

Exhibit A

2013 Carbon Dioxide Price Forecast

November 1, 2013

AUTHORS

Patrick Luckow

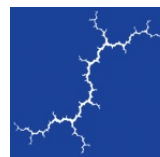
Elizabeth A. Stanton

Bruce Biewald

Jeremy Fisher

Frank Ackerman

Ezra Hausman



Synapse
Energy Economics, Inc.

485 Massachusetts Avenue, Suite 2
Cambridge, Massachusetts 02139

617.661.3248 | www.synapse-energy.com

CONTENTS

1. EXECUTIVE SUMMARY	1
2. STRUCTURE OF THIS REPORT.....	4
3. WHAT IS A CARBON PRICE?	5
4. FEDERAL CLIMATE ACTION IS INCREASINGLY LIKELY	7
5. STATE AND REGIONAL CLIMATE POLICIES.....	12
6. ASSESSMENT OF CARBON PRICE FOR FEDERAL RULEMAKING.....	13
7. RECENT CO₂ PRICE FORECASTS FROM THE RESEARCH COMMUNITY	14
8. CO₂ PRICE FORECASTS IN UTILITY IRPs.....	16
9. OVERVIEW OF THE EVIDENCE FOR A FUTURE CO₂ PRICE	18
10. SYNAPSE 2013 CO₂ PRICE FORECAST.....	19
APPENDIX A: SYNAPSE FORECAST COMPARED TO UTILITY FORECASTS	24

1. EXECUTIVE SUMMARY

Prudent planning requires electric utilities and other stakeholders in carbon-intensive industries to use a reasonable estimate of the future price of carbon dioxide (CO₂) emissions when evaluating resource investment decisions with multi-decade lifetimes. However, forecasting a CO₂ price can be difficult. While several bills have been introduced in Congress, the federal government has yet to legislate a policy to reduce greenhouse gas emissions in the United States.

Although this lack of a defined policy that sets a price on carbon poses a challenge in CO₂ price forecasting, an assumption that there will be no CO₂ price in the long run is not, in our view, reasonable. The scientific basis for attributing climatic changes to human-driven greenhouse gas emissions is irrefutable, as are the type and scale of damages expected to both infrastructure and ecosystems. The need for a comprehensive U.S. effort to reduce greenhouse gas emissions is clear. Any policy requiring or leading to greenhouse gas emission reductions will result in higher costs to the electricity resources that emit CO₂.

The Synapse 2013 CO₂ price forecast is designed to provide a reasonable range of price estimates for use in utility Integrated Resource Planning (IRP) and other electricity resource planning analyses. The current forecast updates Synapse's 2012 CO₂ price forecast, published in October 2012.¹ Our 2013 forecast incorporates new data that have become available since 2012, in order to provide useful CO₂ price estimates for utility resource planning purposes.

1.1. Key Assumptions

Synapse's 2013 CO₂ price forecast reflects our expert judgment that near-term regulatory measures to reduce greenhouse gas emissions, coupled with longer-term cap-and-trade or carbon tax legislation passed by Congress, will result in significant pressure to decarbonize the electric power sector. The key assumptions of our forecast include:

- A federal program establishing a price for greenhouse gases is the probable eventual outcome, as it allows for a least-cost path to emissions reduction.
- Initial climate-focused policy actions are more likely to take a regulatory approach, e.g. Section 111(d) of the Clean Air Act. In the longer-term, federal legislation setting a price on emissions through a cap-and-trade policy or a carbon tax will likely be prompted by one or more of the following factors:
 - New technological opportunities that lower the cost of carbon mitigation;

¹ Wilson et al., "2012 Carbon Dioxide Price Forecast," October 2012. <http://www.synapse-energy.com/Downloads/SynapseReport.2012-10.0.2012-CO2-Forecast.A0035.pdf>.

- A patchwork of state policies that achieve state emission targets for 2020, spurring industry demands for federal action;
- A series of executive actions taken by the President that spur demand for Congressional action;
- A Supreme Court decision that permits nuisance lawsuits, making it possible for states to sue companies within their boundaries that own high-carbon-emitting resources, and creating a financial incentive for energy companies to act; and
- Mounting public outcry in response to increasingly compelling evidence of human-driven climate change.

Given the growing interest in reducing greenhouse gas emissions by states and municipalities throughout the nation, a lack of timely, substantive federal action will result in the enactment of diverse state and local policies. Heterogeneous—and potentially incompatible—sub-national climate policies would present a challenge to any company seeking to invest in CO₂ emitting power plants, both existing and new. Historically, there has been a pattern of states and regions leading with energy and environmental initiatives that have in time been superseded at the national level. It seems likely that this will be the dynamic going forward: a combination of state and regional actions, together with federal regulations, that are eventually eclipsed by a comprehensive federal carbon price.

We expect that federal regulatory measures together with regional and state policies will lead to the existence of a cost associated with greenhouse gas reductions in the near term. Prudent utility planning requires that utilities take this cost into account when engaging in resource planning, even before a federal carbon price is enacted.

1.2. Study Approach

To develop the 2013 CO₂ price forecast, Synapse reviewed several key developments that have occurred over the past year. These include:

- Proposed federal regulatory measures to limit CO₂ emissions from new power plants and administrative initiatives to advance regulation for existing units;
- Updates to the U.S. carbon price used to assess the climate benefit of federal rulemakings;
- Revisions to the Northeast's Regional Greenhouse Gas Initiative (RGGI) CO₂ policy and the first allowance auctions under California's AB 32 Cap-and-Trade program;
- The results of a multi-year Energy Modeling Forum (EMF) research effort on the costs of U.S. emissions abatement from nine integrated assessment modeling teams; and
- Carbon price forecasts from the most recent IRP efforts of 28 utilities.

1.3. Synapse's 2013 CO₂ Price Forecast

Based on analyses of the sources described in sections 3 through 9, and relying on our own expert judgment, Synapse developed Low, Mid, and High case forecasts for CO₂ prices from 2013 to 2040. Figure ES-1 (below) shows the range covered by the Synapse forecasts. These projections assume that state and regional policies will combine with federal regulatory measures to put economic pressure on carbon-emitting resources in the next several years such that the costs of operating a high-carbon-emitting plant increase—followed later by a broader federal, market-based policy. In states other than the RGGI region² and California, we assume a zero carbon price for the next several years; by 2020, we expect that federal regulatory measures will begin to put economic pressure on carbon-emitting power plants throughout the United States. All annual carbon prices are reported in 2012 dollars per short ton of CO₂.³

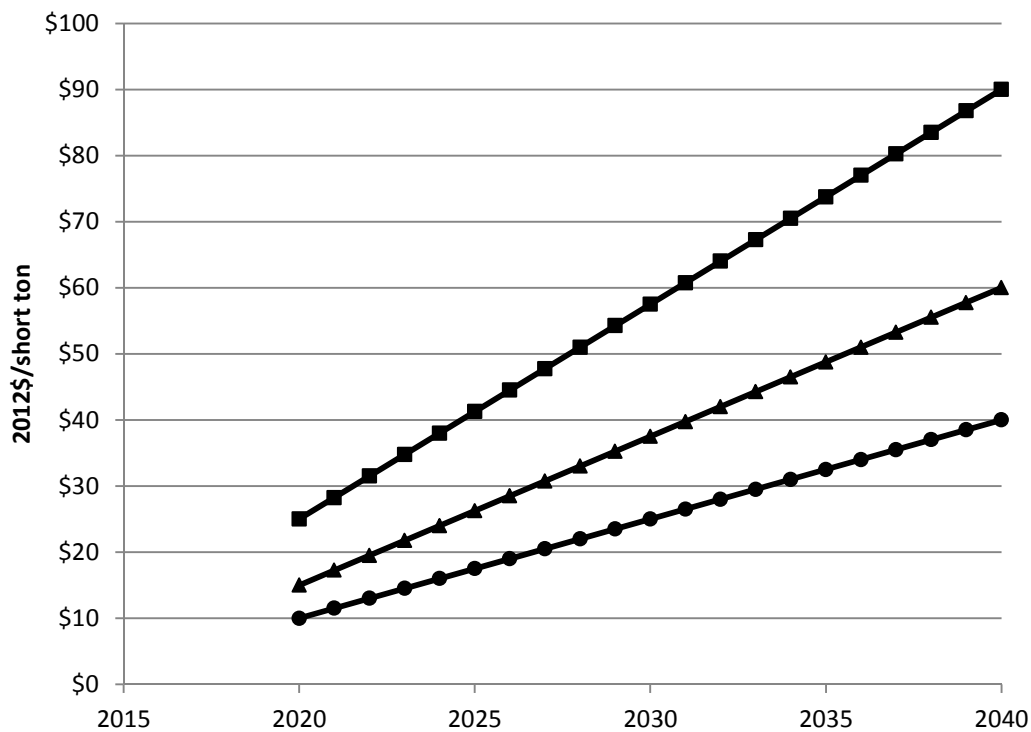
Each of the forecasts shown in Figure ES-1 represents a different level of political will for reducing carbon emissions, as described below.

