Reducing CO₂ Emissions from Electricity Generating Facilities*, finalized on August 11, 2017 ("Discussion Document"). The Southeastern Public Generators have previously submitted comments to MassDEP expressing its concerns with both 310 CMR 7.74 and 7.75, most recently on February 24, 2017. Our comments also cover portions of Section 7.74 that were added to the August 11, 2017 final regulation and subsequent to the closure of the comment period, such that affected parties were not able comment on them. The most significant change is requiring regulated entities to purchase allowances via auction versus the allocation of these allowances as proposed in the December 2016 draft regulation.

The Southeastern Public Generators consist of municipal light departments governed by the applicable sections of G.L. c. 164 and own and operate electric generating facilities in their respective service territories. In submitting these comments, the Southeastern Public Generators should not be construed as waiving any arguments they now have, or may have in the future, regarding the statutory authority of MassDEP to implement the provisions of Section 7.74 in light of Section 3(d) of the Global Warming Solutions Act ("GWSA").

Introduction

In previous comments to MassDEP, the Southeastern Public Generators expressed concerns regarding "leakage" and increased compliance costs that put Massachusetts generators at a distinct disadvantage vis-à-vis other generators in ISO-NE, namely, generators from all other New England states that are not subject to the requirements of the GWSA.

The final version of 310 CMR 7.74 creates an emission auction regulation that the Southeastern Public Generators believe do not address these concerns. If the court upholds the legality of 310 CMR 7.74 pursuant to current legal challenges thereto, the Southeastern Public Generators request that the portion of Section 7.74 addressing the implementation of an auction should be withdrawn by MassDEP in favor of the allocation approach originally proposed.

In addition, BELD owns and operates two fast-start generating units. Peaking units are uniquely situated when compared to other types of generating resources: they are predominately sent emergency dispatch orders from ISO-NE to come online. Peaking units historically have very low run hours during a year, however when brought online are providing extremely valuable reliability services. For those reasons, and as discussed further below, peaking units should be exempt from 310 CMR 7.74.

The Southeastern Public Generators offer the following comments regarding specific questions raised by MassDEP in the Discussion Document, as well as other general concerns on the auction methodology as set forth below.

Comments

Are there additional special considerations that should be taken into account for an auction of this type occurring in a single state?

Comment: The Southeastern Public Generators submit that 310 CMR 7.74 places unnecessary and additional burdens on the operation of important Massachusetts generation resources. The Southeastern Public Generators, like the other electric generators, are already compliant with Section 3(c) of the GWSA and find 310 CMR 7.74 to be duplicative with respect to emission limits established with each generating resource's air permit and RGGI obligations. It is the Southeastern Public Generators' view that 310 CMR 7.74 will not actually achieve stated goals as regional emissions will actually rise under new GHG rules, due to previously expressed concerns regarding "leakage."

We have previously expressed concern about leakage based on an analysis conducted by ISO-NE. Specifically, BELD expressed concerns that Massachusetts electricity generators will be dispatched less due to their position in the transmission queue, which is based on costs per kWh. In addition, the ISO-NE analysis found that by implementing the emissions cap in Massachusetts alone would likely result in increased regional generation from sources outside of Massachusetts. And, these sources are higher emitting less efficient generation, resulting in an increase in CO₂ emissions from electricity used in Massachusetts and the ISO-NE region as a whole.

We have also previously expressed concern that MassDEP assumes the availability of large amounts of clean electrical energy from Canada by Year 2020 will be realized. The projection is contingent on the construction of new transmission lines. It may be premature to base electrical supply policy in Massachusetts on sources that are not yet operational. The Southeastern Public Generators support delayed implementation of the emission cap.

When and how often should allowance auctions occur?

Comment: The Southeastern Public Generators believe that the auctions should be conducted on a quarterly basis. We understand that in its October 16, 2017 comments, ISO-NE stated that an annual auction may provide less challenges for regulated entities than more frequent auctions. The Southeastern Generators disagree with this position and believe quarterly auctions would allow regulated entities to better determine allowance needs throughout the year.

Other than regulated power plants, should any other entities be allowed to purchase allowances?

Comment: Only the owners or operators of electricity generators located in Massachusetts should be allowed to participate in the 310 CMR 7.74 emission allowance auction. For example, the Southeastern Public Generators are concerned that if other non-covered entities are allowed to participate, they could purchase allowances for the sole purpose of retiring them (for whatever reason) and making them unavailable to the regulated generators, driving up the cost of compliance and electricity pricing for Massachusetts ratepayers. Again, this is in contrast to the recommendation of ISO-NE that broadening eligibility requirements will reduce concerns about buyer-side market power and the liquidity of the secondary market. MassDEP can revisit this issue and expand the market during its three-year program review after observing behavior of the market and pricing of allowances.

Should there be a minimum reserve price, and, if so, what should it be?

Comment: The Southeastern Public Generators see no need for MassDEP to establish an administrative minimum reserve price. The emission auction should establish the market value of emission allowances.

What limits should there be on the number of allowances that can be purchased by a single bidder?

Comment: The number of allowance that a single bidder should be allowed to purchase should not exceed the generator owner/operator's three (3)-year rolling average of CO₂ emissions plus a ten percent (10%) margin.

Is there a need to protect certain information about auction bids or results from public release?

Comment: The Southeastern Public Generators believe that the release of aggregate auction data for prompt auctions, followed by masked release of offer prices and specific quantities by covered generators, to be released six (6) months after settled auctions, should be considered by MassDEP. The auction operator, auction market monitor or MassDEP should release, on an annual basis, a report on the structural competitiveness of the auctions identifying market power concerns and suggested remedies and enhancements.

Are there any particular design elements that should be considered because of the number of regulated facilities and facility owners?

