Climate Law & Policy Project

November 30, 2016

Comments from the Climate Law & Policy Project
on the RGGI 2016 Program Review

Climate Law & Policy Project (CLPP) is a non-profit organization established in 2007 to develop and promote sound and safe policies to slow, stop, and ultimately reverse the buildup of greenhouse gases in the atmosphere and ensure that vulnerable communities are protected from climate impacts that cannot be avoided. CLPP's mission is to use its legal and policy expertise to help formulate and advocate environmentally, socially, and scientifically sound policies to reduce emissions and protect communities around the world from the impacts of climate change.

In light of the results of the 2016 elections, the focus of climate progress in the United States will turn even more to the states. RGGI states are already national leaders with regard to emissions reductions and climate policy, and their leadership will now be more important than ever. Accordingly, CLPP appreciates the opportunity to offer the following comments regarding the RGGI 2016 Program Review.

1. Tighten the Caps

News reports over the summer indicated that the RGGI states were considering reducing the cap at a rate of 5% per year beyond 2020. The modeling unveiled at the November 21st meeting highlighted cases with 2.5% and 3.5% annual reductions. CLPP is not familiar enough with the nuances of the models and the interstate negotiations to suggest one particular scenario over another. CLPP simply urges RGGI states to **adopt the strongest cap possible** – even if (and, arguably, especially if) the EPA's Clean Power Plan is undone by the courts or by the incoming Trump Administration.

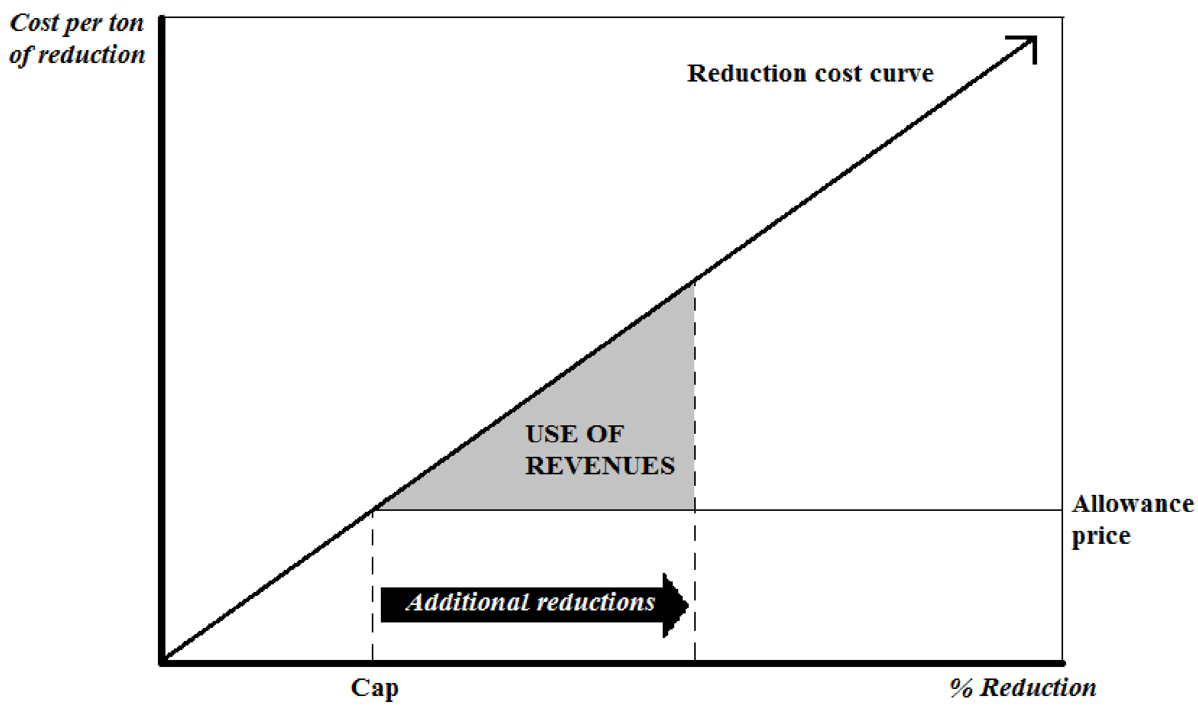
In the absence of federal climate action (or the presence of federal action that is actively injurious to the climate), progress in the United States will depend on the actions of states, cities, and the private sector. These entities may have to take on more than their "fair share" of reductions to account for the likely slowing of progress elsewhere in reducing emissions. CLPP encourages the RGGI states to establish an ambitious cap.

