February 19, 2016

Comments transmitted via e-mail to info@rggi.org

Re: RGGI 2016 Program Review Requests for Comments Regarding IPM Modeling Scenarios

To Whom it May Concern:

EDF appreciates the opportunity to comment on the 2016 RGGI Program Review IPM Reference Case and Policy Scenarios presented at the recent stakeholder meeting on February 2nd in Wilmington, Delaware. EDF supports market-based compliance programs to reduce emissions, and recognizes the role that the RGGI states have played as leaders in developing and implementing a strong program that can be adjusted and improved over time. We support the 2016 Program Review process, and encourage the RGGI states to continue moving forward with both the Program Review and Clean Power Plan (CPP) compliance planning, which will provide clear and ongoing leadership from the region.

We strongly support the RGGI states adopting mass-based trading-ready plans that include both existing and new sources as the means for compliance with the CPP. The RGGI states are already implementing a program that includes new units and it has delivered tremendous benefits to the region, as has been documented extensively including in two in-depth reports from the Analysis Group analyzing the economic impacts of RGGI.[1] Further, mass-based trading-ready compliance plans that include both existing and new sources will satisfy any obligation to address leakage under the CPP and help support the development of a larger national mass-based trading program.

At the recent stakeholder meeting, the RGGI states presented two potential policy scenarios to model: (1) continuation of the 2020 RGGI cap, combined with limits on the use of the Cost Containment Reserve (CCR) and offsets to ensure that power sector emissions would be no higher than the RGGI states' combined Clean Power Plan targets; and (2) continued reductions in the RGGI cap post-2020 at the rate of 2.5% of the 2020 cap level (i.e., 1.95 MT CO2) per year, reaching a cap of 56.7 MT CO2 in 2031, and elimination of the CCR and offsets. For all potential policy scenarios, the states proposed that the model would assume CPP implementation outside the RGGI region through a mass-based approach including existing and new sources, with allowance trading assumed within RGGI only and among states outside RGGI only. The states

[1] *See* Analysis Group (2015), *The Economic Impacts of the Regional Greenhouse Gas Initiative on Nine Northeast and Mid-Atlantic States: Review of RGGI's Second Three-Year Compliance Period (2012-2014)*, available at http://www.analysisgroup.com/uploadedfiles/content/insights/publishing/analysis_group_rggi_report_july_2015.pdf; Analysis Group (2011), *The Economic Impacts of the Regional Greenhouse Gas Initiative on Ten Northeast and Mid-Atlantic States: Review of the Use of RGGI Auction Proceeds from the First Three-Year Compliance Period*, available at http://www.analysisgroup.com/uploadedfiles/content/insights/publishing/economic_impact_rggi_report.pdf.

1875 Connecticut Avenue, NW
Washington, DC 20009
T 202 387 3500
F 202 234 6049
edf.org

requested feedback on their proposed policy scenarios and on additional policy scenarios they might consider modeling.

Our specific comments are the following:

1) **We recommend modeling the states' two proposed policy scenarios, as well as a third scenario that would reduce the RGGI cap by 5% of the 2020 cap level per year, while eliminating the CCR from above the cap, and result in a 2030 cap just under 40 MT CO_2.**

   The modeling runs already proposed will provide valuable insights for the states and stakeholders regarding emissions outcomes, allowance prices, generation mix, and other key outputs. In addition, we recommend that a more ambitious policy scenario be modeled examining a 5% annual cap decline. Such a scenario would provide a useful range of options and even greater information to the states and stakeholders as the states consider the most appropriate cap trajectory to implement. This is particularly important as the states work towards determining how best to meet their longer term climate targets both in the electricity sector and economy-wide.

2) **We encourage RGGI to include an additional model run that evaluates the impact of trading between RGGI states and states outside RGGI, particularly if the RGGI states decide to include the more aggressive cap scenario outlined above (i.e. 5% annual reduction).**

   A scenario that isolates and examines the impact of trading, particularly as it relates to a more ambitious cap decline scenario such as the one described above, will provide valuable insights for stakeholders regarding emissions outcomes, allowance prices, generation mix, and other key outputs. In a context where states across the country are now thoughtfully exploring mass-based programs to limit CO2 emissions from the power sector, it makes sense for RGGI states and stakeholders to evaluate and better understand the impact of trading outside the existing RGGI region.

3) **As the RGGI states examine options for policy scenario modeling, we encourage states to consider that the Cost Containment Reserve can be an effective cost containment provision that provides additional flexibility, but should be redesigned to ensure environmental integrity.**

   As currently designed, CCR allowances are additional to the RGGI cap and the reserve is triggered at prices that are relatively low, such that through its first two years of operation, all 15 million available CCR allowances have been purchased. This design effectively raises the RGGI cap and creates a dynamic where the reserve is utilized even under circumstances of normal allowance price fluctuations. If designed appropriately, allowance reserves can be useful and effective at providing flexibility and cost containment in situations of unexpected market conditions, while maintaining the integrity of the cap, as is the case, for example, in California's cap-and-trade program.

   If the RGGI states choose to retain the CCR, we recommend two revisions. The first is to draw allowances from beneath the cap, rather than creating new allowances when price triggers are met. This would ensure that emissions limits are not exceeded, while preserving a mechanism to mitigate price volatility. The second would be an increase to the CCR price triggers. The purpose of a CCR should be to mitigate price spikes in times of unexpected and exceptional circumstances, rather than to bring additional allowances into the system under normal market conditions.

We appreciate the opportunity to share our input with the RGGI states on the 2016 Program Review and look forward to further engagement as the process progresses. If you have any questions, please do not hesitate to contact us.

Sincerely,

Susanne Brooks
Environmental Defense Fund
Program Director, Office of Economic Policy & Analysis
sbrooks@edf.org
202-572-3354

Pam Kiely
Environmental Defense Fund
Senior Director of Regulatory Strategy
pkiely@edf.org
202-572-3284