MS. MORIN: I WANTED TO JUST START OUT, I THINK IT IS AN INTERESTING CONTRAST TO HAVE CALIFORNIA AND NEW HAMPSHIRE HERE. NEW HAMPSHIRE HAS THE THIRD LARGEST LEGISLATURE IN THE WORLD.

(LAUGHTER)

WE DEAL WITH 400 LEGISLATORS. WE PROBABLY HAVE THE WEAKEST GOVERNORSHIP, AS WELL. THE GOVERNOR -- THERE IS AN ELECTED GOVERNOR'S COUNCIL, SIX MEMBERS, WHO APPROVE EVERY APPOINTEE OF THE GOVERNOR AND ANYTHING WE SPEND OVER $2,500.

SO, PERHAPS, YOU UNDERSTAND THE CHALLENGE OF WORKING IN NEW HAMPSHIRE. IT'S BEEN STATED THAT

IT'S REALLY A LIBERTARIAN STATE. BASICALLY, IT'S NOT, YOU KNOW, THE TYPE OF REGULATION OR NO TAXES -- WELL, WE HAVE NO TAXES -- OR TAXES; IT'S NO REGULATION, PERIOD. SO CONTRASTING CALIFORNIA, WHEN WE PROPOSE LEGISLATION TO THE LEGISLATURE, PROPOSE LEGISLATION, THE BIGGEST THING WE ARE NOT SUPPOSED TO DO IS USE THE "C" WORD, AND THAT IS PROPOSING ANYTHING CALIFORNIA.

(LAUGHTER).

SO, CONSEQUENTLY, WE ARE VERY CREATIVE IN WHAT WE PROPOSE BECAUSE THEY DON'T WANT TO BE TOLD, YOU KNOW, TO DO SOMETHING THAT SOMEONE ELSE SAYS IS GOOD AND THEY HAVEN'T CREATED THEMSELVES. SO IT IS INTERESTING.

I BRING THIS ALL UP BECAUSE AS I WORK IN RGGI WITH THE OTHER TEN STATES, IT'S BEEN A VERY INTERESTING PROCESS. I SAY YOU NEED US HERE BECAUSE WE'RE THE CONTRACT, YOU NEED TO MAKE IT WORK IN NEW HAMPSHIRE BECAUSE THAT'S, YOU KNOW, MORE THE CONSERVATIVE SIDE AND THE HARDER FIGHT. A YEAR AGO WE COULDN'T EVEN TALK ABOUT -- WE WERE STILL ARGUING THAT CLIMATE CHANGE WAS REAL. THERE HAS BEEN A MAJOR SEA CHANGE IN THE LAST YEAR IN THAT AT LEAST NOW WE DON'T HAVE TO ARGUE THAT, ALTHOUGH SOME OF THEM WOULD LIKE US TO, BUT WE DON'T HAVE TO AS MUCH, AND WE CAN

START TALKING ECONOMICS, WHICH IS WHAT I'M GOING TO EMPHASIZE TO YOU.

SO I GIVE YOU THAT CONTRAST BECAUSE I THINK IT IS VERY IMPORTANT. WE FINALLY PASSED A RENEWABLE PORTFOLIO STANDARD LAST YEAR, SOMETHING ELSE I WORKED ON. WE'RE VERY PROUD OF THAT. BUT AGAIN, A LOT OF STATES HAVE DONE THAT BEFORE, BUT VERY INTERESTING TO BE ABLE TO START GETTING THESE THINGS MOVING IN NEW HAMPSHIRE, I DO THINK SAYS A LOT. AND AS REGULATORS, WE LOVE CALIFORNIA AND EVERYTHING THAT COMES OUT OF IT. IT'S JUST TRYING TO GET IT PASSED IN OUR LEGISLATURE IS A CHALLENGE.

SO WHAT IS THE REGIONAL GREENHOUSE GAS INITIATIVE, WHICH IS AFFECTIONATELY KNOWN AS RGGI, R-G-G-I? IT STARTED IN 2003 BY GOVERNOR PATAKI IN NEW YORK, WHO INTERESTINGLY IS A REPUBLICAN, WHO ASKED ALL THE NEW ENGLAND STATES, COULD WE SIT DOWN AND TALK ABOUT WHAT IT MIGHT BE LIKE TO DO A

CAP-AND-TRADE PROGRAM IN THE NORTHEAST. AND OF COURSE, THAT IS VERY EASY. YES, WE COULD SIT AND TALK ABOUT IT. IT WAS VERY NOT THREATENING. AND OF COURSE, THEY PUT STAFF TOGETHER -- THIS HAS BEEN ONE OF THE MOST INTERESTING GROUPS I'VE EVER WORKED WITH -- THE STAFF ARE VERY DEDICATED, REALLY BELIEVE IN IT. AND I'VE NEVER SEEN SUCH COLLABORATION AMONG

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STAFF OF SAYING TO TRY TO ADDRESS THE DIFFERENT STATES' PROBLEMS, BEING THERE FOR THE RIGHT REASONS, AND TRYING TO MAKE IT WORK FOR ALL OF US.