Comment:

Insufficient Number of Allowances. On a review of actual CO₂ emissions from existing generating sources reported under RGGI in EPA's CAMD database, the Southeastern Public Generators are concerned that there will not be enough CO₂ allowances to cover 2018 emissions generated in Massachusetts. CO₂ emissions reported from Massachusetts Electric Generating Units ("EGUs") for calendar year 2016 were 10.5 metric tons. Using the 2018 emissions cap of 7,649,979 metric tons for existing sources, the reduction from 2016 to 2018 would be close to 30%. CO₂ emissions reported from Massachusetts EGUs from January 1, 2017 through September 30, 2017 were 8,097,907 metric tons. Again, using the 2018 emissions cap, there will be a shortage of 447,928 metric tons for just the first nine (9) months of the year. These shortages weigh in favor of a transition period to implement the auctions in addition to the use of alternative compliance payments for the first three (3) years of the program.

Allowance Auction Transition Period: As set forth in the Introduction section of these comments, the Southeastern Public Generators find the move to an auction-based methodology for emission allowance allocation problematic due to the limited size of the market and available allowances. However, if MassDEP decides to implement an allowance auction as set forth in Section 7.74(6)(h), we submit that emission allowances during the first three (3) years of the program should be allocated to existing affected electric generating plants based on a rolling three (3)-year average of historical operation; *i.e.*, if MassDEP proceeds to institute an auction mechanism, we advocate that a three (3)-year phased-in approach be used. A transition period with this type of phased-in approach will allow covered generators to access a portion of needed emission allowances through a direct allocation while price discovery and market liquidity develop in the emerging 310 CMR 7.74 emission allowance auction.

Cost Containment Reserve or Maximum Reserve Price: Due to the size of the market and the limited number of allowances available to Massachusetts generators, the Southeastern Public Generators are requesting that the MassDEP consider a cost containment reserve, similar to what is implemented in RGGI. If

allowance prices exceed a certain threshold, additional allowances could be issued for auction to stabilize the market. Alternatively, a maximum reserve price (*e.g.*, \$10/ton) could also be used to stabilize allowance prices.

“Emergency Deferred Compliance.” While 310 CMR 7.74 (6)(d) appears to contemplate the ISO-NE’s issuance of MLCC2 “Abnormal Conditions” or higher actions of ISO-NE’s operating procedures to preserve bulk power system reliability, to qualify for “Emergency Deferred Compliance,” the Southeastern Public Generators believe the definition of events under Emergency Deferred Compliance must include electric generating plant dispatches for local bulk power system security issues such a voltage control. Dispatch for local voltage control is not uncommon, could lead to a generating plant’s consumption of significant emission allowances when providing power for local system reliability, and would not be covered under what we believe is contemplated by the current definition of “Abnormal Conditions” alerts.

Further, Section 7.74(6)(d) covers generators that emit CO₂ during an emergency that occurs during the last forty-five (45) days of the calendar year. In that case, the generator may opt to defer for one (1) year, a portion of, or the entirety of the covered generator’s compliance obligation for those CO₂ emissions emitted during the emergency. If this option is chosen, CO₂ emissions emitted during the emergency will be offset in the following year at a ratio of 2 to 1. This provision as currently written does not allow adequate time for generators to purchase and surrender allowances in case of such emergency operation without a severe penalty (two to one allowance requirement). Emergency Deferred Compliance should allow regulated entities six months for surrendering allowances for emissions occurring during emergency conditions during the last 90 days of the calendar year at no penalty. Extending this to the last three (3) months of the year (as opposed to 45 days) gives generators additional auctions in which to obtain the required allowances at the normal rate of compliance.

Banking of Allowances: Only limited banking of allowances is allowed for compliance in future years. In addition, 310 CMR 7.74(6)(f) adds additional conditions for allowances to be retained for use in subsequent years based on the total aggregate CO₂ emissions from all generating facilities in any year versus the total aggregate CO₂ emissions for the prior year. This does not allow the Southeastern Public Generators to balance out the variable costs of the allowances in a small market over time and could result in reliability issues if generators are not able to run due to the lack of allowances. We recommend changing the allowance carryover provisions to allow for more carryover (*e.g.*, up to 100% of the generator’s cap for that year) and to remove the requirement to be tied to the statewide actual emissions. Allowances can expire after a three (3)- year period. This also may assist with issues relative to fast-start units supporting intermittent power sources as set forth below.

Support for Intermittent Resources: As mentioned, BELD owns and operates two fast-start generating units. An issue that uniquely impacts owners/operators of fast start peaking units such as BELD is the fact that they are required to be available to support intermittent power supply resources such as solar. Those peaking units may be penalized by MassDEP if they have to run and allowances are not available. Additionally, under ISO-NE's Pay-for-Performance capacity market design, these units would be subject to significant penalties if they do not run and provide energy and reserve to support operational issues that are associated with increasing amounts intermittent resources on the system. Indeed, due to the critical role played by peaking units, BELD submits that peaking should be exempt from the requirements Section 7.74.

Notwithstanding the foregoing, banking of allowances as proposed in the comments provided above would provide fast-start resources access to allowances assuring increasing amounts of intermittent resource penetration, as would occur through Massachusetts procurements under .

Pricing: The Southeastern Public Generators submit that for emission allowance pricing, the cost should be relative to RGGI. For example, if RGGI allowances are \$2/ton and Section 7.74 allowances are \$5/ton, generators should only have to pay the difference (\$3/ton) for Section 7.74 allowances. Otherwise, Massachusetts generators and therefore in the case of the Southeastern Public Generators and, their ratepayers, are paying twice for the same CO₂ emissions compliance.

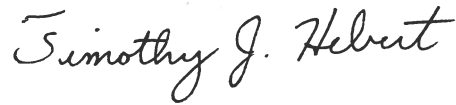
Alternative Compliance Payments: The Southeastern Public Generators support the concept of alternative compliance payments as an option for 2018-2021 period in case there are not enough allowances in the initial auctions. This would also allow MassDEP time to work out any issues with Section 7.74 and the auction process. We understand that MassDEP did not consider this option due to the lack of a pricing mechanism for alternative payments. Alternative compliance payment costs can be based on market pricing in the form of the average of the maximum clearing price over the four auctions in the year of compliance. The alternative compliance payments would be due to MassDEP on March 1 of the year following the year in which the CO₂ emissions occurred.

