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VIA EMAIL: info@rggi.org

Regional Greenhouse Gas Initiative, Inc.
90 Church Street, 4th Floor
New York, NY 10007

Re: Updated RGGI Reference Case

Dear RGGI, Inc. and RGGI State Commissioners and Staff,

The Pace Energy and Climate Center (Pace) appreciates this opportunity to comment on the updated reference case modeling recently initiated for the Regional Greenhouse Gas Initiative (RGGI). With action at the federal level on comprehensive climate policy effectively stalled for the near term, the responsibility to lead on the issue once again falls to the RGGI states and other regional efforts. Updating the RGGI reference case to ensure it better reflects the region's current and future energy profile is a key step, the first of many that must be taken to ensure RGGI remains a prime example of how to effectively address climate change via market-based mechanisms.

A non-profit energy and environmental research and advocacy organization with a focus on climate change law and policy, Pace is affiliated with Pace Law School in White Plains, and was founded as the Pace Energy Project in 1987 by Dean Emeritus Richard L. Ottinger upon his retirement from Congress. During our 20-plus year history, we have been active in regulatory matters in New York and throughout the Northeast, and developed a reputation as a leading sustainable energy research and advocacy organization. Through our objective, unbiased research and legal and policy analysis, combined with effective advocacy, we have played a key role in achieving necessary market and regulatory reforms supportive of renewable energy, energy efficiency and clean distributed generation. More broadly, the advancement of this clean energy agenda has dove tailed into a focus on policies that will effectively reduce greenhouse gas emissions in New York State and beyond.

Pace has been actively engaged in the RGGI process since its inception. In order to build upon its successes and capitalize on opportunities for improvement, Pace offers the following specific comments on the updated reference case materials presented on September 13, 2010, along with some broader ideas for further strengthening the program.

Category A

I. *Renewable Energy Assumptions*: In the presentation, Mr. McCracken of ICF expressed a "leaning" towards utilizing EIA AEO economic data for fossil plant costs over time, but that a National Academies report would be utilized for nuclear because it was thought that the EIA numbers underestimated the costs for that technology. We support this adjustment to better reflect the real world costs for new nuclear capacity.

However, we have concerns that the opposite may hold true for the EIA renewable energy (RE) numbers—that those assumptions may *overestimate* the costs of RE over time—which would result in those technologies appearing to be overly-costly/"not economic" in the modeling runs. Such a scenario would produce a flawed future generation mix for the region; one that could project more fossil generation (and the allowances such generation would demand) than may be necessary. The end result—further inflation of an already grossly inflated cap.

Recommendation: As was done in the previous reference case, we recommend commissioning an independent analysis of renewable energy technology cost projections in the RGGI region by an outside consultant, thereby increasing the likelihood of generating more accurate results in model runs. If time and resource constraints render such an exercise impossible, at the very least it would seem wise to take a closer look at the EIA RE estimates and assumptions, solicit input from members of the renewable industry, and consult other peer-reviewed literature on the subject. The National Renewable Energy Laboratory (NREL) has a wealth of data sets on RE cost trends over time, and in the event that we locate additional resources on the topic in the future we will submit them.

II. *Firm New Capacity Assumptions List*: We support the use of RTO queues and documentation for new capacity and retirements. However, the "Draft Firm Capacity and Retirement Assumptions" excel file posted on the RGGI, Inc. website may not reflect some RE projects in New York that are fairly far along in the siting/scoping process.

Recommendation: For New York, the following four projects should be incorporated into the modeling in some form: New York Power Authority (NYPA) Great Lakes offshore wind capacity (120-500 MW nameplate); [1] NYPA solar PV RFP (100 MW

[1] http://www.nypa.gov/NYPAwindpower/GLOWrfp/NYPA%20GLOW%20RFP%2011%2030%20FINAL.pdf

nameplate); [2] LIPA solar PV RFP (50 MW nameplate);[3] and the Long Island-New York City Offshore Wind Project (350-700 MW nameplate).[4]

While some of these projects are further along than others, they are all significant enough to warrant incorporation into the modeling. Including these projects will generate more accurate modeling results for New York's near-term capacity mix. While longer-term projections are more difficult to predict, it is worth noting that a major piece of solar legislation (5000 MW solar PV nameplate by 2025) utilizing similar mechanisms to New Jersey statute garnered substantial support in the New York legislature in 2010, and could potentially be enacted in 2011. [5] Such a scenario would dramatically increase the projected PV build out for New York, as illustrated by the volume of solar installations included in the aforementioned excel file for New Jersey.

Category B

I. *New York Energy Efficiency Assumptions*: Slide 15, Regional Energy and Peak Demand, indicates an ICF leaning for "ISO projections, adjusted for efficiency as provided by the States." Additional Slide #9 states that, per NYISO assumptions, the ICF modeling will assume a 37% achievement of the state's Energy Efficiency Portfolio Standard (EEPS) by 2015, and a 50% achievement by 2018.

We are well aware of the current challenges facing EEPS program administrators as proposals are approved and begin to achieve on-the-ground savings. Most recently, Department of Public Service staff provided an EEPS status report that revealed significant shortfalls for meeting the 2010 MWh (electric) and dekatherm (gas) reduction targets for both investor-owned utilities and NYSERDA.[6] However, as the programs ramp up and all parties work together to speed implementation, it is still feasible to achieve the full "15 x 15" targets. Furthermore, in that same report, Department of Public Service staff states that New York can and will achieve the 2015 goal.