SO IN 2005 WE HAD SEVEN STATES SIGN. THAT'S A WHOLE ANOTHER TOPIC. I COULD TELL YOU THAT OFF-LINE, ON WHY THAT HAPPENED, THAT WE DIDN'T HAVE THE NINE, VERY INTERESTING DISCUSSION.

AND THEN IN 2007 THERE WAS A CHANGE IN MASSACHUSETTS IN THE GOVERNORSHIP, SO YOU MIGHT GET THE CONNECTION THERE, AND SO MASSACHUSETTS CAME BACK ON, WHICH IMMEDIATELY RHODE ISLAND WAS FOLLOWING MASSACHUSETTS, AND MARYLAND HAD BEEN AT THE TABLE FOR AWHILE AND WAS ABLE TO SIGN ON, AS WELL. THAT WAS NOT RELATED TO THE NATIONAL POLITICS. AND THE PROGRAM IS SUPPOSED TO START IN 2009.

SO I HAVE BEEN TOLD THAT I'M SUPPOSED TO ASSUME THAT MOST OF YOU DO NOT KNOW CAP-AND-TRADE AND THAT I'M GOING TO GIVE SOME BASICS. I HOPE THIS ISN'T TOO BASIC BECAUSE I KNOW THERE ARE SOME PEOPLE IN THE AUDIENCE, IN TALKING WEDGES A LOT, THAT WILL PROBABLY KNOW THIS MATERIAL.

I WANT YOU TO UNDERSTAND THAT RGGI IS, ACTUALLY, IS A VERY MODEST PROGRAM AND IT IS A HUGE POLITICAL HEAVY LIFT. BUT WHAT WE'RE HOPING TO DO AND WHAT SEEMS TO BE HAPPENING IS THAT WE SEEM TO BE

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DRIVING THE FEDERAL DISCUSSION.

TWO YEARS AGO, YOU KNOW, MAYBE JUST MCCAIN WAS TALKING A CAP-AND-TRADE PROGRAM. A YEAR AGO WE STARTED SEEING SOME MORE BILLS. IN THIS PAST YEAR, I HAVE REVIEWED DOZENS OF BILLS. THERE'S DOZENS OF BILLS IN WASHINGTON NOW BEING DISCUSSED. MANY OF THEM HAVE ELEMENTS OF RGGI IN THEM. MANY HAVE SOME OF THE DISCUSSIONS WE'RE HAVING. SO WE'RE VERY EXCITED ABOUT THAT. WE DO SEE THIS IMPACT ON THE FEDERAL DISCUSSION DESPITE THE MODEST EFFECT OF RGGI.

THE OTHER THING I DO WANT TO TALK ABOUT IS ECONOMICS. THE REASON WHY WE'RE GETTING RGGI TO START TO PASS IN NEW HAMPSHIRE IS WE'VE DONE A MAJOR ECONOMICS STUDY. RGGI HAS DONE A LOT OF ENERGY MODELING AND ECONOMICS. WE NEED MORE ECONOMICS, AND WE NEED ECONOMICS OF THE COST OF NOT DOING CLIMATE CHANGE. UK DID THIS. THEY DID THE STEARNS REVIEW OUT OF THE GOVERNMENT; HUGE IMPACT IN TERMS OF THE COST OF CLIMATE CHANGE WITHOUT DOING ANYTHING. AND WE REALLY NEED THAT IN THE U.S. WE NEED THAT FEDERALLY, WE NEED THAT REGIONALLY, BECAUSE THAT IS WHAT'S GOING TO MAKE THIS HAPPEN.

SO NOW TO THE SPECIFICS. OKAY. WHAT IS

THE CAP-AND-TRADE?

AN ALLOWANCE -- YOU NEED SOME TERMINOLOGY.

