THE RGGI DIALOGUE
JOINT PROGRAM REVIEW RECOMMENDATIONS TO THE RGGI STATES

December 7, 2012

Introduction

In late spring of 2012, the Pace Energy and Climate Center convened a group of electric generators, utilities and environmental organizations to develop joint recommendations to the states participating in RGGI. The Dialogue aims to support the states as they consider ways to preserve and improve RGGI in the 2012 program review. This submission—which consists of specific policy recommendations and suggested programmatic changes to RGGI—is a follow up to Joint Modeling Recommendations submitted by this group to RGGI States on October 12, 2012.[1]

The Dialogue would like to thank the states for their responsiveness to its input to date. The states' proposal, for example, to honor the compliance value of banked allowances in future years reflects the position of this group, and many other stakeholders. Similarly, the decision by the states to model the cap of 91 million tons is roughly consistent with the cap levels proposed for modeling by this joint group.[2] The Dialogue hopes the states will continue to consider the views of this diverse stakeholder Dialogue.

Dialogue Participants

The following RGGI stakeholders are participating in the Dialogue and support the recommendations outlined below:

- Calpine Corporation
- Environment Northeast
- Exelon Corporation
- Long Island Power Authority
- Natural Resources Defense Council
- NextEra Energy Resources

Other participants were unable to sign-on to these recommendations because of insufficient information regarding consumer bill impacts.

The following organizations have participated in the Dialogue as expert resources alongside the Pace Energy and Climate Center staff:

- M.J. Bradley & Associates;

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[1] http://rggi.org/docs/ProgramReview/2012_10_12_Pace_RGGI_Dialogue_Modeling_Recommendations.pdf
[2] The Dialogue proposed modeling caps of 92, 99, and 102 tons.

- Resources for the Future; and
- World Resources Institute.

Program Recommendations

The Dialogue participants support the following programmatic changes as part of the RGGI 2012 Review:

1. *The Cap*. In order to establish a program that will drive emissions reductions from current levels, support a viable carbon allowance market, and send the appropriate price signal supportive of low carbon investments, the Dialogue supports establishing a RGGI cap in 2014 that begins at current emissions levels.

2. *Cost Containment Reserve (CCR).* The Dialogue participants support the establishment of a CCR mechanism in order to mitigate unexpected allowance price increases that could occur in the future. The trigger prices at which the CCR allowances would be made available should be $8 initially, with an annual escalator of 5% + CPI.

3. *Price floor level and escalation formula should be altered.* The price floor should be increased to $4. The formula for escalating the floor price should be changed to 5% + CPI annually in order to more closely approximate investor behavior generally.

4. *The "Private Bank" of Allowances.* Allowances already in private hands should be honored for their full compliance value in future compliance periods. Dialogue participants support the states' proposal presented on November 20 to adopt that approach.

5. *Accounting for the existing Bank in relation to the new cap.* Dialogue participants support the states' proposal for "interim adjustments" to retire a quantity of the allowances from the new cap equivalent to the volume in the bank at the end of 2013 in order to maintain the environmental integrity of the program and prevent market distortions.

6. *The Annual "True-up" by compliance entities.* The Dialogue participants oppose the RGGI states' proposal to require compliance entities to annually submit allowances that cover between 75-85% of that entity's emissions for that year. Adding this provision would limit the needed flexibility inherent in a multi-year compliance period. The concern cited regarding bankruptcies is an isolated event that does not warrant this wholesale change to the program design affecting all compliance entities. Participants support preservation of the 3-year compliance period without annual true-up.

7. *Retirement of Unsold Allowances.* In order to provide increased market certainty and avoid future problems that could arise, states should offer unsold allowances at every remaining auction in the compliance period. In addition, Dialogue participants support the states retiring all allowances unsold at the end of each compliance period.

8. Future Private Banks. The states following a similar "interim adjustment" protocol to the one proposed to address the current private bank if such a scenario occurs in the future (i.e. at the end of a compliance period, states would tally the number of excess allowances in private hands, and then withhold/retire an equivalent number of allowances over a multi-year period to account for that excess).

9. *Investment of Auction Proceeds.* Analyses have illustrated that the greatest consumer benefit is generated when auction proceeds are invested in end-use electricity energy efficiency. We urge all RGGI states to invest auction proceeds in end-use energy efficiency or other consumer benefit programs that reduce the bill impacts to the customers contributing to the success of the program. Participants believe auction revenue should be spent in proportion to contributions to the program.

10. *Compliance with a Future Federal Program should guide changes to RGGI.* The Dialogue urges states to consider any programmatic changes with an eye toward ensuring RGGI will be the vehicle for complying with a future federal program under the Clean Air Act. Specifically, EPA is near finalizing CO_2 performance standards for new sources, and will soon begin promulgating regulations for existing sources under Section 111(d) of the Clean Air Act.[3] A RGGI that cannot demonstrate that it is in fact reducing emissions from current levels, for example, will almost certainly not meet that federal standard. States should engage with EPA and do their best to ensure that RGGI is at least equivalent to federal standards.

11. *Linking*. The states should continue to communicate and coordinate program designs with California and other subnational programs on a regular basis. The states should undertake a stakeholder process to assess possible program alignment and identify opportunities to link programs.

[3] The following publications include a more in depth discussion on this topic:
http://pdf.wri.org/working_papers/whats_ahead_for_power_plants_and_industry.pdf
http://www.rff.org/RFF/Documents/RFF-DP-11-29.pdf