- The **Low case** forecasts a carbon price that begins in 2020 at \$10 per ton, and increases to \$40 per ton in 2040, representing a \$22 per ton levelized price over the period 2020-2040. This forecast represents a scenario in which federal policies—either regulatory or legislative—exist but are not very stringent.
- The **Mid case** forecasts a carbon price that begins in 2020 at \$15 per ton, and increases to \$60 per ton in 2040, representing a \$34 per ton levelized price over the period 2020-2040. This forecast represents a scenario in which federal policies are implemented with significant but reasonably achievable goals.
- The **High case** forecasts a carbon price that begins in 2020 at \$25 per ton, and increases to approximately \$90 per ton in 2040, representing a \$52 per ton levelized price over the period 2020-2040. This forecast is consistent with the occurrence of one or more factors that have the effect of raising carbon prices. These factors include somewhat more aggressive emissions reduction targets; greater restrictions on the use of offsets; restricted availability or high cost of technological alternatives such as nuclear, biomass, and carbon capture and sequestration; more aggressive international actions (thereby resulting in fewer inexpensive international offsets available for purchase by U.S. emitters); or higher baseline emissions.

² Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New York, Rhode Island, and Vermont.

³ Results from public modeling analyses were converted to 2012 dollars using price deflators taken from the U.S. Bureau of Economic Analysis, and are available at: <http://www.bea.gov/national/nipaweb/SelectTable.asp>. Consistent with U.S. Energy Information Administration and U.S. Environmental Protection Agency modeling analyses, a 5 percent real discount rate was used in all levelization calculations.

ES- 1: Synapse 2013 CO₂ Price Trajectories



2. STRUCTURE OF THIS REPORT

This report presents Synapse’s 2013 Low, Mid and High CO₂ price forecasts, along with the evidence assembled to inform these forecasts:

- Section 3 discusses broader concepts of CO₂ pricing.
- Sections 4 through 8 discuss existing state and federal legislation, potential future legislation, recent cap-and-trade results from the research community, and a range of current CO₂ price forecasts from utilities.
- Section 9 presents Synapse’s 2013 Low, Mid, and High CO₂ price forecast, along with a comparison to recent utility forecasts.

Unless otherwise indicated, all prices are in 2012 dollars and CO₂ emissions are given in short tons.



3. WHAT IS A CARBON PRICE?

There are several co-existing meanings for the term “carbon price” or “CO₂ price”: each of these meanings is appropriate in its own context. Here we give a brief introduction to five common types of carbon prices, along with a quick guide to which of the carbon price estimates reviewed in this report are based on which of these meanings. (Note that the definition of an additional term—the “price of carbon”—is ambiguous because it can at times mean several of the following.)

Carbon allowances (sometimes called credits or certificates, and best known for their use in policies called “cap and trade”): Allowances are certificates that give their holder the right to emit a unit of a particular pollutant. A fixed number of carbon allowances are issued by a government, some sold and, perhaps, some given away.⁴ Subsequent trade of allowances in a secondary market is common to this policy design. The price that firms must pay to obtain allowances increases their cost of doing business, thereby giving an advantage to firms with cleaner, greener operations, and creating an incentive to lower emissions whenever it can be done for less than the price of allowances. The number of allowances—the “cap” in the cap-and-trade system—reflects the required society-wide emission reduction target. A greater reduction target results in a lower cap and a higher price for allowances. In the field of economics, pricing emissions is called “internalizing an externality”: The external (not borne by the polluting enterprise) cost of pollution damages is assigned a market price (thus making it internal to the enterprise).

In this report: The Northeast’s RGGI and California’s Cap-and-Trade Program are both carbon allowance trading systems. In addition, the Kerry-Lieberman, Waxman-Markey, and Cantwell-Collins bills all proposed policy measures that included carbon allowance trading.

Carbon tax: A carbon tax also internalizes the externality of carbon pollution, but instead of selling or giving away rights to pollute (the allowance approach), a carbon tax creates an obligation for firms to pay a fee for each unit of carbon that they emit. In theory, if the value of damages were known with certainty, a tax could internalize the damages more accurately, by setting the tax rate equal to the damages; in practice, the valuation of damages is typically uncertain. In contrast to the government issuance of allowances, with a carbon tax there is no fixed amount of possible emissions (no “cap”). A cap-and-trade system specifies the amount of emission reduction, allowing variation in the price; a tax specifies the price on emissions, allowing variation in the resulting reductions. In both cases there is an incentive to reduce emissions whenever it can be done for less than the prevailing price. In both cases there is the option to continue emitting pollution, at the cost of either buying allowances or paying the tax. While some advocates have claimed that a tax is administratively simpler and reduces bureaucratic, regulatory, and compliance costs, a general aversion to new taxes has meant that no carbon tax proposals have received substantial support in recent policy debate.

⁴ Whether or not allowances are initially given away for free or sold, they represent an opportunity cost of emissions to the holder.

Effective price of carbon (sometimes called the notional, hypothetical, or voluntary price): Carbon allowances and carbon taxes internalize the climate change externality by making polluters pay. However, many other types of climate policies work not by making polluting more expensive per se, but instead by requiring firms to use one technology instead of another, or to maintain particular emission limitations in order to avoid legal repercussions. Non-market-based emission control regulatory policies are called “command and control.” For any such non-market policy there is an “effective” price: a market price that—if instituted as an allowance or tax—would result in the identical emission reduction as the non-market policy. An effective price may be used internally within a firm, government agency, or other entity to represent the effects of command and control policies for the purpose of improved decision making. Renewable Portfolio Standards, energy efficiency measures, and other policies designed to mitigate CO₂ emissions impose an effective price on carbon.

In this report: Utility carbon price forecasts are effective prices used for state-required IRPs and internal planning purposes. The U.S. Environmental Protection Agency’s (EPA’s) proposed carbon pollution standard for new sources of electric generation is a non-market-based policy that would represent an effective price.

Marginal abatement cost of carbon: An abatement cost refers to an estimate of the expected cost of reducing emissions of a particular pollutant. Estimation of a marginal abatement cost requires the construction of a “supply curve”: all of the possible solutions to controlling emissions (these may be technologies or policies) are lined up in order of their cost per unit of pollution reduction. Then, starting from the least expensive option, one tallies up the pollution reduction from various solutions until the desired total reduction is almost achieved, and then asks: what would it cost to reduce emissions by one more unit to achieve the target? The answer is the “marginal” cost of that level of pollution reduction; a greater reduction target would have a higher marginal cost. The marginal abatement cost of carbon is not a market price used to internalize an externality. Rather, it is a method for estimating the price that, if it were applied as a market price, would have the effect of achieving a given emission reduction target. In a well-functioning cap-and-trade system, the allowance price would tend towards the marginal abatement cost of carbon.

In this report: We do not analyze any marginal abatement costs in this report—see the *2012 Synapse Carbon Dioxide Price Forecast* for further information. McKinsey & Company has been a consistent producer of this type of analysis, an example being their 2010 report *Impact of the Financial Crisis on Carbon Economics: Version 2.1 of the Global Greenhouse Gas Abatement Cost Curve*.

Social cost of carbon: Whereas the marginal abatement cost estimates the price of stopping pollution, the social cost of carbon estimates the cost, per unit of emissions, of allowing pollution to continue. The social cost of carbon is the societal cost of current and future damages related to climate change from the emission of one additional unit of pollutant. Estimating the uncertain costs of uncertain future damages from uncertain future climatic events is, of course, a tricky business. If enough information were available, a marginal abatement cost for each level of future emissions (the supply of emission reductions) could be compared to a social cost of carbon for each level of future emissions (the demand for emission reductions) to determine an “optimal” level of pollution (such that the next higher unit of

emission reduction would cost more to achieve than its value in reduced damages). More commonly, the social cost of carbon is used as part of the calculation of benefits of emission-reducing measures.

In this report: The U.S. federal government's internal carbon price for use in policy making is estimated as the social cost of carbon.