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AN ALLOWANCE IS THE RIGHT TO EMIT ONE TON OF POLLUTION, AND A CREDIT IS REALLY A SURPLUS REDUCTION OF ONE TON BEYOND WHAT'S REQUIRED BY THE REGULATIONS. SO WE'RE TALKING ABOUT ALLOWANCES IN RGGI. AND THIS IS A BASIC OF WHAT A CAP-AND-TRADE SYSTEM IS. YOU IDENTIFY THE SOURCES YOU WANT TO COVER. YOU DETERMINE THE TOTAL EMISSIONS. YOU ISSUE ALLOWANCES IN SOME WAY. WE'RE GOING TO TALK ABOUT THAT. THERE'S A NEW PUSH FROM RGGI ON THAT. YOU DISTRIBUTE THEM. THEY'RE TRADED. AND THE SOURCES AT THE END OF THE DAY MUST HAVE ENOUGH ALLOWANCES TO COVER THEIR EMISSIONS. AND THEN YOU CAN, ALSO, HAVE OFFSETS; AND OFFSETS ARE ALLOWANCES THAT COME FROM OUTSIDE THE AREA YOU'RE REGULATING. SO RGGI, THAT'S OUTSIDE THE ELECTRIC SECTOR. I'M GOING TO GIVE YOU A FEW MORE SPECIFICS ON THAT. BUT THAT'S THE BASICS OF CAP-AND-TRADE.

WHERE THE CAP-AND-TRADE CAME FROM? IT'S BEEN USED IN ACID RAIN EXTREMELY SUCCESSFULLY, IN REGULATING SULFUR DIOXIDE EMISSIONS FEDERALLY ACROSS THE COUNTRY. AND THE IDEA OF CAP-AND-TRADE, IT'S A MARKET SOLUTION AS OPPOSED TO COMMAND AND CONTROL, WHICH IS REGULATED, GOING OUT TO EACH INDUSTRY, SAYING YOU MUST DO IT, THIS AMOUNT WITH THIS TECHNOLOGY. IT ALLOWS THE MARKET TO DETERMINE WHAT

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IS MOST COST-EFFECTIVE, AND WE JUST GET OUR END RESULT, WHICH IS THE EMISSION REDUCTION THAT WE WANT. AND THAT'S -- THE PUSH NOW IS GOING AWAY FROM COMMAND AND CONTROL AND GOING TO MARKET-BASED SOLUTIONS.

SO THIS VERY QUICKLY, THESE SLIDES POINT OUT, UNDER THE ACID RAIN PROGRAM, THAT WE GOT MORE EMISSION REDUCTIONS WITH TRADING, WITH THE CAP-AND-TRADE PROGRAM, THAN WOULD HAVE HAPPENED, THAN THE TARGETS FOR WITHOUT TRADING; AND THAT THE COST -- THIS WAS THE ESTIMATE OF COSTS AT THE BEGINNING OF THE PROGRAM BY EPA AND OUTSIDE AGENCIES, WAS AT ABOUT $7 BILLION. AS TIME WENT ON, THE COSTS WERE SIGNIFICANTLY LESS BECAUSE OF THIS TRADING PROGRAM. SO NOT ONLY WE HAD THE MORE EFFECTIVE EMISSION REDUCTIONS, WE HAD LOWER COSTS.

SO WHAT IS RGGI? I'M GOING TO GIVE YOU A LITTLE BIT IN NEW HAMPSHIRE. WE HAD AN EXISTING, BELIEVE IT OR NOT, NEW HAMPSHIRE, WHICH IS REALLY QUITE REMARKABLE, WE HAD ONE OF THE FIRST CAPS ON CO2. WE HAD A FOUR-POLLUTANT BILL; ON SO2, NOX, MERCURY, AND CO2. IT WAS A VERY -- EVEN A MORE MODEST CAP. BUT WE HAD A CAP ON OUR THEN-EXISTING FOSSIL FUEL POWER PLANTS OF 5.4 MILLION TONS.

RGGI IS A 10-STATE MOU. OUR NOW BUDGET FOR NEW HAMPSHIRE -- AND I CALL IT A BUDGET, KEEP THAT IN

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MIND BECAUSE THE CAP IS A REGIONAL CAP -- IS 8.6 MILLION TONS, BUT THAT'S BECAUSE WE HAVE TWO NEW

GAS PLANTS THAT WERE NOT THERE WHEN WE HAD OUR ORIGINAL CLEAN POWER ACT, THAT'S AT GRANITE RIDGE AND NEW ENGLAND ENERGY.