3-for-1 Penalty Provision of Section 7.74(10). The Southeastern Public Generators believe that the penalty for noncompliance proposed by MassDEP of three emission allowance credits for each emission allowance credit of non-compliance is excessive and punitive. A penalty rate of two allowances for each allowance of non-compliance is more than sufficient incentive for owner/operators of covered generators to procure sufficient allowances, when available, to meet their compliance obligations.

Conclusion

The Southeastern Public Generators appreciate MassDEP's consideration of its comments and looks forward to continued participation throughout the stakeholder process.

Sincerely,

A handwritten signature in black ink that reads "Timothy J. Hebert". The signature is written in a cursive style with a large, stylized 'T' and 'H'.

Energy New England, LLC, on behalf of
the Southeastern Public Generators,

by:

Timothy J. Hebert, Chief Operating Officer

David Cavanaugh, Vice President, Regulatory &
Market Affairs

Cc: Diedre Lawrence, Esq., Duncan & Allen, N.E., LLC
Lysa Modica, Senior Project Manager, Wood Group PLC



November 15, 2017

Hon. Martin Suuberg
Commissioner
Massachusetts Department of Environmental Protection
One Winter Street
Boston, MA 02108
Via email: climate.strategies@state.ma.us

**Re: Comments of Exelon Corporation on 310 CMR 7.74:
Reducing CO₂ Emissions from Electricity Generation Facilities
Stakeholder Discussion Document: Allowance Auctions**

Dear Commissioner Suuberg:

Exelon Corporation ("Exelon") appreciates the opportunity to submit the following comments on the Allowance Auction provisions of 310 CMR 7.74: Reducing CO₂ Emissions from Electricity Generating Facilities. Exelon has been an active participant in the stakeholder processes that provided input to the development of this rule and looks forward to continued participation in the Massachusetts Department of Environmental Protection's ("MassDEP") stakeholder process. To that end, Exelon offers the comments below in response to MassDEP's stakeholder discussion questions.

A number of our comments below are directed toward ensuring that this small market will have sufficient liquidity to enable efficient market function.

When and how often should allowance auctions occur?

Exelon agrees with those commenters who have suggested that DEP should conduct quarterly auctions. If the auction were only to occur annually, market participants may not have enough price discovery to ensure liquidity. Additionally, a quarterly process would be consistent with the RGGI auction, which we believe is a useful model for a number of aspects of auction mechanics.

Other than regulated power plants, should any other entities be allowed to purchase allowances?

Yes. Exelon agrees with ISO New England Inc.'s comment that participation by other entities in the market will help enhance liquidity and competition. As noted above, this is a small market, so ensuring that it has sufficient liquidity is critical to making it workable. We believe the market monitor function, discussed below, should alleviate any market manipulation or other concerns regarding potential participation of non-compliance entities.

Should there be a minimum reserve price, and, if so, what should it be?

Massachusetts is a participant in RGGI, and this program is not intended to drive emission reductions beyond those already required by RGGI. Accordingly, we believe that a price floor is unnecessary.

What limits should there be on the number of allowances that can be purchased by a single bidder?

Limiting the number of allowances that can be purchased by a single bidder appears to be an attempt to limit hoarding, which is an important goal for a small program like this one. However, there are more effective ways to address hoarding concerns without inadvertently limiting individual generators' operations. As a first preference, we recommend MassDEP utilize a market monitor, which could be contracted to oversee each auction, allowed full access to bid data and to operational data, and should be empowered to refer matters to the Office of the Attorney General and to suspend entities from auction participation in appropriate circumstances. Absent the use of a market monitor, an effective way to address allowance hoarding would be to institute limits on banking. MassDEP could limit banked allowances to a specified percentage of operations or, more simply, provide for the expiration of allowances after a set number of years such that hoarded allowances would lose value.

Is there a need to protect certain information about auction bids or results from public release?

In general, Exelon supports transparency in the market and believes that RGGI provides a useful model. In keeping with a policy of promoting transparency, Exelon suggests that MassDEP should publish auction results, including the aggregate number of allowances sold and to whom, through the office of the independent market monitor.

Finally, Exelon notes that we do not oppose the suggestion made by some other commenters to provide for a phase-in of the auction over a period of five years.

Should you have any questions about the foregoing, please do not hesitate to contact me at (603) 224-9653 or daniel.allegretti@exeloncorp.com.

Sincerely,

/s/ Daniel W. Allegretti

Daniel W. Allegretti
Vice President
State Government Affairs - East



TANNER STREET GENERATION

2 Tanner Street
Lowell, MA 01852
(978) 446-5095 Telephone

November 15, 2017

Hon. Martin Suuberg
Commissioner
Massachusetts Department of Environmental Protection
One Winter Street
Boston, MA 02108
Via email: climate.strategies@state.ma.us

Subject: Tanner Street Generation Comments to 310 CMR 7.74: Reducing CO2 Emissions from Electricity Generating Facilities

Mr. Suuberg:

Tanner Street Generation (TSG), respectfully submits the following comments to the Massachusetts Department of Environmental Protection (MassDEP) discussion document and stakeholder meeting regarding the allowance auction pursuant to 310 CMR 7.74: Reducing CO2 Emissions from Electricity Generating Facilities. We thank the Department in advance for its review and consideration of these comments and look forward to continued participation in the stakeholder process.

Please feel free to contact me at (978) 446-5095 or via email at sean.coughlin@tsgen.com, if you have any further questions or require additional information.

Sincerely,
TANNER STREET GENERATION

Sean Coughlin

Sean Coughlin
Plant Manager

Cc: William Space, Massachusetts Department of Environmental Protection

MassDEP Stakeholder Feedback Questions

Are there additional special considerations that should be taken into account for an auction of this type occurring in a single state?