4. FEDERAL CLIMATE ACTION IS INCREASINGLY LIKELY

In the near term, comprehensive federal climate legislation appears unlikely to come out of a divided Congress. The Executive Branch, however, is moving forward with regulatory actions to limit greenhouse gas emissions. Following a directive issued by President Obama, EPA released revised CO₂ performance standards for new power plants on September 20, 2013.⁵ In June 2013, President Obama also instructed EPA to use its Clean Air Act authority to propose CO₂ standards for existing power plants by June 2014 and to finalize these standards by June 2015.⁶ While this report is focused on electric sector CO₂ policies, similar regulatory measures have been proposed for the transportation, buildings, and industrial sectors; policies enacted in other sectors include vehicle efficiency standards set to rise to 54.5 miles per gallon by 2025 for new cars and light-duty trucks, and new energy efficiency standards for federal buildings set to reduce energy consumption by nearly 20 percent.^{7,8}

We continue to expect that a federal cap-and-trade program for greenhouse gases is the most likely policy outcome in the long term, because it permits reductions to come from sources that can mitigate emissions at the lower cost. While state and regional policies combined with federal regulatory actions appear to be more likely than a federal cap-and-trade policy in the near term, according to a WRI analysis these local measures are unlikely to be able to meet long-term goals of reducing total greenhouse gas emissions to 83 percent below 2005 levels by 2050, even in the most aggressive of scenarios.⁹

⁵ EPA. "2013 Proposed Carbon Pollution Standard for New Power Plants." Available at: <http://www2.epa.gov/carbon-pollution-standards/2013-proposed-carbon-pollution-standard-new-power-plants>.

⁶ Memorandum from President Obama to Administrator of the Environmental Protection Agency, Power Sector Carbon Pollution Standards (June 25, 2013). Available at: <http://www.whitehouse.gov/the-press-office/2013/06/25/presidential-memorandum-power-sector-carbon-pollution-standards>.

⁷ Vlasic, Bill. "US Sets Higher Fuel Efficiency Standards." *The New York Times*. August 28th, 2012. Available at: <http://www.nytimes.com/2012/08/29/business/energy-environment/obama-unveils-tighter-fuel-efficiency-standards.html>.

⁸ "Energy Efficiency Design Standards for New Federal Commercial and Multi-Family High-Rise Residential Buildings." A Rule by the Department of Energy. July 9th, 2013. Available at: <https://www.federalregister.gov/articles/2013/07/09/2013-16297/energy-efficiency-design-standards-for-new-federal-commercial-and-multi-family-high-rise-residential#h-9>.

⁹ See WRI's analysis of these scenarios in the 2013 report "Can the U.S. Get There From Here?: Using Existing Federal Laws and State Action to Reduce Greenhouse Gas Emissions." Available at: <http://www.wri.org/publication/can-us-get-there-from-here>.

4.1. Regulatory Measures for Reducing Greenhouse Gas Emissions

Clean Air Act

As a result of the 2007 Supreme Court finding in *Massachusetts v. EPA*, greenhouse gas emissions were determined to be subject to the Clean Air Act and (in a later ruling) to contribute to air pollution anticipated to endanger public health and welfare. In 2009, EPA issued an “endangerment finding,” obligating the agency to regulate emissions of greenhouse gases from stationary sources such as power plants.¹⁰ EPA released draft New Source Performance Standards (NSPS) in April 2012 and revised NSPS standards on September 20, 2013. The revised standards limit CO₂ emissions from new fossil-fuel power plants to 1,000-1,100 pounds of CO₂ per MWh (lbs/MWh)—a level achievable by a new natural gas combined-cycle plant. The exact limit of CO₂ emissions within that range depend on the type of plant and period over which the emission rate would be averaged.¹¹

Under Section 111(d) of the Clean Air Act, the EPA is required to propose standards for existing power plants by June 2014, but there remains substantial uncertainty over what form these regulations will take. Unit-specific emission rates standards, such as the NSPS for greenhouse gases, are only one of several plausible options. Unit-specific standards could apply to power plants based on categories by fuel type and technology type, each with its own maximum emission rate. Units that are not in compliance could undertake upgrades to improve efficiency; however, these kinds of upgrades can be expensive, can only achieve small, one-time changes to emission rates, and could trigger New Source Review/Prevention of Significant Deterioration (NSR/PSD) provisions, increasing the cost further.^{12,13}

Other regulatory design options for existing plants under 111(d) include maintaining a state-wide average maximum emission rate, and market-based (e.g. cap-and-trade) approaches. More flexible mechanisms like these could lower the cost of compliance, but could also result in additional legal challenges as compared to a simpler but more rigid system of unit-specific regulation.¹⁴ An Edison Electric Institute white paper on potential regulation of existing sources notes that “because of concerns about legal challenges to the guidelines, EPA may be reluctant to incorporate a wide range of

¹⁰ EPA. “Endangerment and Cause or Contribute Findings for Greenhouse Gases under Section 202(a) of the Clean Air Act.” Available at: <http://www.epa.gov/climatechange/endangerment/>.

¹¹ EPA. “Standards of Performance for Greenhouse Gas Emissions from New Stationary Sources: Electric Utility Generating Units.” Available at: <http://www2.epa.gov/sites/production/files/2013-09/documents/20130920proposal.pdf>.

¹² EEI. “Existing Source GHGH NSPS White Paper,” Page 5. Available at: <http://online.wsj.com/public/resources/documents/carbon04232013.pdf>.

¹³ Tarr J., Monast J., Profeta T. “Regulating Carbon Dioxide under Section 111(d) of the Clean Air Act.” The Nicholas Institute. January 2013. Available at: http://nicholasinstitute.duke.edu/sites/default/files/publications/ni_r_13-01.pdf.

¹⁴ Fine, Steven and MacCracken, Chris. “President Obama’s Climate Action Plan: What It Could Mean to the Power Sector.” ICF International. August 2013. Available at: <http://www.icfi.com/insights/white-papers/2013/president-obama-climate-action-plan>.

compliance flexibility mechanisms in the guidelines, but may be more receptive to such mechanisms if proposed by the states in compliance plans.”¹⁵

End-use energy efficiency may be an important part of a comprehensive compliance strategy in a regulation that averages emission rates across states. States may be able to achieve emissions reductions at a lower cost through the structures of their existing energy efficiency resource standards.

Methods for demonstrating compliance with 111(d) may be similar to existing regulations: in a process similar to Section 110 of the Clean Air Act, under which EPA sets National Ambient Air Quality Standards (NAAQS), states will be required to submit State Implementation Plans (SIPs) that specify how they intend to comply with 111(d). EPA can then decide whether a proposed SIP meets the terms of the regulation; in the absence of an acceptable SIP, EPA can impose a Federal Implementation Plan (FIP). Under the schedule outlined by President Obama in his Climate Action Plan, regulations for existing sources under 111(d) will be finalized by June 2015, and states would be required to submit SIPs to the EPA by June 2016.

Performance standards for new and existing sources will affect decisions made by utilities regarding operation, expansion, and retirements. Enforcement of the Clean Air Act creates an opportunity cost of greenhouse gas abatement: prudent utilities will take Clean Air Act compliance into consideration in their planning, either explicitly as a maximum allowable emissions rate, or implicitly as an effective carbon price. An NRDC analysis of the impacts of 111(d) implementation estimated compliance costs under this policy at \$7.53 per ton of CO₂ avoided.¹⁶

Other regulatory measures put economic pressure on carbon-intensive power plants

A suite of current and proposed EPA regulations require pollution-intensive power plants to install environmental controls for compliance. The cost of complying with environmental regulations reduces the profitability of the worst polluters, sometime rendering them uneconomic. These policies demonstrate momentum towards appropriately regulating or pricing environmentally harmful activities in the electric sector. To the extent that plants with high emissions of other pollutants also have high carbon emissions, these policies would tend to *lower* the future CO₂ price necessary to achieve a given reduction; as more pollution-intensive plants retire in response to other EPA regulations, the necessary carbon price is reduced. Specific regulatory measures include:

- *National Ambient Air Quality Standards (NAAQS)* set maximum air quality limitations that must be met at all locations across the nation. EPA has established NAAQS for six pollutants: sulfur dioxide (SO₂), nitrogen dioxides (NO₂), carbon monoxide (CO), ozone, particulate matter—measured as particulate matter less than or equal to 10

¹⁵ Edison Electric Institute. “Existing Source GHG NSPS White Paper,” Page 2. Available at: <http://online.wsj.com/public/resources/documents/carbon04232013.pdf>.

¹⁶ Natural Resources Defense Council. “Closing the Power Plant Carbon Pollution Loophole: Smart Ways the Clean Air Act Can Clean Up America’s Biggest Climate Polluters,” March 2013. Available at: <http://www.nrdc.org/air/pollution-standards/files/pollution-standards-report.pdf>.

micrometers in diameter (PM₁₀) and particulate matter less than or equal to 2.5 micrometers in diameter (PM_{2.5})—and lead.

