

ENVIRONMENTAL ENERGY ALLIANCE OF NEW YORK  
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October 23, 2024

Andrew J. McKeon  
Executive Director  
Regional Greenhouse Gas Initiative, Inc.  
90 Church Street, 4th Floor  
New York, NY 10007

**Re: RGGI Program Review**

Filed electronically to [info@rggi.org](mailto:info@rggi.org)

Dear Mr. McKeon:

I am writing on behalf of members of the Environmental Energy Alliance of New York (the "Alliance") to provide comments to the Regional Greenhouse Gas Initiative ("RGGI") Third Program Review document published on September 23, 2024. The Alliance is an ad hoc group of electric generating companies, transmission and distribution companies and other providers of energy services in New York State. The Alliance supports our members in understanding state and national environmental regulatory initiatives to formulate and achieve their business goals and proactively advocate for cost-effective regulations and policies. The operations of Alliance members contribute to the reliability of the State's electric grid and to the economic well-being of the State. Alliance members have an interest in the Third Program Review because it affects the compliance obligations and operations of members' generating facilities. These continued operations also affect many stakeholders who depend on a reliable supply of electricity to power homes and businesses across New York State.

Alliance members have been participants in the development and evolution of the RGGI Program (the "Program") since its inception. Many Alliance members are RGGI compliance entities that have participated in the auction process to meet their compliance obligations on an ongoing basis. Based on this wealth of experience, the Alliance offers the following observations related to the Third Program Review. Please recall that the Alliance previously provided comments on the development of the Third Program Review by letter dated October 24, 2023. For your convenience, I have included a copy of that letter with this filing.

The Third Program Review document asks for stakeholder input on two issues: how to accommodate future participation by other states, and the derivation of additional cap modeling scenarios. Each issue is addressed, in turn, below.

**Accommodating Potential Future Participation by Other States**

One of the hallmarks of the overall Program has been the straightforward nature of the auction and compliance programs created at the beginning of RGGI, which were slightly modified in the first two program reviews. The emissions accounting approaches and compliance filings are well established and closely mimic similar programs established by the U.S. Environmental Protection Agency.

Any of the “accommodation mechanisms” suggested by the text on page two of the Third Program Review document would undermine this key aspect of the Program. The Alliance believes that it is important to maintain a consistent approach among all States participating in the Program, and not to establish a hierarchy of different allowance types such that an allowance from State A has a different compliance value than an allowance from State B.

The Alliance acknowledges that the RGGI States are focused on “...safeguarding any new environmental ambition achieved by the current RGGI participating states as a result of the Third Program Review.” However, the RGGI States’ environmental ambition can be preserved by mandating that any State joining the Program have the same end goal as the RGGI Program.

Clearly, some States may want to exercise more emission reduction ambition than others. However, the RGGI States would be ill-advised to attempt to revise the existing Program and Model Rule to capture all individual States’ emission reduction goals. The Program should provide a foundational model, consistently applied across all ten (or more) participating States. Should a particular State desire to establish a mandate for additional reductions, that State should establish a complementary program for emission sources within the State. An example would be the proposal by New York State to establish a “cap-and-invest” program that is intended to drive in-state emission reductions at a greater speed, and across more industry sectors, than the current RGGI Program.

If the RGGI States desire to expand the number of States participating in the Program, particularly bordering States like Pennsylvania and Virginia, it is important that any modifications arising from the Third Program Review include the right incentives for additional States to join the ten-state group. The Alliance asserts that the establishment of a second cost containment reserve (CCR) and other containment measures are an appropriate revision to the Program. The recent rapid escalation of allowance auction clearing prices is a stark example of the consequences of insufficient cost containment measures.

An allowance cost as high as that exhibited in the last auction creates a perverse incentive for bordering States not to join the Program. Once a \$20+ per ton allowance cost is added to the other components that establish the cost of electricity, the cost advantage of an efficient combined cycle unit within the Program relative to an older, inefficient unit outside the Program is lost. For example, RGGI allowance prices are now equal to the fuel cost component of participating gas generators’ wholesale energy market bids – equivalent to a 100% tax on fuel cost. In other words, a power plant in a non-RGGI neighboring state can emit up to twice the CO<sub>2</sub> amount of a power plant in a bordering RGGI state and still be competitive on price.