THE RGGI CAP, AS I SAY, IS REALLY STABILIZATION. IT'S VERY MODEST. IT'S TAKING THE REGIONAL EMISSIONS FROM THOSE 10 STATES AND SAYING, WE WANT TO KEEP THEM AT THAT LEVEL, AND THEN START A 10-PERCENT REDUCTION FROM 2005 TO 2018, ABOUT 2 AND A HALF PERCENT PER YEAR DURING THAT TIME FRAME. THERE IS A HUGE REVIEW BUILT OUT IN 2012 THAT WAS REALLY POLITICALLY BECAUSE WHAT IF YOU'RE WRONG, WHAT IF YOUR MODELING'S WRONG, YOU DIDN'T GET IT RIGHT. SO WE DID THAT REVIEW TO TRY TO HAVE THE STATES, AS THEY BRING THIS THROUGH, THEIR RULE MAKING AND THEIR LEGISLATURE TO HAVE THAT BACKUP FOR -- WE'RE GOING TO CHECK WHAT WE'RE DOING, WE'RE GOING TO MONITOR WHAT WE'RE DOING.

IT IS A REGIONAL BUDGET. THIS CAP IS THE CAP. THERE IS NO SPECIFIC CAP ON A STATE. THERE IS NO SPECIFIC CAP ON A POWER PLANT. WE JUST -- EACH POWER PLANT HAS TO GET ENOUGH ALLOWANCES TO MATCH THEIR EMISSIONS, BUT THAT'S A REGIONAL CAP. AS A MATTER OF FACT, SOME OF THE PREDICTIONS ARE THAT WE

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HAVE OVER ALLOCATED AND THAT THERE WILL BE MORE ALLOWANCES AVAILABLE THAN EMISSIONS. YOU WON'T LIKE THAT. AS A REGULATOR TRYING TO PASS THIS THROUGH MY LEGISLATURE, THAT IS GOOD NEWS, BUT THAT DOES MEAN THE CAP IS WEAK.

HOW DO YOU MEET THE RGGI CAP? THERE IS NO END-OF-THE-PIPE TECHNOLOGY, YOU KNOW.

OH, TWO MINUTES. OH, BOY, I HAVE TO GO FASTER. OKAY.

WE REALLY NEED AN END-OF-THE-PIPE TECHNOLOGY. THIS IS WHAT IS KILLING US. BUT ENERGY EFFICIENCY, FUEL SWITCHING, WE'RE HOPING FOR NEW TECHNOLOGY. YOU'VE HEARD ABOUT SOME OF THEM, SEQUESTRATION INTO AN ALGAE MECHANISM THAT COULD PRODUCE BIOFUELS AND BUYING OFFSETS.

SO THERE ARE DIFFERENT TYPES OF ALLOWANCES. THERE IS THE BUDGET ALLOWANCES THAT EACH STATE GIVES OUT. THE BIG THING HERE IS THIS WORD "AUCTION." SO_2 GAVE OUT ALLOWANCES FOR FREE TO THE POWER PLANTS. WE HAVE A DEREGULATED ENERGY SYSTEM, FOR THE MOST PART; AND IT IS A CHANGED WORLD IN YOUR ENERGY SYSTEM. IT IS SUCH THAT IF WE GAVE OUT ALLOWANCES FOR FREE, THE COST OF ENERGY AND THE POWER POOLS WILL STILL GO UP BECAUSE THAT IS AN OPPORTUNITY LOST, AND SO YOU WILL STILL PAY FOR THAT. SO THE IDEA IS TO AUCTION THE

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ALLOWANCES SO THAT THOSE REVENUES CAN COME BACK TO THE STATES AND BE USED FOR ENERGY EFFICIENCY OR REBATING CUSTOMERS. THIS IS HUGE, AND RIGHT NOW ALL THE DEBATE ON RGGI IS AROUND THE DESIGN OF THAT OPTION, WHAT IT MEANS, AND THE POWER PLANTS ARE VERY NERVOUS ABOUT ARE THERE GOING TO BE ENOUGH ALLOWANCES AVAILABLE IF WE HAVE TO PURCHASE THEM, WHAT IS THE

COST TO OUR RATEPAYERS. THIS IS WHERE ALL THE DEBATE IS. BUT IT IS VERY INTERESTING THAT ALL THE FEDERAL BILLS ARE BEGINNING TO TALK ABOUT AUCTIONING ALLOWANCES. SO VERY INTERESTING AREA.