- *The Cross State Air Pollution Rule (CSAPR)*, finalized in 2011, establishes the obligations of each affected state to reduce emissions of NO_x and SO₂ that significantly contribute to another state's PM_{2.5} and ozone non-attainment problems. CSAPR was vacated by the U.S. Court of Appeals for the District of Columbia on August 21, 2012. In June 2013, the U.S. Supreme Court announced that it would review CSAPR. Even if EPA fails to salvage CSAPR through the courts, the Agency must still promulgate a replacement rule to implement Clean Air Act requirements to address the transport of air pollution across state boundaries. In the meantime, the court left the requirements of the 2005 Clean Air Interstate Rule in place.
- *Mercury and Air Toxics Standards (MATS)*: The final MATS rule, approved in December 2011, sets stack emissions limits for mercury, other metal toxins, organic and inorganic hazardous air pollutants, and acid gasses. Compliance with MATS is required by 2015, with a potential extension to 2016. Many utilities have already committed to capital improvements at their coal plants to comply with the standard.
- *Coal Combustion Residuals (CCR) Disposal Rule*: On June 21, 2010, EPA proposed to regulate CCR for the first time either as a Subtitle C hazardous waste or Subtitle D solid waste under the Resource Conservation and Recovery Act. Under a Subtitle C designation, the EPA would regulate siting, liners, run-on and run-off controls, groundwater monitoring, fugitive dust controls, and any corrective actions required. In addition, the EPA would implement minimum requirements for dam safety at impoundments. Under a solid waste Subtitle D designation, the EPA would require minimum siting and construction standards for new coal ash ponds, compel existing unlined impoundments to install liners, and require standards for long-term stability and closure care.
- *Steam Electric Effluent Limitation Guidelines (ELGs)*: On June 7, 2013, EPA released eight regulatory options for new, proposed steam-electric ELGs to reduce or eliminate the release of toxins into U.S. waterways. A final rule is required by May 22, 2014.¹⁷ New requirements will be implemented in 2014 to 2019 through the five-year National Pollutant Discharge Elimination System permit cycle.¹⁸

Other regulations which may raise costs for carbon-intensive resources include Regional Haze rules and cooling water rules under the Clean Water Act.

¹⁷ See U.S. Environmental Protection Agency website. Accessed February 21, 2013. Available at: <http://water.epa.gov/scitech/wastetech/guide/steam-electric/amendment.cfm>.

¹⁸ See U.S. Environmental Protection Agency. Steam Electric ELG Rulemaking. UMRA and Federalism Implications: Consultation Meeting. October 11, 2011. <http://water.epa.gov/scitech/wastetech/guide/upload/Steam-Electric-ELG-Rulemaking-UMRA-and-Federalism-Implications-Consultation-Meeting-Presentation.pdf>.

4.2. Proposed Cap-and-Trade Legislation

Over the past decade, there have been several Congressional proposals to legislate cap-and-trade programs, with the goal of reducing greenhouse gas emissions by up to 83 percent below recent levels by 2050 through a federal cap. Such programs would allow trading of allowances to promote least-cost reductions in greenhouse gas emissions.

Comprehensive climate legislation was passed by the House in the 111th Congress: the American Clean Energy and Security Act of 2009, also known as Waxman-Markey or H.R. 2454. However, the Senate did not vote on either of the two climate bills before it in that session (Kerry-Lieberman APA 2010 and Cantwell-Collins S. 2877). Waxman-Markey was a cap-and-trade program that would have required a 17 percent reduction in emissions from 2005 levels by 2020, and an 83 percent reduction by 2050.¹⁹ Further analysis of these proposals is provided in Synapse's 2012 Carbon Dioxide Price Forecast.

Congressional interest in climate policy has been ongoing. In March 2012, Senator Bingaman introduced the Clean Energy Standard Act of 2012 (S. 2146), which would have required larger utilities to meet a percentage of their sales with electric generation from sources that produce less greenhouse gas emissions than a conventional coal-fired power plant. Credits generated by these clean technologies would have been tradable with a market price. In February 2013, Senators Sanders and Boxer introduced new comprehensive climate change legislation, the Climate Protection Act of 2013. This bill proposed a carbon fee of \$20 per ton of CO₂ or CO₂ equivalent content of methane, rising at 5.6 percent per year over a ten-year period. The bill has not yet been brought to a vote.

We expect that federal cap-and-trade legislation will eventually be enacted but that it is unlikely to happen in the near term. In contrast, federal carbon regulations are in effect or under development today, and the economic pressure—or opportunity cost—that they create may be represented as an effective price of greenhouse gas emissions. Regulatory measures may be successful in achieving near-term targets of 17 percent below 2005 levels by 2020, but according to a WRI analysis are unlikely to meet long-term goals of reducing total greenhouse gas emissions to approximately 80 percent below 2005 levels by 2050, even in the most aggressive of scenarios.²⁰ A broader approach will be increasingly attractive in order to meet these goals at lower costs, and our judgment indicates this is most likely to take the form of a federal cap-and-trade system.

¹⁹ U.S. Energy Information Administration (EIA); Energy Market and Economic Impacts of the American Power Act of 2010 (July 2010). Available at <http://www.eia.gov/oiaf/servicerpt/kgi/index.html>. EIA; Energy Market and Economic Impacts of H.R. 2454, the American Clean Energy and Security Act of 2009 (August 2009). Available at <http://www.eia.doe.gov/oiaf/servicerpt/hr2454/index.html>.

²⁰ See WRI's analysis of these scenarios in their 2013 report "Can the U.S. Get There From Here?: Using Existing Federal Laws and State Action to Reduce Greenhouse Gas Emissions." Available at: <http://www.wri.org/publication/can-us-get-there-from-here>.

5. STATE AND REGIONAL CLIMATE POLICIES

Since the October 2012 release of our 2012 CO₂ price forecasts, there have been significant updates to the two existing regional and state cap-and-trade programs, the Northeast's RGGI and California's Cap-and-Trade Program under AB32. In addition, a total of 20 states plus the District of Columbia have set greenhouse gas emissions targets as low as 80 percent below 1990 levels by 2050.²¹

Recent Revisions to RGGI

RGGI is a cap-and-trade greenhouse gas program for power plants in the northeastern United States. Current participant states are Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New York, Rhode Island, and Vermont. Pennsylvania, Québec, New Brunswick, and Ontario are official "observers" in the RGGI process. RGGI recently marked five years of successful CO₂ allowance auctions, with Auction 21 resulting in a clearing price of \$2.67 per ton.²² RGGI is designed to reduce electricity sector CO₂ emissions to at least 45 percent below 2005 levels by 2020.²³

When RGGI was established in 2007, the expectation was that the CO₂ emissions allowance auction would generate revenues for consumer benefit programs such as energy efficiency, renewable energy, and clean energy technologies. While RGGI has provided significant revenues for consumer benefit, its allowance prices have generally remained near the statutory minimum price. External influences, including changes to fuel prices, caused a shift from coal and oil to lower-carbon natural gas generation. Compared to those external factors, the effect of the original RGGI cap requirements were relatively minor in meeting the goals of reducing CO₂ emissions in the power sector.²⁴

In 2012 and 2013, the RGGI states evaluated a number of plans for tighter emissions caps with the goal of raising allowance prices. In February of 2013, participating states agreed to lower the CO₂ cap from 165 million to 91 million short tons in 2014, to be reduced by 2.5 percent each year from 2015 to 2020. RGGI analysis indicates that with these lower caps, allowance prices will rise to \$4.16 per short ton in 2014, increasing to \$10.40 per ton in 2020.²⁴

California's Cap-and Trade-Program under AB32

With the goal of reducing the state's emissions to 1990 levels by 2020, California's Global Warming Solutions Act (AB32) has created the world's second largest carbon market, after the European Union's

²¹ "Greenhouse Gas Emissions Targets." Center for Climate and Energy Solutions. Accessed September 13, 2013. Available at: <http://www.c2es.org/us-states-regions/policy-maps/emissions-targets>.

²² RGGI Auction 21 results available at: http://www.rggi.org/market/co2_auctions/results/Auction-21

²³ RGGI. "RGGI States Propose Lowering Regional CO₂ Emission Cap 45%, Implementing a More Flexible Cost-Control Mechanism." February 2013. Available at: http://www.rggi.org/docs/PressReleases/PR130207_ModelRule.pdf.

²⁴ Environment Northeast. "RGGI at One Year: An Evaluation of the Design and Implementation of the Regional Greenhouse Gas Initiative." February 2010. Available at: http://www.env-ne.org/public/resources/pdf/ENE_2009_RGGI_Evaluation_20100223_FINAL.pdf.

Emissions Trading System. The first compliance period for California's Cap-and-Trade Program began on January 1, 2013 and covers electricity generators, CO₂ suppliers, large industrial sources, and petroleum and natural gas facilities emitting at least 27,600 tons of CO₂e per year.^{25,26} On August 16, 2013, the California Air Resources Board held its fourth quarterly allowance auction, resulting in a clearing price of \$11.11 per ton.²⁷ This first phase of the program includes electricity generators and large industrials. Phase II, beginning in 2015, will also include transportation fuels and smaller industrial sources.