Under this scenario, a non-participating States maintain lower power prices for their citizens as electricity generated within their borders by higher heat rate sources can be sold at higher prices in an adjoining RGGI-bound market. Ensuring that RGGI allowance costs are well controlled will be in the interest of RGGI States and will provide a market incentive for other States to join the Program. At a minimum, cost containment controls will prevent less-efficient generation in non-participating states from displacing the operating hours of highly efficient, combined cycle generation in participant states – generation which, in part, was built to benefit participant state ratepayers by displacing less-efficient generation that \$20+ RGGI prices now incentivize to run more often.

Cost control options could include the establishment of a second CCR as well as placing limitations on the participation of non-compliance entities in auctions. Under current RGGI rules, compliance entities are subject to certain rules which require the surrender of allowances by a date certain. Non-compliance

entities are not subject to these rules, allowing traders to hold allowances for prolonged periods, potentially setting up a short squeeze on price to increase the value of their allowance holding. As established, allowances prices beyond a certain threshold do not necessarily result in decreased emissions. Rather, due to “leakage,” higher prices create a real financial incentive for higher-emitting resources in non-participating states to displace the generation of lower-emitting resources in participant states. The RGGI states should consider new limitations on non-compliance entity participation in the RGGI auctions, including outright bans and a lower auction participation limit compared to the current 25% cap.

Although not specifically raised in the Third Program Review documentation, the Alliance also recommends that the RGGI States rigorously analyze the consequences of increasing allowances prices and the proposed escalating reserve prices on the amount of “leakage” that could occur in power markets. Previous reviews of leakage have been somewhat informal in nature, claiming that leakage does not exceed five percent of the total power market. This presumption, and the methodology for concluding that it is correct, should be carefully examined and the results shared with all related stakeholders.

### **Additional Cap Modeling Scenario**

As noted earlier, Alliance members have participated in the development of the Program from its inception and have also offered stakeholder comments during the First and Second Program review. In both instances, and again as part of this Third Program review, the Alliance contends that the material presented as output of the IPM modeling process lacks sufficient detail and background information for informed stakeholder review and comment.

The Alliance notes the list of assumptions for seven different components of power markets on page 13 of the Third Program review document. While this insight is welcome, the document does not provide any indication as to how those assumptions were considered in the modeling. To take but one example, the document notes that “certain states have submitted minimum run requirements to be included in the model,” and further, that the data related to minimum run requirements were “provided by states (incl. Delaware, New Hampshire, New York).” Yes, but how were minimum run requirements considered in the model? The same question arises in reviewing all the seven components – it is valuable to know that ICF acquired data and insight, but how was the data incorporated into the model, and what are the consequences of the way the data was modeled on the conclusions drawn? This information should be shared with stakeholders.

The Alliance is heartened to note that the RGGI States acknowledge, on page ten of the Third Program review document, that there is a significant difference between IPM modeling output and the reality of how allowance markets work in real time. The second column on page ten notes that “speculation” is a market consideration, but not a consideration in the IPM modeling outputs. However, the modeling output listed on page 17 of the Third Program review document, includes the following note: “Emissions are lower through 2030 to build a bank of allowances for tighter cap years 2032 onwards.” This is clearly “speculation” on the part of the model or the modelers and is not consistent with how compliance entities like the Alliance members approach the market or their generation obligations.

Compliance entities like Alliance members purchase allowances in the auction with an eye towards likely emissions output during the compliance period. They are not in the business of buying and selling allowances as a revenue source or as a hedge against price escalation but are strictly focused on having sufficient allowances to surrender at the end of the control period. If the speculative statement on page 17 indicates that lower demand for electric power through 2030 will result in lower emissions, it is not at all

clear how the model expects that to come about, what policy mechanism would drive that sort of anticipatory action, or how load would be met.