TSG shares the concerns expressed by other Massachusetts generators as well as the New England Independent System Operator (ISO-NE) regarding the potential negative economic and environmental impacts of a single state CO₂ emissions cap on generators operating in the context of a regional, integrated power market. The existing regional market based cap and trade CO₂ allowance auction process provides sufficient reductions in regional CO₂ emissions, and an additional single state allowance auction would cause additional undue burden to the generators within the state. CO₂ is a regional pollutant and does not stop at state borders. The cap and trade program does not fully take into consideration the impact of the factors that affect operating scenarios and capacity factors.

When and how often should allowance auctions occur?

Due to the small market, TSG recommends frequent auctions to ensure market liquidity. Regional Greenhouse Gas Initiative, Inc. (RGGI) currently holds quarterly auctions, and the MassDEP should guarantee, at a minimum, quarterly allowance auctions. The first auction should occur in June 2018 and, at a minimum, occur every three months thereafter. With direct allocations established for Massachusetts generators for 2018, and the potential for an unseasonably cold winter or hot summer, generators could generate CO₂ emissions beyond the 7.45 metric ton 2018 allocated limit with no allowances in reserve to settle. TSG recommends that allowances sold in the June 2018, September 2018, and December 2018 auctions (based on quarterly auction scenario), be available for use for 2018 compliance. This is a similar concept to banking allowances in future auction years except in this single case utilizing vintage 2019 allowances for a single prior year compliance. This concept would also allow the flexibility to provide additional allowances if higher than normal generator loads were to occur in 2018 resulting in higher CO₂ emissions. TSG is not suggesting to increase the amount of 2019 allowances to be auctioned, but is recommending that 2019 allowances sold prior to the December 2018 auction can also be used for 2018 compliance.

Other than regulated power plants, should any other entities be allowed to purchase allowances?

TSG recommends that participation in the auctions should be limited to only compliance entities. The single state auction is not a large enough market to benefit from non-compliance entities, and would likely increase reliability risks and potential market price volatility.

Should there be a minimum reserve price, and if so, what should it be?

TSG recommends that there should be no minimum reserve price for allowances sold at auction. The purpose of the allowance program is to reduce CO₂ emissions, and not to provide a new source of revenue. The market should determine the allowance price.

What limits should there be on the number of allowances that can be purchased by a single bidder?

TSG recommends that the MassDEP establish an initial auction-specific limit in which one single compliance entity may purchase no more than 25% of allowances offered in that auction. TSG also recommends limiting the total annual allowances purchased at auction by a generator to no more than 125% of the generator's 2018 emission limit as specified in Table B of 310 CMR

7.74(5)(b). Additionally, regarding 2019 and subsequent years prior to each auction each entity listed in Table B should have the right to first refusal at market price for up to 75% of their 2018 allotment, less annual reductions (2.5%) of the emission limits. These allowance purchase limits will equalize allowances to prevent larger generator entities in the state from purchasing at auction and holding large amounts of excess allowances and to provide adequate allowances available for auction to the smaller generator entities in the state. Also, TSG recommends against retiring any allowances that were offered for sale by auction but were not sold, and supports rolling over any allowances not sold in a given auction into the next auction. Retiring unsold allowances represents further tightening of the already stringent emissions cap.

Is there a need to protect certain information about auction bids or results from public release?

MassDEP should follow the same concepts as RGGI in regard to utilizing a third-party market monitor and releasing a Market Monitor Report right after each allowance auction. As with RGGI, the report should include the range of allowances auctioned, range of bids, and a summary of bid prices indicating minimum, maximum, and clearing price and allowances awarded. Unlike RGGI, the report should list specific compliance entities which obtained allowances and the volume purchased by each entity. Due to the limited allowances offered, this public information, combined with public emissions data, would determine which generating entities are holding excess allowances. These entities could then be contacted, to potentially sell their excess allowances to other generating entities which do not have sufficient allowances to cover CO₂ emissions.

Are there any particular design elements that should be considered because of the number of regulated facilities and facility owners?

The design of the auction should provide generator entities an opportunity to purchase a sufficient number of allowances to maintain expected operations, while ensuring fair and open competition. Given the relatively small size of this single state market, and the wide range of CO₂ emissions of the generating facilities throughout the state, it is imperative that design elements be established to ensure that small generating facilities are not at a disadvantage. Design elements such as; only allowing compliance entities to participate in auctions, and limiting the amount of allowances to be purchased by a single compliance entity at each auction will help to ensure that adequate allowances will be available to all generating entities, in the state, which need them for CO₂ emissions compliance.



November 15, 2017

Mr. Martin Suuberg, Commissioner
Massachusetts Department of Environmental Protection
One Winter Street
Boston, MA 02108
Via e-mail: climate.strategies@state.ma.us

Reference: MMWEC Comments – 310 CMR 7.74 Reducing CO₂ Emissions from Electricity Generating Facilities Stakeholder Discussion Document: Auction Design

Dear Commissioner Suuberg,

Consistent with the Response to Comment (RTC) document published with the final regulation of 310 CMR 7.74, the Massachusetts Municipal Wholesale Electric Company (MMWEC) submits the following comments relating to auction design and activities planned for 2018.

While MMWEC appreciates the inclusion of an auction process, to sell allowances to be used by owners or operators of electricity generating facilities to offset CO₂ emissions, is an efficient and transparent mechanism. We believe there are critical design concepts that need to be addressed to insure that the sale of allowances results in outcomes that are consistent with the regulation's objectives and electric grid reliability.