6. ASSESSMENT OF CARBON PRICE FOR FEDERAL RULEMAKING

In 2010, the U.S. federal government began including a carbon cost in regulatory rulemakings to account for the climate damages resulting from each additional ton of greenhouse gas emissions;²⁸ updated values were released in 2013.²⁹ The 2013 Economic Report of the President acknowledges that these values will continue to be updated as scientific understanding improves.³⁰

An Interagency Working Group on the Social Cost of Carbon—composed of members of the Department of Agriculture, Department of Commerce, Department of Energy, Environmental Protection Agency, and Department of Transportation, among others—was tasked with the development of a consistent value for the social benefits of climate change abatement. Four values were developed (see Section 3 for more explanation of the “social cost of carbon” methodology). These values—\$11, \$36, \$55, and \$101 per ton of CO₂ in 2013, rising over time—represent average (most likely) damages at three discount rates, along with one estimate at the 95th percentile of the assumed distribution of climate impacts.^{31,32,33,34} While

²⁵ “CO₂e” refers to CO₂-equivalent, the combination of CO₂ and an equivalent value for other greenhouse gases.

²⁶ CARB 2013a. “California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms to Allow for the Use of Compliance Instruments by Linked Jurisdictions.” July 2013. Available at: <http://www.arb.ca.gov/cc/capandtrade/ctlinkqc.pdf>. Legislated value is 25,000 metric tons, converted here to short tons.

²⁷ CARB 2013b. “CARB Quarterly Auction 4, August 2013: Summary Results Report.” August 21, 2013. Available at: <http://www.arb.ca.gov/cc/capandtrade/auction/august-2013/results.pdf>.

²⁸ Interagency Working Group on the Social Cost of Carbon, U. S. G. (2010). Appendix 15a. Social cost of carbon for regulatory impact analysis under Executive Order 12866. In Final Rule Technical Support Document (TSD): Energy Efficiency Program for Commercial and Industrial Equipment: Small Electric Motors. U.S. Department of Energy. URL <http://go.usa.gov/3fH>.

²⁹ Interagency Working Group on the Social Cost of Carbon (2013) Technical Support Document – Technical Update of the Social Cost of Carbon for Regulatory Impact Analysis – Under Executive Order 12866. Available at: http://www.whitehouse.gov/sites/default/files/omb/inforeg/social_cost_of_carbon_for_ria_2013_update.pdf.

³⁰ 2013 Economic Report of the President (2013). Chapter 6. March 2013. Available at: http://www.whitehouse.gov/sites/default/files/docs/erp2013/ERP2013_Chapter_6.pdf.

³¹ These values represent recently revised costs for the SCC. Originally, these values were \$5, \$21, \$35, and \$65 per metric tonne for the year 2010 in 2007 dollars.

³² In a 2012 paper, Ackerman and Stanton modified the Interagency Working Group's assumptions regarding uncertainty in the sensitivity of temperature change to emissions, the expected level of damages at low and high greenhouse gas concentrations, and the assumed discount rate, and found values for the social cost of carbon ranging from the Working Group's level up to more than an order of magnitude greater. Similarly, Laurie Johnson and Chris Hope modified discount rates and methodologies and found results up to twelve times larger than the Working Group's central estimate.

subject to significant uncertainty, this multi-agency effort represents an initial attempt at incorporating the benefits associated with CO₂ abatement into federal policy.

As of May 2012, these estimates had been used in at least 20 federal government rulemakings, for policies including fuel economy standards, industrial equipment efficiency, lighting standards, and air quality rules.^{35, 36} In the first rule in which the revised 2013 values were used—improving energy efficiency in microwave ovens—the net present value of benefits over a 30-year timeframe increased by \$400 million as a result of the increase in effective carbon price.³⁷ While a carbon price for federal rulemaking assessments is a fundamentally different kind of cost metric than the others discussed in this report, it nonetheless represents a dollar value for greenhouse gas emissions currently in use by the U.S. federal government.

7. RECENT CO₂ PRICE FORECASTS FROM THE RESEARCH COMMUNITY

The Energy Modeling Forum (EMF), a working group of government and private modeling teams, has been convening to explore energy system issues since the late 1970s. The group recently completed its EMF 24 analysis with the objective of evaluating what CO₂ price trajectories are consistent with proposed emission reduction targets under different technology scenarios. This analysis also incorporated several complementary policies in a cap-and-trade proposal, including: transportation emissions reduction through vehicle gas mileage standards; renewable portfolio standards in the electric sector; and mandates that all new coal facilities employ carbon capture and storage (CCS) technology—a

³³ Frank Ackerman and Elizabeth A. Stanton (2012). “Climate Risks and Carbon Prices: Revising the Social Cost of Carbon.” *Economics: The Open-Access, Open-Assessment E-Journal*, Vol. 6, 2012-10. <http://dx.doi.org/10.5018/economics-ejournal.ja.2012-10>.

³⁴ Laurie T. Johnson, Chris Hope. “The social cost of carbon in U.S. regulatory impact analyses: an introduction and critique.” *Journal of Environmental Studies and Sciences*, 2012; DOI: 10.1007/s13412-012-0087-7.

³⁵ Robert E. Kopp and Bryan K. Mignone (2012). “The U.S. Government’s Social Cost of Carbon Estimates after Their First Two Years: Pathways for Improvement.” *Economics: The Open-Access, Open-Assessment E-Journal*, Vol. 6, 2012-15. <http://dx.doi.org/10.5018/economics-ejournal.ja.2012-15>.

³⁶ See, for example, “Rulemaking for Microwave Ovens Energy Conservation Standard: Technical Support Document.” May 2013. Available at: http://www1.eere.energy.gov/buildings/appliance_standards/rulemaking.aspx/ruleid/37

³⁷ Brad Blumer (2013). “The social cost of carbon is on the rise.” *The Washington Post*, June 6th, 2013. Available at: http://articles.washingtonpost.com/2013-06-06/business/39789409_1_carbon-dioxide-emissions-obama-administration.

policy similar to EPA's proposed NSPS for coal plants. Nine modeling teams participated in this study.^{38,39}

Results from the EMF 24 exercise show a range of CO₂ price trajectories depending on availability of new technologies, policy type, model baseline trajectories, and other more structural characteristics of the models. One question asked by this study that is of particular relevance to users of the Synapse CO₂ price forecast is: which economic sectors would emissions reductions come from in an economically efficient approach to emissions mitigation? Consistent with earlier EMF analyses, the electric sector was found to be the largest contributor to CO₂ emissions reductions across all models.

Under a cap-and-trade scenario designed to reduce energy system emissions 50 percent below 2005 levels by 2050, most of the EMF 24 models reduced electric sector emissions by 75 percent by 2050. Under an 80 percent emissions reduction scenario, most of the additional emissions reductions came from other sectors. Although CO₂ prices are higher under the 80 percent scenario, most electricity customers are not paying these prices, as the electricity sector is largely decarbonized before 2050.

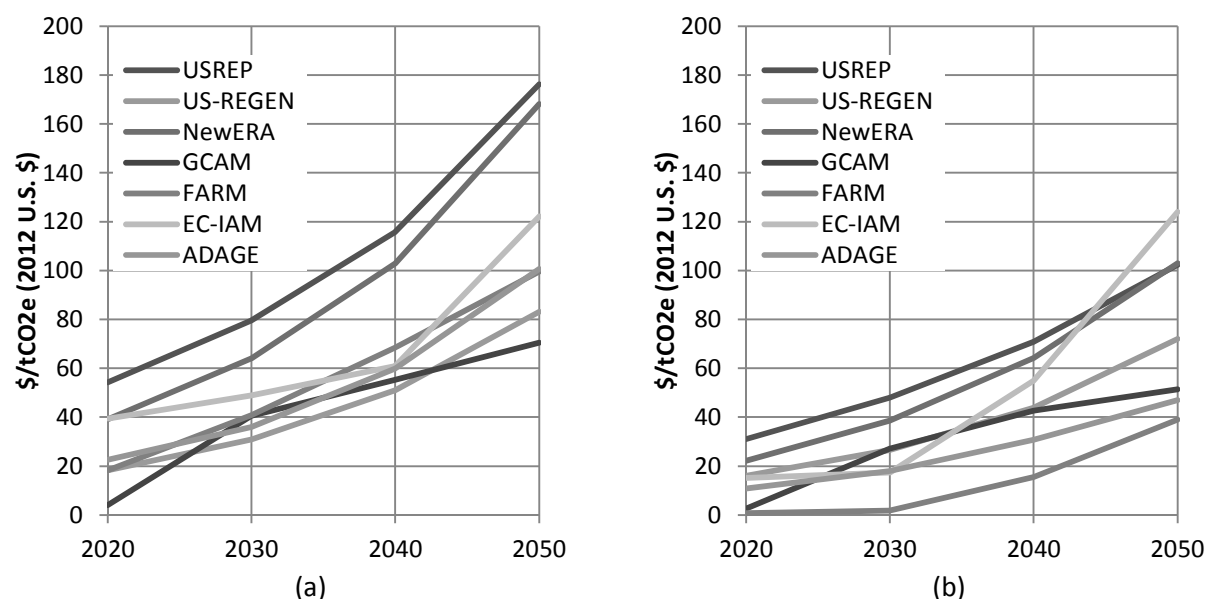
CO₂ prices estimated by the EMF 24 models show substantial variation. While it is difficult to distinguish the roles of model structure and model assumptions in this variation, the results present a reasonable range across which prices may fall. Under the most optimistic technology assumptions, with low-cost renewables, high levels of energy efficiency, and availability of new nuclear and CCS, CO₂ prices in 2020 fell between \$10 per tCO₂ and \$40 per tCO₂. In contrast, prices fell between \$20 per tCO₂ to \$80 per tCO₂ under the most pessimistic assumptions. Complementary policies, such as renewable portfolio standards or fuel economy standards, reduce carbon prices, as indicated in Figure 1.