Recommendation: Run at least one alternative scenario to the one proposed in the slides, that assumes a higher success rate of the EEPS. With its focus on operating wholesale electricity markets and "keeping the lights on", the NYISO and NYS Reliability Council traditionally tend to make conservative assumptions in the area of EE. We urge ICF to balance that by running an alternative scenario assuming 100% success of EEPS in 2015, with continued robust EE investments from 2015-2030.

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[2] http://www.nypa.gov/solar/100mw/default.htm
[3] http://www.lipower.org/newscenter/pr/2008/042208_gov.html
[4] http://www.linycoffshorewind-rfp.com/: "An application to interconnect the offshore wind project has been filed with the New York Independent System Operator (NYISO) for up to 700 MW by 2015."
[5] http://assembly.state.ny.us/leg/?default_fld=&bn=A11004&Summary=Y&Text=Y
[6] http://documents.dps.state.ny.us/public/Common/ViewDoc.aspx?DocRefId={E51645E4-875E-4DD5-9FC9-FDBA10D981EB}

Beyond state mandated EE programs such as EEPS, we are unclear what assumptions the model will use for additional EE installations to meet future demand. It is essential that RGGI model energy efficiency results throughout the forecasting period (i.e. 2030) to reflect the commitment of the RGGI states to this least-cost energy option and to embed the accelerating technological development of new efficiency options—including robust gains via more stringent building codes and appliance standards. We urge ICF to run the following reasonable option: assume a 1.5% annual reduction in load forecasts from aggressive EE installations across the entire RGGI region through 2030. Anything less would be undervaluing the potential for that resource.

Furthermore, it is unclear how the model will treat other demand-side options for meeting future load, including demand response and clean distributed generation such as combined heat and power. These options can meet demand for a fraction of the cost of new centralized generation and are increasingly active in RTO's across the RGGI region. We urge ICF to ensure its assumptions in this area do not underestimate the technical potential for demand side resources to meet both future peak demand and energy needs in the region.

Category C

I. *Federal Regulations*: Slide 17 mentions a leaning to include a number of federal regulations for mercury, SO_2 and NO_x, but does not mention any pending EPA regulations for CO_2. The *Mass. vs. EPA* Supreme Court decision, followed by EPA's own CO_2 endangerment finding, have steered the agency down a path in which they must now regulate carbon emissions in accordance with the Clean Air Act.

Recommendation: Include the most recent postings by EPA (NOPRs, guidance documents, etc.) in model runs. While there is significant uncertainty in this arena, EPA is already actively engaged with state regulators on tailoring rules to meet CO2 emissions limits on large, stationary sources. ICF should attempt to gather the most up to date information from RGGI state officials regarding the direction those discussions are headed, as well as all EPA proposals, and incorporate those details into model runs.

Category D

I. *State Regulations*: Slide 20 indicates ICF's leaning towards using existing regulations for NO_x, SO_2, and mercury as provided by the states. Some western states, including California and Oregon, have performance standards in place for carbon dioxide as well. New York has also been exploring the possibility of a CO2 performance standard, as exhibited by their stakeholder meetings on a draft rule in March 2009.

Recommendation: We urge ICF to obtain the latest proposed language from the New York State DEC on the state's Draft CO2 Performance Standard and include those regulations in its model, as well as for any other RGGI states that have begun to draft/propose such regulations.

Broader RGGI components for consideration
The above comments focus specifically on the reference case assumptions. Below are some additional comments on aspects of the program worth considering as the RGGI states work towards the more comprehensive 2012 review.

- *Inflated Cap*: Per a report from Environment Northeast, the RGGI cap is currently inflated by as much as 34%.[7] This reality makes "getting it right" with this round of modeling all the more crucial. We encourage RGGI Commissioners and Staff to explore all options for correcting this inflation, thereby ensuring the program in fact achieves its core goal—to reduce the Northeast's power plant carbon emissions by 10% from ***actual*** 2009 levels by the year 2018. Furthermore, mechanics for a dynamic/self-correcting cap for future years should be explored.

- *Offset stringency—hold the line*: RGGI has done an exemplary job to date ensuring that its offset criteria ("Real, Additional, Verifiable, Permanent, and Enforceable) successfully prevent the pitfalls that have befallen other climate programs, namely the boondoggles plaguing the Clean Development Mechanisms of the Kyoto Protocol. We strongly urge RGGI states to continue this trend, including its direct collaboration with other climate programs on the topic, as exhibited by the recent white paper released jointly the three regions (RGGI, WCI, and MGGA).[8] In particular, treatment of biomass emissions going forward—for purposes of offsets or otherwise—must include a high degree of scrutiny in order to prevent miscalculations of that fuel's carbon balance from undermining the integrity of any climate programs.

- *Expansion to other sectors*: We encourage RGGI states to explore the possibility of expanding the program to cover emitters outside of the power generation sector, including large industrial sources and transportation. With EPA poised to regulate large stationary sources in January 2011, it is a logical time to begin these discussions in order to provide RGGI states a potential compliance mechanism to meet these standards and ease the transition to a carbon-constrained regulatory future.

- *Collaboration with other state and regional climate programs*: We commend RGGI, WCI, and MGGA Staff for their willingness to engage with other state and provincial officials to discuss how other state and regional climate programs may interact and collaborate in the future. In the coming months we look forward to engaging in these inter-regional dialogues more directly to ensure these efforts can achieve the common goal of addressing climate-altering emissions in the most effective manner possible.

We appreciate this opportunity to comment, and look forward to working with you to further strengthen RGGI in the coming months.

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[7] http://env-ne.org/public/resources/pdf/ENE_RGGI_Emissions_Report_20100617_FINAL.pdf
[8] http://westernclimateinitiative.org/component/remository/func-startdown/240/

Very truly yours,

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