We believe the successful objective of the auction is to allocate a declining supply of allowances to generating facilities resulting in market participation by generating facilities that can deliver reliable sources of electricity at the most needed times. To insure that this objective is achieved, MMWEC believes key auction design concepts have to be included. These key concepts include eligibility of auction participants, frequency of auctions, limitations on accumulated positions, mechanism for reliability events and harmonization of the auction rules with wholesale market rules administered by ISO New England. MMWEC looks forward to an auction process that incorporates these concepts insuring a Massachusetts generating fleet that has decreased CO₂ emissions and embodies the necessary characteristics required to provide reliability for the grid of the future.

Eligibility of Auction Participants

Entities that participate in the auction should be limited to entities required to purchase allowances to comply with CO₂ emission requirements associated with the generation of electricity. Unlike an auction process which has the sole purpose of price discovery, the auction process addressed in the regulation has the sole purpose, by design, of rationing a declining supply of allowances. The result of which will, over



time, reduce the number of generating facilities participating in the power market. Therefore, participation in the auction of entities that are not power market participant generating facilities will disrupt the efficient allocation of allowances envisioned by the auction process. In common commodity market constructs, the role of speculators (non-industry market participants) are encouraged as it is argued these speculators increase market liquidity. Speculators who are not electricity generating facilities are not needed in this auction construct to provide liquidity, as by design, demand will always exceed supply insuring a demand side bias in the auction. Furthermore, speculative behavior in the auction can distort price discovery to the point where the auction does not achieve the objective of allocating allowances to the most efficient electricity generating facilities who can deliver reliable electricity when it is needed.

Auction Frequency

To maintain an effective and efficient process of rationing the allowances, quarterly auctions are recommended. The practice of quarterly auctions is occurring in other emissions markets and would be an appropriate design element. Quarterly auctions would result in an efficient allocation of allowances that closely reflect the needs for reliable electricity generation.

Limitations on Accumulated Allowance Positions

Pursuant to 310 CMR 7.74(5) (a): Table A, twenty-one (21) existing generating facilities have been allocated CO2 emission limits for 2018. This is representative of the small market size of auction participants who will be required to purchase allowances in addition to new generating facilities. This is a limited market when compared to other emission markets such as the Regional Greenhouse Gas Initiative. This limited market size creates opportunities for auction participants to manipulate the supply of allowances by amassing positions that are not correlated to the actual allowance position required by the regulation to support operations. This practice is commonly referred to as “cornering the market”. To provide safeguards in the auction rules and procedures to protect against this manipulation, MMWEC believes that each auction participant’s allowance position should be capped. MMWEC would propose that the cap be determined by the Independent Auction Monitor and be reflective of a moderate amount in excess of a historical sample of a generator’s actual operations. This would insure that an allowance position could not accumulate in a size materially disproportionate to the generator’s required need. This position limitation is viewed as a critical auction design component to insure that allowance supply is not artificially withheld from the market.

Reliability Events

Due to the essential nature of power supply, auction rules and procedures must include the ability for electricity generators to operate during periods of capacity shortages. MMWEC is concerned about generation being withheld from the grid during scarcity situations due to lack of allowances. MMWEC proposes an exemption for operations during a Capacity Scarcity Condition pursuant to ISO New England rules and procedures. This exemption is extremely prudent as it will insure that generation is not curtailed during times when it is needed the most.



Harmonization with ISO New England

An efficient and effective outcome of the auction is enhanced with harmonization of auction schedules and procedures that correspond to existing ISO New England market rules and procedures, especially relating to the capacity market. The ability to clarify allowance positions in conjunction with ISO New England's capacity market auctions is an essential requirement for auction participants to make efficient decisions relating to both markets.

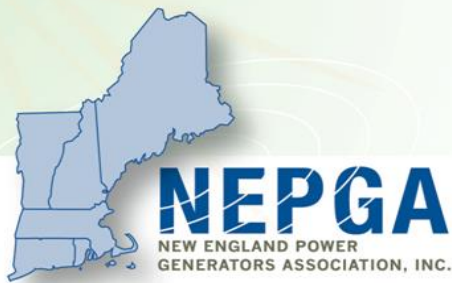
MMWEC's Interests

Created in 1969, MMWEC is the Joint Action Agency for Massachusetts municipal utilities. In 1976, MMWEC became a non-profit, public corporation and political subdivision of the Commonwealth of Massachusetts, empowered by state law to issue tax-exempt revenue bonds to finance ownership interests in energy facilities. The participants in MMWEC's power supply projects including 28 Massachusetts municipal utilities, six Vermont utilities and one consumer-owned Rhode Island utility.

Using its tax-exempt financing authority, supported by long-term, take-or-pay contracts with project participant utilities, MMWEC has issued more than \$4.7 billion in bonds to finance and refinance its approximate 750-megawatt ownership in various New England power plants. These include a lead joint ownership interest in Stony Brook Energy Center; a 354-megawatt dual fueled (natural gas and oil) intermediate and peaking generation facility located in Ludlow, MA. As a Black Start facility and its location relative to critical transmission infrastructure for the region, Stony Brook Energy Center provides New England with reliable generation capacity at the times when electricity is most needed.

Thank you for this opportunity to comment. We do conclude with a final comment that due to the many considerations discussed above and elsewhere in the comment process the auction process should be phased in over time. For further information, please contact:

Matthew J. Ide
Executive Director Energy & Financial Markets
Massachusetts Municipal Wholesale Electric Company (MMWEC)
327 Moody Street
Ludlow, MA 01056
(413) 308-1356
mide@mmwec.org



33 Broad St, 7th Floor, Boston, MA 02109

(t) 617-902-2354 (f) 617-902-2349

www.nepga.org

November 15, 2017

Honorable Martin Suuberg
Commissioner
Massachusetts Department of Environmental Protection
One Winter Street
Boston, MA 02108

Dear Commissioner Suuberg:

The New England Power Generators Association (“NEPGA”)¹ appreciates the opportunity to provide input on auction design parameters as the Massachusetts Department of Environmental Protection (“MassDEP”) prepares to implement emissions allowance auctions under 310 CMR 7.74: *Reducing CO₂ Emissions from Electricity Generation Facilities* (“the Regulation”).