Universally, the models show that substantial emissions reductions are not achievable in the absence of a policy. Even in the most optimistic technology scenario, the most aggressive emissions reductions from any model in the absence of a policy was 0.19 percent per year, resulting in emissions 7 percent below 2005 levels in 2050.

³⁸ Clarke, L.C., A.A. Fawcett, J.P. Weyant, V. Chaturvedi, J. MacFarland, Y. Zhou, "Technology and U.S. Emissions Reductions Goals: Results of the EMF 24 Modeling Exercise," (forthcoming). *The Energy Journal*.

³⁹ Fawcett, A.A., L.C. Clarke, S. Rausch, J.P. Weyant. "Overview of EMF 24 Policy Scenarios," (forthcoming). *The Energy Journal*.

Figure 1: Allowance prices from EMF study under (a) 50 percent cap-and-trade policy and with (b) the addition of several complementary policies (optimistic CCS/nuclear technology assumptions) ^{35,36}



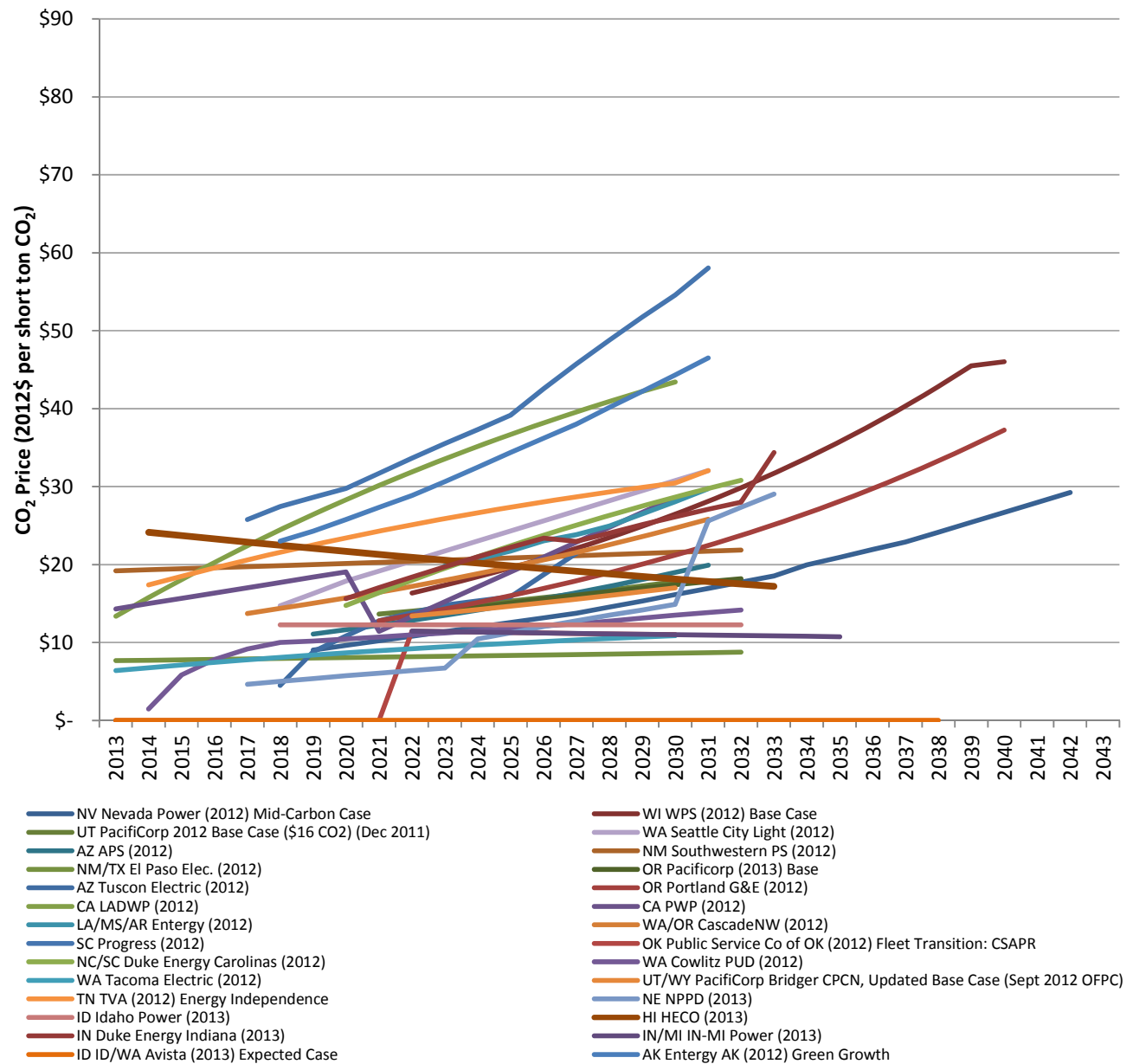
8. CO₂ PRICE FORECASTS IN UTILITY IRPs

A growing number of electric utilities include projections of the costs that will be associated with greenhouse gas emissions in their resource planning procedures. Figure 2 summarizes the reference case values (often described as their “mid” or “central” values) of publicly available forecasts used by utilities in resource planning over the past two years.⁴⁰

Despite ongoing obstacles to a federally legislated CO₂ price and challenges in Congress to addressing climate or energy policy in a meaningful way, many utilities are including an effective price for carbon in their planning. The majority of utility reference case carbon price forecasts start in the 2015-2020 timeframe, and rise gradually (in real terms) throughout the study period.

⁴⁰ Where a utility has released multiple IRP or IRP updates in the past two years, we have included only the most recent value. The IRPs shown here represent those publicly available by internet as of the October 2013.

Figure 2: Utility Reference Case Forecasts from 2012 and 2013



9. OVERVIEW OF THE EVIDENCE FOR A FUTURE CO₂ PRICE

Our CO₂ price forecasts are developed based on the data sources and information presented above and reflect a reasonable range of expectations regarding future efforts to limit greenhouse gas emissions.

The following items have guided the development of the Synapse forecasts:

- **Regulatory measures limiting CO₂ emissions from power plants will be implemented in the near term.** The EPA is required to propose emissions standards for existing power plants under Section 111(d) of the Clean Air Act by June 2014. Standards for new power plants were proposed on September 20, 2013. These actions represent an effective price that will affect utility planning and operational decisions.
- **State and regional action limiting CO₂ is ongoing and growing more stringent.** In the Northeast, the RGGI CO₂ cap has been tightened, resulting in higher CO₂ prices for electric generators in the region. California's Cap-and-Trade Program, which represents an even larger carbon market than RGGI, has held many successful allowance auctions, and has been successfully defended against numerous legal challenges.
- **A price for CO₂ is already being factored into federal rulemakings.** The federal government has demonstrated a commitment to considering the benefits of CO₂ abatement in rulemakings such as fuel economy and appliance standards.
- **Ongoing analysis of emissions caps suggests a wide range of possible prices.** Important factors include the stringency of any future climate policy, the existence of complementary policies, technology availability, and how quickly old capital stock can be phased out in favor of new technologies.
- **Electric suppliers continue to account for the opportunity cost of CO₂ abatement in their resource planning.** Prudent planning requires utilities to consider adequately the potential for future policies. The range of carbon prices reported in section 8 indicates that many utilities believe that by 2020 there will likely be significant economic pressure towards low-carbon electric generation.

10. SYNAPSE 2013 CO₂ PRICE FORECAST

Based on analyses of the sources described in sections 3 through 8 (above), and relying on our own expert judgment, Synapse has developed Low, Mid, and High case forecasts for CO₂ prices from 2013 to 2040. Figure 3 and Table 1 show the Synapse forecasts over this period.