WE HAVE EARLY REDUCTION ALLOWANCES AND OFFSETS. WE HAVE A SET NUMBER OF OFFSET CATEGORIES, DIFFERENT THAN THE KYOTO PROTOCOL. WE ARE TRYING TO DO VERY PRESCRIPTIVE PROTOCOLS AS OPPOSED TO THE CASE-BY-CASE BASIS, SO THAT INVESTORS CAN READ THOSE PROTOCOLS AND SAY, OKAY, I CAN DO THAT IF I FOLLOW THESE RULES, WE WILL GET ALLOWANCES FOR OUR PROJECTS. SO IT IS GOING A LITTLE SLOWER. WE ONLY HAVE A CERTAIN NUMBER THAT WERE WILLING TO BITE OFF IN THE BEGINNING AND THEN EXPAND THAT AS TIME GOES ON.

THE OFFSETS ARE LIMITED. YOU KNOW, THEY'RE -- AT ONE END OF THE SPECTRUM, YOU COULD DO IT ALL THROUGH OFFSETS; OTHER END OF THE SPECTRUM, WE WANT ELECTRICITY-SECTOR REDUCTIONS, SO WE WANT NO OFFSETS.

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SO IT'S A COMPROMISE. RGGI IS A COMPROMISE, AS MOST REGULATIONS ARE, IN THAT IT IS ONLY 3.3 PERCENT OF THEIR EMISSIONS.

THERE IS A LOT OF FLEXIBILITY BUILT INTO RGGI, A 3-YEAR COMPLIANCE PERIOD; VERY DIFFERENT THAN ANY OTHER REGULATION WE HAVE SEEN IN THIS KIND OF AREA. THERE'S UNLIMITED BANKING, EARLY REDUCTION CREDITS. AND AS I SAID, COMPLIANCE, POWER PLANTS MUST HAVE ENOUGH ALLOWANCES FOR THEIR EMISSIONS.

WE DO HAVE SOME BUILT-IN SAFETY VALVES, IS WHAT WE CALL THEM, IS THAT IF THE PRICE GOES TOO HIGH, THEY'RE PROTECTED BY THE ENERGY MODELING. WITH THE EXPANSION OF THE OFFSETS, THE ALLOWANCES WOULD BECOME MORE AVAILABLE AND DRIVING PRICES DOWN.

THE POWER PLANTS REALLY WANT A PRICE CAP, WHICH IS NOT -- WOULD NOT PRODUCE A MARKET BECAUSE THE PRICE WOULD GO UP TO THE PRICE CAP. SO THAT IS A HUGE FIGHT THAT WE'RE STILL HAVING IN TERMS OF TRYING TO KEEP THIS MARKET-BASED, IN A FREE MARKET, AND NOT A PRICE CAP AND ARTIFICIALLY AFFECTING THE MARKET.

AND OUR MEASUREMENT, WE ARE LOOKING AT A SOFTWARE PLATFORM THAT WOULD HANDLE THE EMISSIONS TRACKING AND TRADING, AND WE'RE HOPING TO USE, ACTUALLY, AN EPA SOFTWARE PLATFORM, EATS. THAT IS ALSO GOING TO BE USED FOR THE CLIMATE REGISTRY

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NATIONALLY. IT IS INTENTIONAL. WE'RE HOPING TO HAVE ONE PLATFORM WHERE ALL THE DATA MIGHT BE. WE FEEL THAT WOULD BE VERY POWERFUL.

SO I WILL STOP THERE AND WAIT FOR QUESTIONS.

SO, OBVIOUSLY, IT IS A VERY INTERESTING AREA. EVEN THOUGH IT'S A MODEST CAP, WE DO THINK IT IS DRIVING SOME VERY INTERESTING POLICY DISCUSSIONS AND HAVING A BIG EFFECT; AND DESPITE IT BEING VERY MODEST, I DOUBT IT IS EVEN A WEDGE. IT'S BEEN ENORMOUS. AS YOU CAN SEE, THE AMOUNT OF STATES, THE STAFF. I'M ONE STAFF FOR THE STAFF MEETINGS. THERE

ARE AT LEAST 20, 25 PEOPLE FROM ALL THE STATES THAT HAVE BEEN WORKING ON THIS SINCE 2003. SO VERY INTERESTING WORK, SORT OF THE SLOW, HARD WORK, THE SLOW MOVING LAVA, NOT THE FAST MOVING ERUPTION, I GUESS.

THANK YOU.