Although NEPGA supports the Commonwealth’s goal to reduce greenhouse gas emissions, NEPGA continues to oppose the Regulation for the reasons set out in comments it filed on February 24, 2017 and in its complaint² filed in Superior Court on September 11, 2017. Notwithstanding NEPGA’s position on the Regulation, it nonetheless offers the following comments to provide constructive feedback to MassDEP.

Are there additional special considerations that should be taken into account for an auction of this type occurring in a single state?

NEPGA remains concerned about the potential impacts of a single-state auction in the context of the ISO-NE power markets given the regional nature of electricity generation, dispatch and emissions. NEPGA believes that a transition period, as discussed below, and independent market monitoring will help address this concern.

When and how often should allowance auctions occur?

¹ The comments expressed herein represent those of NEPGA as an organization, but not necessarily those of any particular member.

² *New England Power Generators Assoc. & GenOn Energy, Inc. v. Mass. Dep’t. of Env’tl Protection & Executive Office of Energy and Env’tl Affairs*, Suffolk Superior Ct. C.A. No. 17-02918-G (September 11, 2017).

At a minimum, MassDEP should conduct quarterly auctions to provide auction participants with a degree of price discovery and regulatory certainty. NEPGA notes that the RGGI utilizes a quarterly auction process, which has generally worked well.

Other than regulated power plants, should any other entities be allowed to purchase allowances?

NEPGA supports allowing non-generator entities (e.g., a trader) to purchase allowances to enhance competition and increase liquidity in the market. However, MassDEP should ensure that generators can access allowances to meet their operational commitments and maintain system reliability. It may be appropriate to impose purchase limits and/or banking provisions on third-party participants.

Should there be a minimum reserve price, and, if so, what should it be?

MassDEP should not adopt a minimum reserve price because the Regulation establishes a sufficient, market-based approach to reducing CO₂ emissions from power plants that will participate in the auction.

What limits should there be on the number of allowances that can be purchased by a single bidder?

The auction should provide generators with as much flexibility as possible while protecting against adverse outcomes. If left unchanged, the banking limitations in the final rule serve as a strong disincentive to over-procurement. NEPGA also proposes that MassDEP closely monitor participant behavior and refer any potential anti-competitive behavior for appropriate enforcement actions. Should problems in the market persist, MassDEP may consider the imposition of additional limitations on bidder purchases.

Is there a need to protect certain information about auction bids or results from public release?

NEPGA recommends publication of auction results, including the aggregate number of allowances, through an independent market monitor. However, publication of information, such as a post-auction report, should not disclose the number allowances purchased by a specific generator or reveal other commercially-sensitive information that would place an entity at a competitive disadvantage.

Are there any particular design elements that should be considered because of the number of regulated facilities and facility owners?

First, MassDEP should phase in auction participation at 20% of the market each year over a 5-year period starting in 2019. This transition period will give participants time to adapt to the auction process, particularly given generators' capacity commitments to ISO New England. A transition period will also allow MassDEP to evaluate auction impacts and make any necessary adjustments to the Regulation before full implementation.

Second, NEPGA urges MassDEP to establish an independent market monitor to ensure that auction activities are conducted in a fair and competitive manner. The market monitor would have access to all auction information and would report to MassDEP on activities likely to lead to anti-competitive outcomes. Subject to the disclosure protections noted above, the market monitor would publish the aggregate results of auctions including allowance prices, the number of allowances purchased at auction and in the secondary market, and the number of allowances banked in company accounts.

Third, NEPGA recommends revising the existing banking limitation such that generators are allowed unlimited banking of emissions allowances purchased in the auction or secondary market and opposes deduction of purchased allowances from facilities' accounts. NEPGA believes that generators can meet the environmental goals of the Regulation without penalizing facilities for reduced operations due to unexpected weather or system disruptions. Further, NEPGA opposes deducting banked allowances and, instead, recommends that MassDEP follow RGGI's approach of lowering allowance budgets, if necessary and appropriate to meet the annual reduction in CO₂ emissions.

NEPGA thanks the MassDEP for the opportunity to provide feedback on this important matter.

STATE OF NEW HAMPSHIRE

CHAIRMAN
Martin P. Honigberg

COMMISSIONERS
Kathryn M. Bailey
Michael S. Giaimo

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Submitted via email to climate.strategies@state.ma.us

November 15, 2017

Hon. Martin Suuberg
Commissioner
Massachusetts Department of Environmental Protection
One Winter Street
Boston, MA 02108

Re: 310 CMR 7.74 Auction Design

Dear Commissioner Suuberg,

The New Hampshire Public Utilities Commission ("NHPUC") submits the following comments on MassDEP's October 3, 2017, Stakeholder Discussion Document regarding allowance auctions pursuant to 310 CMR 7.74.

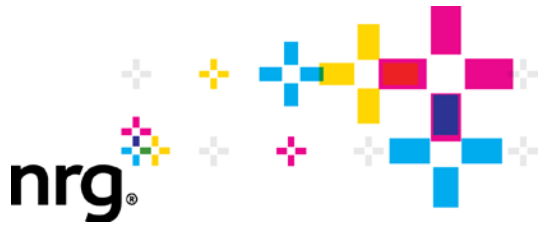
The NHPUC is opposed to the MassDEP using an auction to allocate carbon emission allowances to in-state fossil-fired generators, given the potential adverse price impacts such an auction may have on the wholesale electricity market and ultimately New Hampshire electricity consumers. That said, if the MassDEP chooses to move ahead with an auction, we encourage it to do so on a phased-in basis. A phase-in of the auction would be prudent because it would provide the MassDEP an opportunity to make necessary corrections if price impacts are judged to be unjust and unreasonable.

We thank you in advance for considering our comments. If you have questions or need additional information, please contact Commissioner Bailey at Kate.Bailey@puc.nh.gov or (603) 271-2444.

