

Testimony of Steven Corneli

Vice President

Market and Climate Policy

NRG Energy, Inc.

Before the United States Senate

Committee on Agriculture, Nutrition and Forestry

Subcommittee on

Rural Revitalization, Conservation, Forestry and Credit

May 21, 2008

Chair Stabenow and members of the sub-committee, good afternoon and thank you for the opportunity to testify today regarding offsets. Along with emission reduction targets and allocations, offsets will be critical in determining the both economic impacts and environmental effectiveness of climate change legislation. Agriculture and forestry both contribute large amounts of greenhouse gas emissions that will be difficult to regulate under a cap and trade system, and thus are important potential sources of emission reductions in the form of offsets.

Offsets are a critical issue for our company, as well. We own and operate some 23,000 megawatts of power plants, from the Northeast, through Louisiana, Texas and Illinois, to California. 7000 megawatts of those power plants are coal-fired, with the rest being gas, oil or nuclear. We emitted 61 million metric tons of CO₂ in the US last year, which makes us the 7th largest emitter of CO₂ in the US power sector. We are aggressively working to reduce our carbon emissions by developing new low- and no-carbon power plants, including nuclear, wind, and both post-combustion and gasification-based carbon capture and sequestration. But such voluntary efforts are not enough. Like the other members of USCAP, we believe a mandatory US cap and trade system is needed as soon as possible to provide a market signal for rapid investment in low carbon technology.

There are two reasons we are so interested in offsets. First, under any cap and trade system, we expect to be a major buyer of allowances and of offsets, to the extent they can be used for compliance. For example, under the Lieberman – Warner bill, we would get allocated enough allowances for only about 46% of our emissions in the first year. This would require us to buy the rest -- about 33 million allowances in just the first year. If we can buy offsets for less than allowances, we will buy as many as the law allows. That's in our own interest.

But even more important, the basic laws of supply and demand mean that the use of ample amounts of high-quality offsets in the cap and trade program should moderate the allowance price for everyone, not only us. This will help protect consumers and the economy as a whole -- while helping limit climate change.

Offsets have tremendous potential to create a more effective climate change policy at a lower cost to the US economy, but only if offset policy is set up right. Here are 5 critical steps that we think are needed to get it right:

1. We need climate change legislation now. Right now, most carbon – related investment in the US, whether in power plants or in offsets, is “frozen in the headlights” because of uncertainty about what the rules will be. We need clear and stable rules that are friendly to both the climate and to business so that the next wave of low carbon investment – including investment in offsets – can begin. This important for our global competitiveness as well as the environment. A world-wide race to perfect low carbon technologies is already underway. The US can win that race, but only if it starts now.

2. Reasonable opportunities for using offsets for compliance. EPA and other modeling exercises make it clear that relaxing limits on the use of offsets in legislation,

such as Lieberman-Warner, can significantly moderate allowance prices. For example, the EPA suggests that adding just 15% international offsets in S. 2191 would lower allowance prices by 37%. This suggests that it is more important to ensure that any limits are generous enough to produce reasonable prices than it is to provide for the completely unlimited use of offsets.

3. Only high quality offsets should qualify for compliance purposes. High quality offsets provide real reductions in greenhouse gas emissions. This is important for the environment, for sellers and for buyers. We typically will ask sellers to provide a contractual guarantee that project-based offsets meet environmental quality and other regulatory requirements. All sides of the carbon market will benefit from clear rules that keep low-quality “junk offsets” from ever even entering the market.

4. The rules must allow both domestic and international offsets. Modeling work suggests there simply may not be enough domestic offsets available to effectively buffer the cost of allowances, especially in the early years of the program. We need international offsets, too. Some international offsets have a bad reputation, but others are extremely promising, especially those related to key GHG-producing sectors like tropical deforestation. Such offset have tremendous potential to not only save the rainforests, but to also staunch one of the largest global sources of greenhouse gases emissions.

5. We need a mix of project-based offsets and sector-based offsets. Project based offsets – such as reducing methane emissions from livestock operations -- can be of high quality, as well as beneficial to the host industries and local economies. These are the sort of products we anticipate buying from private companies if the price is right. Sector-based offsets include the very exciting idea of “forest carbon tons” that would be created by stopping the wave of large-scale deforestation currently taking place in Brazil, Indonesia and other major forest areas. These sector-based offsets will likely have governments on one or even both sides of the transaction, rather than just private companies. This suggests the possibility of using such offsets to create a federal offset reserve pool that could ensure moderate allowance prices -- in effect, an environmentally preferable alternative to the “safety valve” concept.

To conclude, offsets will be a critically important way to buffer the costs of achieving aggressive reductions in GHG emissions. We need climate change legislation to pass Congress and be signed into law by the President quickly to remove the uncertainty that hinders our investment in offsets and other low and no-carbon technologies. That legislation needs to send a clear signal that ample amounts of high quality domestic and international offsets will be welcome in the US cap and trade system, and it needs to induce both the private sector and governments to quickly create a large number of project- and sector-based offsets for companies like ours to buy when the US cap and trade system begins.

Thank you for your attention, and I will be happy to answer any questions you may have.