2. Refine the Use of Auction Revenues to Go Beyond the Cap Levels

Regardless of where the RGGI states set the cap, CLPP suggests that interested states go further in their reduction efforts – by better utilizing the revenues from the sale of allowances to achieve additional reductions.

From 2009-2014, the RGGI states invested more than $1 billion from allowance auction revenues into state programs to advance energy efficiency, clean and renewable energy, and greenhouse gas abatement in multiple sectors. According to RGGI's September 2016 summary, these programs have avoided about 1.7 million short tons of CO_2 emissions to date and are projected to avoid more than 15 million short tons over their lifetime (in addition to returning nearly $4.7 billion in lifetime energy bill savings to 4.6 million households and 21,400 businesses in the region). Some of these reductions are additional to what would have been achieved by the cap anyway (e.g., investments in transportation and forestry), but the investments in energy efficiency and renewables are responsible for the bulk of the RGGI-attributed emission reductions, and at least some of those are clearly reductions occurring within the cap (which can make compliance with the RGGI caps less expensive). Refining the way revenues are invested could boost both emissions reductions and cost-effectiveness.

In its most basic form, a cost-effective allowance-based price-and-subsidize system would involve selling allowances, putting the revenue into a fund, and holding a reverse auction that offers subsidies (equal to the difference between the cost of the reduction and the allowance price) to any emitter or project developer that wants to submit a bid for achieving reductions, until the funds are fully committed. This is shown in a basic way in the diagram below.



To ensure the reductions are additional to the cap, an allowance has to be retired or otherwise pulled out of the system for each subsidized reduction that occurs within the cap. Otherwise, other emitters can use those allowances instead of making reductions, which means the subsidized reductions displace other reductions in the cap and are not in fact additional. Another way to pull allowances tied to additional reductions out of the system is never to auction them in the first place, which would involve collecting up-front information about abatement opportunities, contracting with emitters or project developers to make subsidized reductions, and auctioning only the amount needed to cover the remaining anticipated emissions. Subsidies should be paid as reductions accrue, as insurance against project failure and to ensure that real, verifiable reductions have been obtained.

In short, reverse auctions can promote cost-effective subsidization, as can limiting subsidies to the difference between the allowance price and the abatement cost. Removing the excess allowances created by the subsidized reductions can ensure that the subsidized reductions are in fact additional. (Allowance removal could also help address concerns about excess banking of allowances.) There are clear synergies between this kind of approach and the proposals to create an Emissions Containment Reserve and to change the Auction Reserve Price.

3. Raise the Auction Reserve Price & Implement an Emissions Containment Reserve

The Auction Reserve Price is the hard price floor in the RGGI allowance auction system. Raising the price floor can spur additional reductions from emitters and increases the potential for retiring more allowances. CLPP encourages RGGI to adopt a higher price floor.

An Emissions Containment Reserve (ECR) is an excellent idea, ensuring that if the cost of achieving reductions is lower than anticipated, more of them are secured and the cap is reduced. CLPP further notes that an ECR and the Cost Containment Reserve (CCR), if the CCR is retained, need not operate symmetrically; increasing the cap via the CCR in response to high prices should be more constrained than reducing the cap in response to low prices.

Again, CLPP appreciates this opportunity to provide feedback on the 2016 Program Review and urges the RGGI states to provide even stronger climate leadership in the years ahead.