Sincerely,

A handwritten signature in black ink, appearing to read "M. Honigberg".

Martin P. Honigberg
Chairman



Shawn Konary
NRG Energy, Inc.
One International Place
Boston, Massachusetts 02110

November 15, 2017

Mr. Martin Suuberg
Commissioner
Massachusetts Department of Environmental Protection
One Winter Street
Boston, Massachusetts 02108

Delivery: climate.strategies@state.ma.us
martin.suuberg@state.ma.us

Subject: 310 CMR 7.74 – Auction Design Comments
Reducing Greenhouse Gas Emissions from Electric Generating Facilities Program

Dear Commissioner Suuberg:

NRG Energy, Inc. (“NRG”) appreciates the opportunity provided by the Massachusetts Department of Environmental Protection (“MassDEP”) to provide comments in the development of auction details pursuant to the *310 CMR 7.74 Reducing Greenhouse Gas (GHG) Emissions From Electricity Generating Facilities Program* (“310 CMR 7.74”) regulations. Specifically, NRG is responding to the questions posed by the MassDEP below:

Are there additional special considerations that should be taken into account for an auction of this type occurring in a single state?

NRG is very concerned about implementation of an auction with such a small group of participants, with respect to transparency of information for compliance entities to form price expectations, liquidity of supply and trading, and stability of price outcomes. Protecting the auctions from actors with bad intentions or merely with incomplete information may well overwhelm the ability of the auctions to achieve efficient pricing and allocation of a scarce resource. MassDEP should take steps to ensure that all compliance entities have a fair opportunity to purchase allowances and that there is ample opportunity and incentive to trade among holders of allowances to achieve state-wide compliance at the lowest practical cost.

In addition, as the MassDEP is aware, Massachusetts is just one state in the regional transmission system operated by the Independent System Operator of New England (“ISONE”) and the costs of the GHG allowances in Massachusetts will naturally impact the operations of generating plants across New England and the costs of consumers in other New England States. NRG recommends that the MassDEP have very close interactions with the ISONE on implementing this auction and on ensuring that the costs of allowances are efficiently reflected in ISONE markets.

The MassDEP should also seek guidance from the Regional Greenhouse Gas Initiative (RGGI) on implementing this auction.

When and how often should allowance auctions occur?

NRG believes that the auction timing should closely follow the auctions currently being held by RGGI and should adopt a similar quarterly schedule.

Other than regulated power plants, should any other entities be allowed to purchase allowances?

NRG supports allowing non-regulated power plant entities that meet appropriate financial qualifications to purchase allowances, which is likely to increase competition and liquidity in the market. However, only compliance entities with the obligations on the regulated power plants should be permitted to retire allowances. This will ensure that the secondary market will be robust and liquid.

Should there be a minimum reserve price, and, if so, what should it be?

NRG does not believe that a minimum reserve price is necessary for this auction process.

What limits should there be on the number of allowances that can be purchased by a single bidder?

NRG supports a restriction that no single entity be allowed to purchase more than some set percentage of allowances available in any one auction. NRG recommends that the upper limit should be on the order of 25 to 40%. Given the number of regulated plants, and their relative shares of the compliance obligation, limiting purchases to this extent should enable sufficient availability of allowances in each auction for smaller users, and should not cause adverse impacts on the procurement strategies of larger users.

Is there a need to protect certain information about auction bids or results from public release?

NRG recommends that the MassDEP follow a similar auction detail disclosure protocol that has been established by RGGI.

Are there any particular design elements that should be considered because of the number of regulated facilities and facility owners?

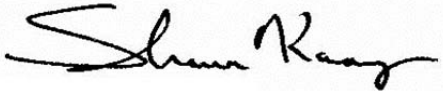
NRG is aware that some parties recommend phasing in the auctions over several years. NRG does not endorse a phase-in, but if one is adopted the regulations must ensure that new units that have not received a 2018 allocation under the regulation are provided with an allocation or other accommodation for the share of obligations that are not available in the auction.

Similar to RGGI, the MassDEP should provide for an independent market monitor to monitor auction participant behavior and outcomes to ensure that auction activities are conducted in a fair and competitive manner.

The MassDEP should allow for banking of emissions allowances purchased in the auction or secondary market, including the ability to bank unused 2018 allocations. However, there need to be provisions in place to create incentives for parties to sell allowances to other compliance entities that need them for current compliance as a means to ensure that there is a robust secondary market.

NRG appreciates the opportunity to provide these comments and looks forward to further dialog with the MassDEP on this auction process. If you have any questions, or require any additional information, please contact me at (617) 529-3874 or shawn.konary@nrg.com.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Shawn Konary". The signature is fluid and cursive, with the first name "Shawn" written in a larger, more prominent script than the last name "Konary".

Shawn Konary
Environmental – East Region

Copies: W. Stone
 File

November 15, 2017

The Honorable Martin Suuberg
Commissioner
Massachusetts Department of Environmental Protection
One Winter Street
Boston, MA 02108

RE: Comments on Massachusetts Department of Environmental Protection's Proposal on Reducing CO₂ Emissions from Electricity Generating Facilities

Dear Commissioner Suuberg:

Pittsfield Generating Company provides the following comments on the Massachusetts Department of Environmental Protection's ("MassDEP") October 3, 2017 Stakeholder Discussion Document on implementation of emissions allowance auctions pursuant to 310 CMR 7.74: *Reducing CO₂ Emissions from Electricity Generating Facilities*, which was finalized on August 11, 2017. We support the previously-filed comments of ISO New England and others that promote the use of a transition period for the auction.

As noted by ISO New England in their October 16 comments in this docket:

"...the ISO and regional market participants have used transitions in the past when implementing significant changes to market rules. Furthermore, since the covered facilities have already bid into the Forward Capacity Market and have taken on capacity supply obligations through the 2020-21 commitment period without factoring in the potential costs related to the new regulation, a transition to a full allowance auction would be prudent."