The detailed spreadsheets circulated with the Third Program review document (Program\_Review\_Modeling\_Results\_9-23-2024) provide additional insights but still leave stakeholders with a number of questions. For example, the spreadsheet shows emission quantities for 2028 across three different modeling scenarios, ranging from 35 million tons to 50 million tons. However, there is no indication as to how the annual emission rate dropped from approximately 77 million tons, as recorded in RGGI COATS for 2023, to those significantly smaller values in 2028. What mix of non-fossil fired generation, energy efficiency or load reduction could lead to such a decline, particularly considering recent analyses that suggest electrification and data center buildout will lead to significant load increases? This background information should be provided to stakeholders as part of the overall Program review process.

The Alliance in the past has also suggested that the RGGI States should publish the results of sensitivity runs that were completed to challenge the assumptions inputted into IPM's "black box." For example, page 14 of the Third Program review document lists the following assumptions for the development of "Case A" and "Case B":

Federal policies such as IRA and EPA Greenhouse Gas Standards and Guidelines for Fossil Fuel-Fired power plants drive emission reductions in 2030s. EPA power plant rules result in emission restrictions on coal and new gas facilities, reducing emissions in the Eastern Interconnect. IRA tax credits expand the deployment of renewables to meet load growth in the late 2030s, reducing thermal generation and emissions.

Each of these assumptions could be reasonably challenged. The EPA GHG standards are currently the subject of litigation, and even if eventually upheld by the courts, the standards only focus on existing coal fired plants, new simple cycle and combined cycle plants, and existing oil- and gas-fired boilers – generation types that are not dominant in the RGGI States where existing gas turbines are key. Congressional and Presidential election results could significantly modify the structure of the IRA tax credits. Did ICF conduct sensitivity runs around these non-hypothetical possibilities, and if not, why not? These results and discussions should be shared with stakeholders to allow a thorough review of the modeling outcomes.

Further, the detailed spreadsheet shows Henry Hub natural gas prices remaining fairly constant through 2037. Inasmuch as natural gas is the primary fossil fuel used in the RGGI States, and has historically exhibited price volatility, it would be prudent to conduct sensitivity runs around a wider range of natural gas prices to determine how such dramatic changes in gas prices would impact the overall modeling outcomes. The results of such analyses should be shared with stakeholders.

One final example. The detailed spreadsheet shows an increase in power flows into the NYISO from 19 TWh in 2028 to 36 TWh in 2037. A footnote indicates that "Imports from Canada include flows from CHPE and HQ." But the CHPE project will be operational in 2026, and there are existing ties between Hydro Quebec and the NYISO. What new transmission facilities, and new generation assets in Canada, are assumed to allow this significant increase in imports into the NYISO? Documentation describing these types of assumptions should be shared with stakeholders.

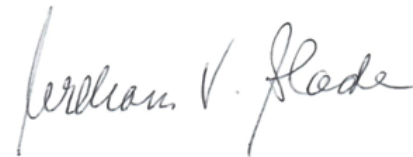
## **Summary**

In conclusion, the Alliance recommends that the RGGI States should not establish a new program feature (as described in the September 23, 2024, stakeholder document) that would complicate the well-

functioning allowance market and compliance filing mechanisms. The Alliance asserts, through numerous examples, that additional details surrounding the IPM modeling outputs should be provided to stakeholders to allow a more thorough understanding of the implications of the RGGI Program review. Lastly, the Alliance recommends that the RGGI States rigorously analyze the consequences of increasing allowances prices and the proposed escalating reserve prices on emissions “leakage” in power markets, with consideration of cost control options.

The Alliance appreciates the opportunity to continue to participate as a stakeholder in this important program and welcomes further discussion of any of the points raised herein.

Sincerely,

A handwritten signature in black ink that reads "William V. Slade". The signature is written in a cursive style with a large, prominent 'W' and 'S'.

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