Figure 3: Synapse 2013 CO₂ Price Trajectories

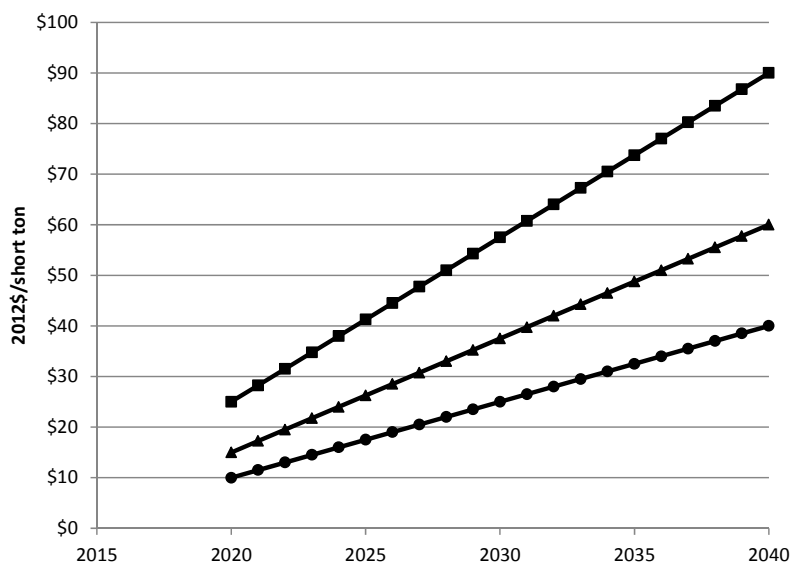


Table 1: Synapse 2013 CO₂ Allowance Price Projections (2012 dollars per ton CO₂)

Year	Low Case	Mid Case	High Case
2020	\$10.00	\$15.00	\$25.00
2021	\$11.50	\$17.25	\$28.25
2022	\$13.00	\$19.50	\$31.50
2023	\$14.50	\$21.75	\$34.75
2024	\$16.00	\$24.00	\$38.00
2025	\$17.50	\$26.25	\$41.25
2026	\$19.00	\$28.50	\$44.50
2027	\$20.50	\$30.75	\$47.75
2028	\$22.00	\$33.00	\$51.00
2029	\$23.50	\$35.25	\$54.25
2030	\$25.00	\$37.50	\$57.50
2031	\$26.50	\$39.75	\$60.75
2032	\$28.00	\$42.00	\$64.00
2033	\$29.50	\$44.25	\$67.25
2034	\$31.00	\$46.50	\$70.50
2035	\$32.50	\$48.75	\$73.75
2036	\$34.00	\$51.00	\$77.00
2037	\$35.50	\$53.25	\$80.25
2038	\$37.00	\$55.50	\$83.50
2039	\$38.50	\$57.75	\$86.75
2040	\$40.00	\$60.00	\$90.00
Levelized 2020-2040	\$22.36	\$33.54	\$51.79

In these forecasts, state and regional policies, together with federal regulatory measures, place economic pressure on CO₂ emitting resources in the next several years, such that it is relatively more expensive to operate a high-carbon-emitting power plant. These pressures are followed later by a broader federal policy, such as cap and trade. In any state other than the RGGI region and California, we assume a zero carbon price through 2019; beginning in 2020, we expect that federal regulatory measures will put economic pressure on carbon-emitting power plants throughout the United States. All annual allowance prices and levelized values are reported in 2012 dollars per short ton of carbon dioxide.

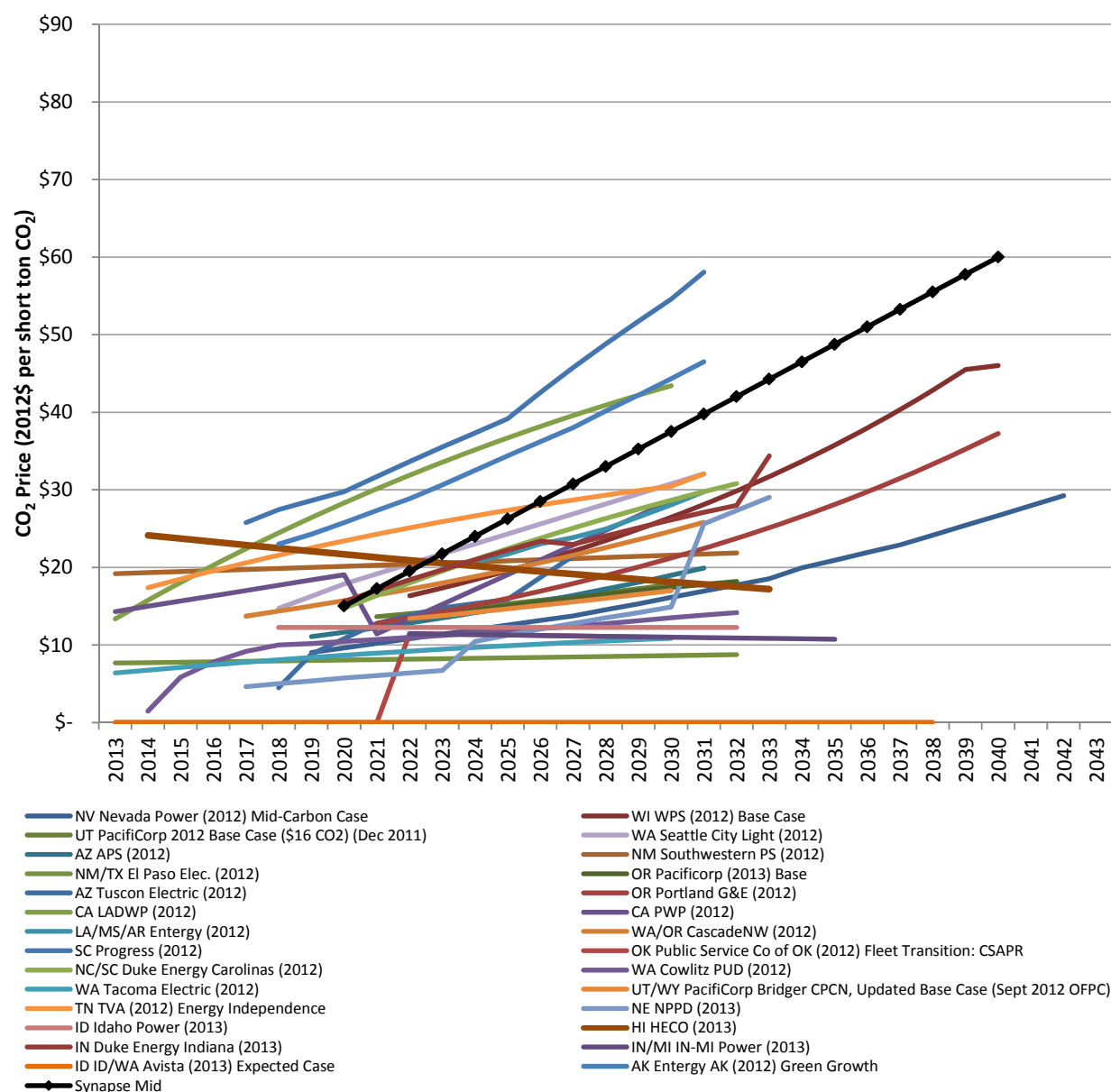
- The **Low case** forecasts a carbon price that begins in 2020 at \$10 per ton, and increases to \$40 per ton in 2040, representing a \$22 per ton levelized price over the period 2020-2040. This forecast represents a scenario in which federal policies—either regulatory or legislative—exist but are not very stringent.
- The **Mid case** forecasts a carbon price that begins in 2020 at \$15 per ton, and increases to \$60 per ton in 2040, representing a \$34 per ton levelized price over the period 2020-2040. This forecast represents a scenario in which federal policies are implemented with significant but reasonably achievable goals.
- The **High case** forecasts a carbon price that begins in 2020 at \$25 per ton, and increases to approximately \$90 per ton in 2040, representing a \$52 per ton levelized price over the period 2020-2040. This forecast is consistent with the occurrence of one or more factors that have the effect of raising carbon prices. These factors include somewhat more aggressive emissions reduction targets; greater restrictions on the use of offsets; restricted availability or high cost of technology alternatives such as nuclear, biomass and carbon capture and sequestration; more

aggressive international actions (thereby resulting in fewer inexpensive international offsets available for purchase by U.S. emitters); or higher baseline emissions.

These price trajectories are designed for planning purposes, so that a reasonable range of emissions costs can be used to investigate the likely costs of alternative resource plans. We expect an actual CO₂ price to fall somewhere between the low and high estimates throughout the forecast period.

In Figure 4, the Synapse Mid forecast is shown in comparison to the reference case utility forecasts presented earlier. See Appendix A for comparisons to utilities' Low and High case forecasts.

Figure 4: Synapse Mid Forecast Compared to Recent Utility Mid Case Forecasts



In Figure 5, the Synapse forecasts are compared to the carbon price used in federal rulemaking. While the federal price starts out higher in 2020, the Synapse Mid forecast approaches this value at the end of the projected period. In Figure 6, the Synapse forecasts for 2020 are compared to several of the sources identified in this report: the carbon price used in federal rulemakings, EMF 24 study results, and recent utility forecasts. The high and low ends of these sources span a wide range, but the central values show less variation.