As the owner of a covered facility with an existing Forward Capacity Market obligation, we agree with the ISO's recommendation. Moving from an allocation-based program to an auction-based program must be managed carefully to avoid adverse consequences in the region's power market. We therefore encourage MassDEP to implement a phase-in of the auction.

Thank you for your consideration.

Sincerely,



Matthew Willis
Chief Operating Officer
Pittsfield Generating Company



November 15, 2017

Submitted via email: climate.strategies@state.ma.us

Massachusetts Department of Environmental Protection
One Winter Street
Boston, MA 02108

To Whom It May Concern:

Talen Energy (Talen) appreciates the opportunity to provide input on Massachusetts Department of Environmental Protection's (MassDEP) CO2 auction design parameters pursuant to 310 CMR 7.74, *Reducing CO2 Emissions from Electric Generating Facilities*. Talen owns two, natural gas-fired combustion turbine power plants in Massachusetts: Millennium Power Partners, LP (~360MW) in Charlton, MA and Dartmouth Power (~83 MW) in Dartmouth, MA, both of which are subject to 310 CMR 7.74. Talen commented on the draft regulation earlier in 2017 and still professes that this regulation will shift generation outside of Massachusetts with no net GHG emission reductions from the region. Furthermore, requiring GHG allowances to be auctioned when there is such a small group of users has a high risk of creating an unfair market. To ensure fairness and, more importantly, the reliability of the electric grid and reasonable prices for consumers, there must be safeguards and conditions put on the market. This will ultimately result in controlled prices, thus negating the intended benefits of the auction and resulting open market. As observed in the comments thus far from generators in the State, there are opposing views as to what can be done to ensure the system works as intended (*e.g.*, open to all vs. open to generators only); the stakes are too high to experiment with an auction system. Thus, above all, Talen supports reconsidering the requirement for an auction and implementing an allowance allocation system as set forth for 2018.

Notwithstanding the position above, Talen has considered the questions raised by MassDEP during its stakeholder process for the auction design and offers these overarching themes:

- liquidity in the market is critical;
- phasing in the program or providing some initial allowance buffer should minimize initial market swings and inventory shortages;
- transparency into price formation and the market must be maintained; and
- there must be a reasonably-priced backstop or insurance available to generators in case allowances are not available.

Supporting these themes, Talen offers the following responses to certain MassDEP questions about the auction design:

Are there additional special considerations that should be taken into account for an auction of this type occurring in a single state?

- As stated earlier, an auction with such a small population of users in a competitive market may result in excessive and disproportionate volatility. MassDEP should consider front-loading the number of allowances each generator receives, so they act as a buffer against volatility. This could take the form of phasing in the auction over several years by allocating more allowances to facilities in the first few years. Alternatively, it could be designed by auctioning multiple years' worth of allowances in the first few years, so buffering inventories can be built up.

- Designing an appropriate auction system is particularly challenging. There may be multiple ways to create an efficient allowance market, while providing safeguards to the generators, grid reliability and the consumers. MassDEP's questions seem to seek answers regarding making the perfect system. But the question of "How open the auctions should be?" cannot be answered without considering the answers to all the other questions, such as, "Should there be a cap on each participant purchases in the auctions?" or "Should inventories (banks) be capped?". Therefore, Talen suggests that creating safeguards for generators is very important, as it would allow the system to work, even if some part of the auction design is found to be faulty. In addition to allowing generators to accumulate some baseline buffer of allowances, as described in the previous bullet, Talen supports creating an *Alternative Compliance Payment* as suggested by another commenter. Having an alternative of complying based on paying an equivalent, fair price for emissions would provide generators assurance that they will be able to maintain compliance, and should have the effect of reducing volatility that could result from entities stockpiling allowances.

When and how often should auctions occur?

Auctions should be held at least quarterly, like RGGI, to provide a view into the market regularly.

Other than regulated power plants, should any other entities be allowed to purchase allowances?

Talen has seen comments that suggest that an open auction will promote liquidity, and we do not disagree that is possible in theory. However, our first and foremost concern is avoiding volatility and market manipulation. If the auctions were to be open to non-generating facilities, there would have to be sufficient protections in the rule to prevent excess accumulation of allowances (whether strategic or unintended).

Should there be a minimum reserve price?

There should not be a minimum reserve price. The sole goal of the regulation is to decrease state-wide CO2 emissions over time and that will occur with the decreasing inventory. If current trends continue and the market overshoots that target (e.g., less efficient generation runs less due to expanded renewable generation in the region) and it drives down demand and prices of allowances, then the existing generators should not be penalized twice with less generation/revenue AND having to buy higher priced allowances when dispatched to run.

What limits should there be on the number of allowances that can be purchased by a single bidder?

As stated above, the priority should be to minimize the risk of noncompliance for the generators. Since safeguards for this can be accomplished through many different auction designs, Talen does not endorse or comment on any one specific recommendation.

Is there a need to protect certain information about bids or results from public release?

Mass DEP should manage bid and auction results the same way RGGI does.

Are there any particular design elements that should be considered because of the number of regulated facilities and facility owners?

- Like in the RGGI program, Talen does not think unsold allowances should be retired after each auction and is concerned that this would cause unintended consequences that could significantly upset this program. All allowances in the total emissions cap for each year should be available for purchase and use.

- Talen would support a provision that allows facilities to purchase allowances to cover any excess emissions for compliance at the first auction of each year (within the first quarter).

Thank you for the opportunity to provide comments on the auction design. If you have any questions, please contact me (phone: (410) 787-5532 or email: Thomas.weissinger@talenenergy.com).

Sincerely,

A handwritten signature in black ink, appearing to read "Thomas Weissinger", with a long horizontal flourish extending to the right.

Thomas Weissinger
Sr. Environmental Director

cc: Mark Winne, Millennium Power Partners
Wesley Greig, Dartmouth Power
Debra Raggio, Talen Energy
Dale Lebsack, Talen Energy