Comments from NextEra Energy Resources to ARB on the June 22, 2010 public workshop entitled: "Cost Containment Options in a California Cap-and-Trade Program"

NextEra Energy Resources[1] (NextEra Energy) is a leading clean energy provider with over 18,000 MW of natural gas, wind, solar, hydroelectric and nuclear power plants in operation in 26 states and Canada. We are an affiliate of a regulated utility, Florida Power & Light Company located in southern Florida. Within the Western Electricity Coordinating Council (WECC)[2], NextEra Energy affiliates own and/or operate 1550 MWs of wind, 310 MWs of concentrated solar thermal, 500 MW of combined cycle natural gas, and 44 MWs of coal generating capacity. Our company brings a unique perspective to the climate change discussion and has specific experience in the voluntary renewable energy markets and the RGGI cap and trade program. We have looked at the issues surrounding climate change programs from both the regulated and unregulated perspective as well as from the view of merchant and contracted assets. Our corporation is committed to advancing climate change policies and has actively participated in the development of Regional Greenhouse Gas Initiative (RGGI) protocols in the Northeast, Midwestern Governor GHG Accord, California's implementation of the Global Warming Solutions Act of 2006, as well as all federal GHG reduction efforts.

In addition to the other cost control mechanism ARB has discussed (3 yrs compliance period, banking of allowances, use of offsets for compliance) NextEra Energy supports implementation of the following cost containment mechanisms:

- An increasing price ceiling and floor (hard caps) on the price of auctioned allowances (price collar);

- If a soft collar is implemented, a safety valve mechanism triggering the sale of allowances from a reserve that is populated either from current or future vintage allowances.

- If a soft collar is implemented there should still be a hard collar in place.

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[1] NextEra Energy Resources, LLC and its affiliates NextEra Energy, Inc., Florida Power & Light Company each have subsidiaries and other affiliates with names that include FPL, NextEra Energy Resources and similar references. For convenience and simplicity, NextEra Energy Resources, NextEra Energy Inc, and FPL as well as terms like Corporation, Company, our, we and its, are sometimes used as abbreviated references to specific subsidiaries, affiliates or groups of subsidiaries or affiliates. The precise meaning depends on the context. NextEra Energy Resources and some of its affiliates were formerly known as FPL Energy.

[2] The Western Electricity Coordinating Council region encompasses the interconnected power grid of the Western states, provinces, and a small part of Mexico.

In order to guard against extreme economic impacts to consumers and business owners, ARB should implement a gradually increasing price ceiling on the price of auctioned allowances. It is critical to set the ceiling high enough for the price signal of GHG emissions to promote changes in behavior but low enough to prevent catastrophic economic impacts and political backlash. The upper limit of the price should gradually increase over time in order to give consumers and regulated entities an opportunity to adapt and therefore potentially avoid any harmful economic consequences. A pre-determined price ceiling will limit the potential "rate shock" to consumers while allowing the price of GHG emissions to filter into the economy. In addition, a price ceiling defines the potential worst case cost scenario. This allows investors to more accurately identify potential risk involved with developing new electric generation projects.

In addition to a price ceiling, NextEra Energy recommends the establishment of a price floor for auctioned allowances to facilitate investment in GHG emissions reduction projects. A minimum price for GHG allowances will give investors in clean generation technologies and offset projects some level of confidence their product will maintain value in the future market. Establishing a guaranteed value for GHG emissions reductions will limit risk to investors that could otherwise impede the development of reduction projects and new technologies. This price floor should be increased in parallel with the price ceiling to bracket the cost of auctioned GHG allowances. NextEra Energy supports the utilization of a price floor cost control mechanism as a means to bolster investment in GHG reduction projects and offset projects. This measure will protect the value of those investments in future years. There is no way for ARB to guarantee the cap will be restrictive enough to maintain the value of investments in reduction technologies or offset projects. Without a floor the risk to those investments will in some cases be too high and therefore they will not be developed or implemented.

Collaring the cost of GHG allowances may not be enough. Inclusion of a safety valve triggered under extreme potentially harmful economic circumstances may be warranted as well. If reductions technologies do not keep pace with the declining cap, there may not be enough viable emissions reduction options or offsets available to enable emitters to meet their compliance obligations. This shortfall in carbon allowances would drive up the cost of carbon without any assurance that emission sources could meet their compliance obligation. ARB needs to make provisions to supply obligated entities with the means to comply with the regulations. Even if a soft collar is implemented, NextEra would also support the use of a higher hard price ceiling to prevent the market from experiencing extreme pricing spikes that could damage the integrity and public support for the program.

If ARB institutes a "soft collar" or triggering mechanism, NextEra Energy supports the use of a reserve pool of allowances that would be made available to obligated entities. These allowances should be available via an "open window" approach that would be provided at a predetermined price. To avoid gaming the system, entities purchasing these allowances should have to meet conditions and restrictions concerning their allowance trading activity and these transactions will need to be scrutinized and monitored. There should also be limits placed on the volume of allowances that could be purchased by any one entity. This will protect any one entity from monopolizing the allowances made available in the reserve. Only entities with a compliance obligation should be allowed to purchase allowances from the reserve.

The repopulation of the pool of allowances must also be addressed. In order to populate the reserve pool of allowances ARB could either borrow future vintage allowances or hold back a portion of the current compliance period allowances. Another option ARB should reconsider is using the revenue from the sale of allowances via this "window" to purchase either allowances on the secondary market or purchase certified international offsets. In addition, upon the completion of an auction cycle any unsold allowances cold first go to repopulate the reserve and then roll over to the next auction. NextEra Energy does not have a real preference on this issue as long as the integrity of the cap (2020) is maintained.

NextEra Energy feels the least desirable of the triggered cost containment options is the expansion of offset usage. The supply of offsets into the market has to be planned well in advance of need and will not be able to react in a timely manner to a triggering mechanism. If a trigger is breached, the relief will need to be supplied to the market swiftly. The development of offset projects is a long process requiring significant investment and planning. For the most part projects will not be developed on the hope that a trigger will relax the offset usage limits. The real time relaxation of the offset usage limits will not control costs because the necessary offsets will not be available. In order for offset projects to lower the cost of allowances the limit on the usage must be expanded at the outset of the program to have an additional cost mitigation effect.

NextEra Energy Resources would like to thank ARB for the opportunity to discuss these and other issues surrounding the development of the rule and would welcome any follow question to these views. Please fell free to contact be at any time to discuss these or other related issues in further detail.

Thank You.

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