Figure 5: Synapse Forecast Compared to Carbon Price Used in Federal Rulemakings

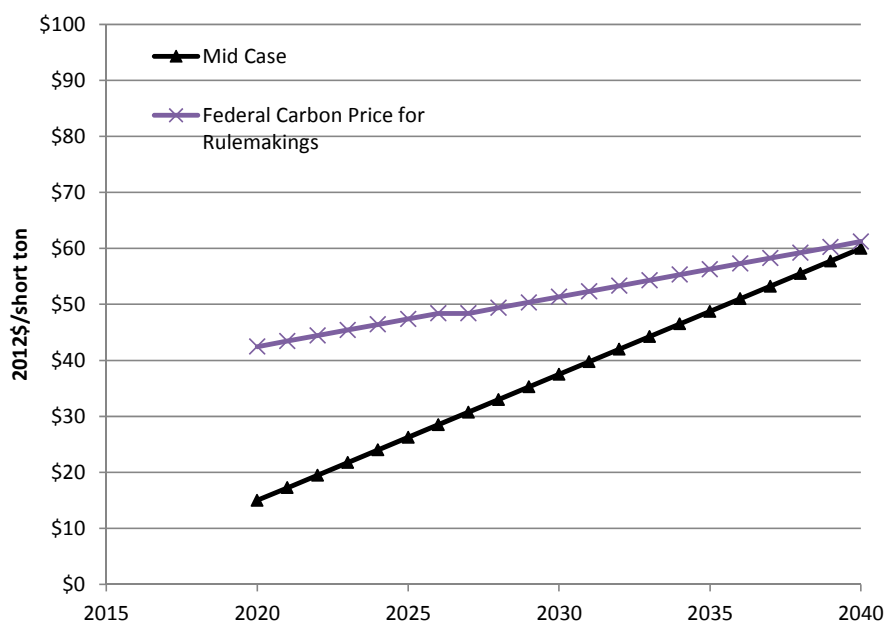
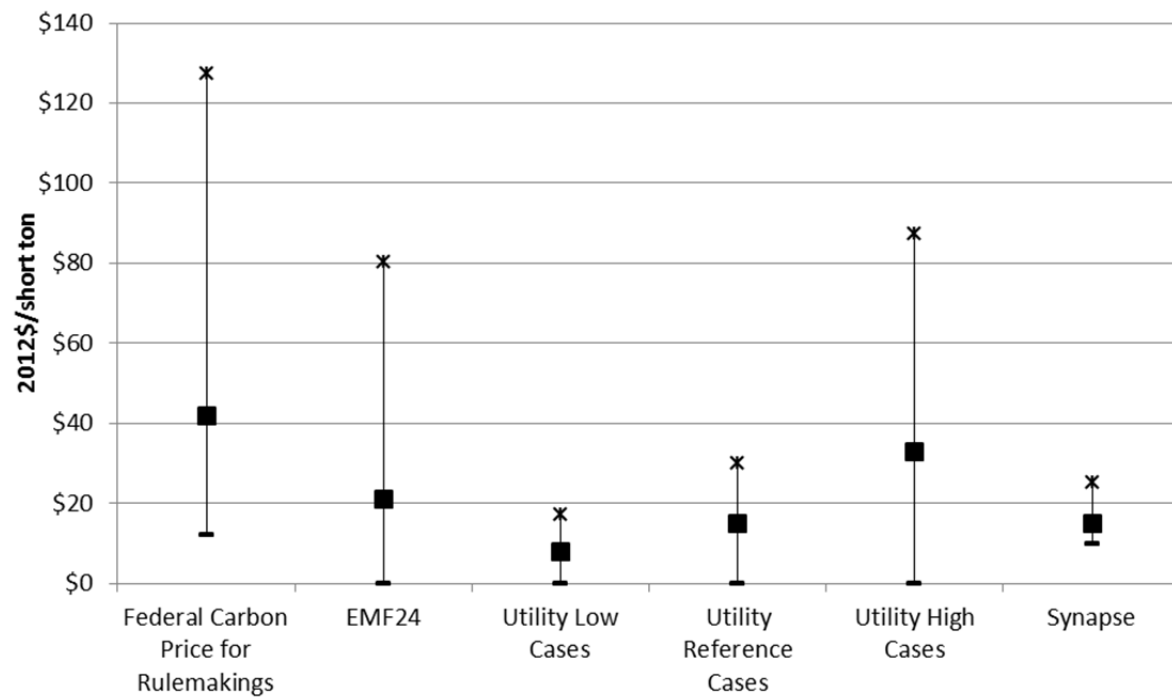


Figure 6: Synapse CO₂ Forecasts for 2020 Compared to Other Sources



APPENDIX A: SYNAPSE FORECAST COMPARED TO UTILITY FORECASTS

Figure 7: Synapse CO₂ Price Forecast Compared to Recent Utility Low-case Forecasts

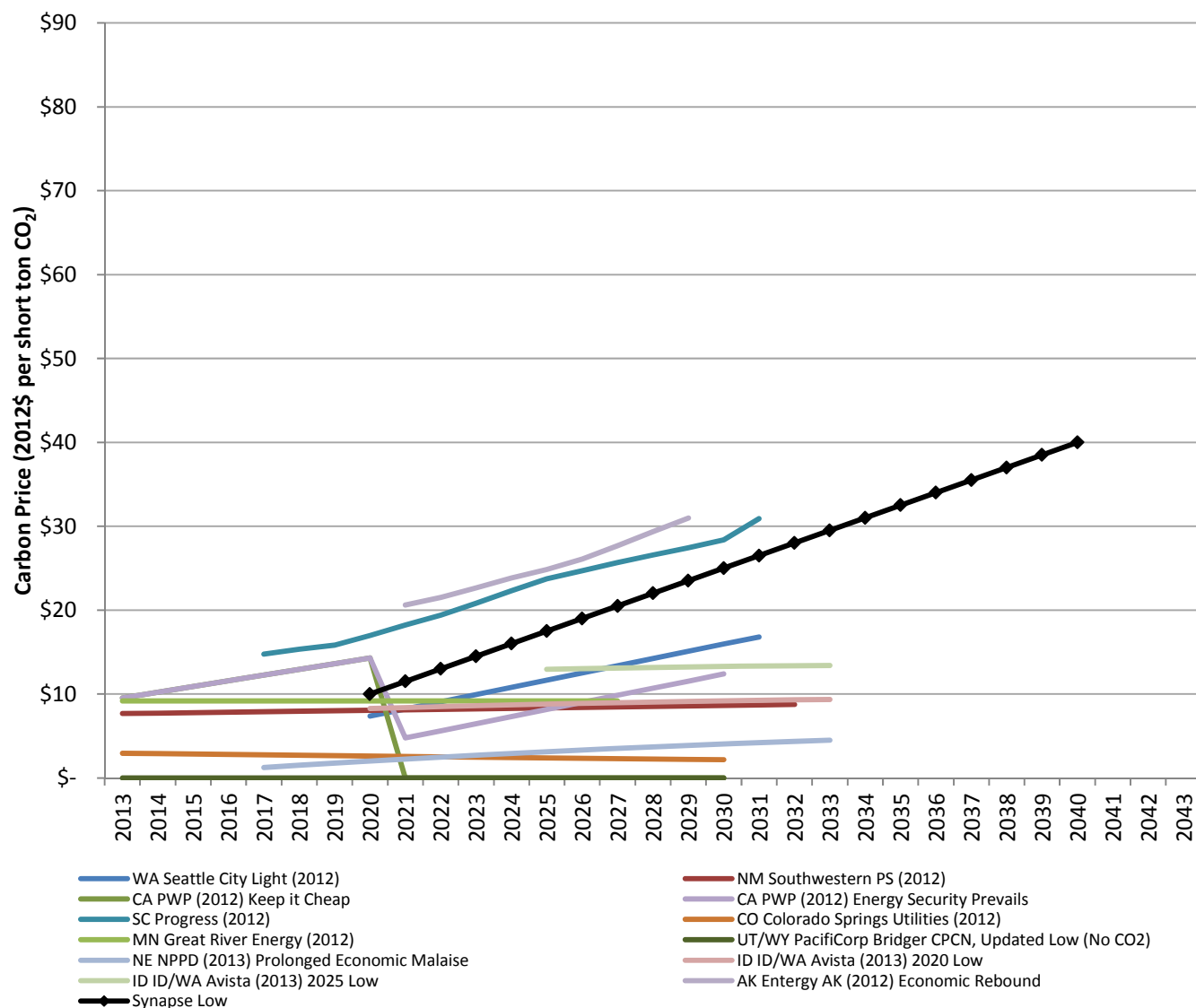


Figure 8: Synapse CO₂ Price Forecast Compared to Recent Utility High-case Forecasts

