TO: **Bill Lamkin, MA DEP**

cc: **Franz Litz, NY DEC**

FROM: **Northeast Regional Greenhouse Gas Coalition**

DATE: **March 12, 2004**

RE: **RGGI Model Rule Outline**

The Northeast Regional Greenhouse Gas Coalition (GHG Coalition) is pleased to provide you with our initial comments on the Regional Greenhouse Gas Initiative (RGGI) model rule outline for your consideration. The GHG Coalition will follow up on this general memo with more detailed comments in the future.

The GHG Coalition's comments focus on four general areas: determination of the cap, geographic issues, electricity imports, and project based GHG emission reductions.

Determination of the Cap

Prior to determining the appropriate CO_2 cap size for the region, the most important element is deciding on the policy implementation mechanism for the cap and trade program. At least three options have been discussed to date: an emission portfolio standard (EPS) on retail electricity suppliers, allocation of allowances to electric generators in the region equal to the cap, or a hybrid of the two. The GHG Coalition is currently evaluating the EPS approach and suggests that RGGI state representatives evaluate all three approaches to identify the best approach.

Regardless of the policy mechanism(s) utilized to implement the cap, RGGI state representatives should take into consideration the scope, geographic coverage and the market based flexibility mechanisms afforded by the program when determining the cap level and timing. The cap should be designed to reduce CO_2 emissions, resulting in a downward trajectory in the region's GHG emissions over time. Furthermore, it is highly likely that RGGI will not be the only policy developed in the region to reduce GHG emissions. The development of the RGGI cap levels and timing should take into consideration current policies and programs (such as energy efficiency and renewable energy) as well as those policies and programs under consideration in state and regional level planning processes.

Geographic Issues

At a minimum, RGGI should include the states that make up the three power pools in the Northeast region – the New England states (NEPOOL); New York (NYPOOL); and Delaware, Pennsylvania, New Jersey, and Maryland (PJM) as well as the District of Columbia. While it is uncertain at this time if Maryland and Pennsylvania will be part of RGGI given their "observer status" in the process, the RGGI state representatives should strive to make this possible. Furthermore, the GHG Coalition encourages RGGI states to lay the groundwork for expansion of this program to other states/provinces and regions of North America.

A consistent regional approach across power pools will have three primary benefits. First, it will affect a larger share of the electricity sector's GHG emissions, which will result in greater GHG emission reductions. Second, it will result in a more compelling message to federal policymakers that a national approach is necessary and feasible. Third, it will insure a level playing field among all electricity generators, with compliance costs reflected in market prices. This will avoid distortions in the market while insuring that reductions are achieved at least cost.

Electricity Imports

Due to the operational characteristics of multi-state power pools, power sold in the pool originates both inside and outside the pool. As such, electric generating companies not only compete with other companies in the region but also those outside the region in the case of power imports. Regulatory requirements on a subset of the electric generators participating in the market create a competitive disadvantage for regulated entities.

The exchange of power between the RGGI region and outside regions is of significant concern to the GHG Coalition. By placing a CO_2 constraint on the electric generators in the RGGI region, generating costs will likely increase relative to electric generating costs outside the region–resulting in an increase in imported power and an increase in emissions. The program should seek to minimize emissions leakage (from outside the region) so any increase in emissions does not offset emission reductions achieved in the region.

One approach to addressing this concern is an emission portfolio standard (EPS). An EPS is policy mechanism that applies an output-based standard (lbs CO_2/MWh) to the portfolios of electric generation resources used to provide retail electricity to customers. Compliance with an EPS is the responsibility of retail electricity suppliers (load serving entities or LSEs), not the electric generating companies.

The EPS would require that the seller of electricity (who may or may not own power plants) ensure that the average emission rates of all the generation sources used to meet its customers' electricity needs not exceed specific output-based performance standards. The application of an EPS to retail suppliers provides regulators with the ability to limit the environmental impacts of meeting retail electricity demand, regardless of the location and type of generation resources employed by retailers to meet that demand. Any power that is imported into the Northeast to serve retail demand would likely be covered by the EPS and therefore would minimize or eliminate an increase in higher emitting imports and, as a result, emissions leakage. Similar to the approach used in meeting an RPS, LSEs could comply with the standard through the purchase and sale of certificates traded through a generation tracking system.

Project Based GHG Emission Reductions

Project based GHG emission reductions should be allowed for use in demonstrating compliance with RGGI. Project based reductions can occur from within the electric generating/utility sectors (e.g., reductions of fugitive methane from pipelines and reductions of fugitive SF_6 emissions for electricity transmission and distribution systems)

as well as from outside the sector including strategies in the agriculture, forestry, and industrial sectors.

Specific project based emission reduction criteria should be established along with quantification protocols and verification procedures to ensure that the emission reductions from these efforts are highly credible and deliver real GHG emission reductions. Furthermore, reductions of any of the six GHGs (CO_2, CH_4, N_2O, HFCs, PFCs, SF_6) should be eligible for inclusion in RGGI.

RGGI states should strive to develop a program that aligns with other emerging emission trading programs as much as possible with an eye towards one day having the program interact with others around the world. RGGI states should evaluate potential linkages with the UK Trading Scheme as well as the EU Emission Trading Scheme. It is evident that emission trading may occur at this point with the EU ETS – although only one way – from the EU to RGGI. This could provide a linkage to flexibility mechanism of the Kyoto Protocol.