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May 9, 2016

RE: Pace Energy and Climate Center Supplemental Comments Addressing Trading with Non-RGGI States

Dear Ms. Singh and Members of the RGGI Board:

The Pace Energy and Climate Center ("Pace") appreciates the opportunity to provide comments in response to the on-going 2016 Program Review. The states have shown a strong commitment to transparency and openness throughout the entire process. These qualities serve as a model for the development of environmental regulations elsewhere in the country.

These comments supplement the Joint Stakeholder Comments we are submitting with other environmental organizations ("Joint Comments"). We fully support the recommendations and points made within the Joint Comments. We are particularly intrigued by the issues that stem from the consideration of trading with non-RGGI states. Pace applauds the RGGI states for their eagerness to tackle these issues now. It is important that RGGI be "ready for business" by the time other states begin implementing the Clean Power Plan, which will likely result in many states instituting mass-based programs like RGGI. We caution that linking carbon markets can be a very complex and contentious issue.

Pace advances the following supplementary principles to help guide the RGGI states when considering whether to trade with non-RGGI states.

Principle 1: *Trading with non-RGGI states should not undermine the environmental integrity of RGGI.*

Maintaining the RGGI states' climate leadership should be the imperative when considering trading with non-RGGI states. Under no circumstances should trading with other states result in an aggregate increase in carbon emissions within RGGI states and the linked state. In other words, trading should not result in additional emissions than would have otherwise occurred if linking did

not happen. A prime example of this principle is ensuring leakage does not increase when carbon markets are linked. Requiring trading states to cover both new and existing sources, as recommended in the joint comments, is one step to ensure emission increases do not occur.

Principle 2: *Trading with non-RGGI states should not unduly undermine the regional economic and health benefits of RGGI.*

Trading with non-RGGI states will increase the portfolio of carbon emission reduction options, which in the aggregate will help reduce overall emissions at the lowest possible cost. This will occur by allowing entities with higher marginal costs of CO_2 emissions abatement to continue to emit, while entities with lower marginal costs make emission reductions. Therefore, trading with non-RGGI states will increase or decrease total emissions within the RGGI region—while maintaining overall aggregate emissions between RGGI and the non-RGGI states—depending on the relative marginal costs of abatement for each entity. Achieving emission reductions at an overall lower cost is always a laudable goal and the RGGI states should strive for this outcome.

While CO_2 is a global emission and the relative geographic location of its release theoretically does not matter, power plant co-pollutants such as NO_x, SO_2, and particulate matter do have adverse negative impacts at the local level. Trading with non-RGGI states that have extremely low marginal costs of abatement—as can occur if their cap is "over-allocated"—may shift disproportionate amounts of CO_2, and thus other co-pollutant emissions, to the RGGI region resulting in negative health consequences for communities residing in the RGGI region. Such a scenario will also significantly reduce revenues for RGGI allowance auctions. As the Joint Comments state, these revenues have been used to create significant economic benefits in the RGGI region through investments in energy efficiency, renewable energy, and other measures. These benefits far outweigh the initial revenue collected through allowance auctions. A significant reduction in these revenues would translate to a significant reduction in net benefits for the RGGI region.

The RGGI states should require the adoption of criteria that ensure significant flows of non-RGGI allowances into the RGGI region do not occur as the result of linking carbon markets. Having these criteria will provide a disincentive to non-RGGI states for over-allocating their carbon budgets with the intent of selling excess allowances into other markets. As the Joint Comments propose, this could be accomplished through similar price floors or other mechanisms. Pace recommends the RGGI states spend adequate time developing such a mechanism, since the linkage of carbon markets can be a complex and contentious issue.

Principle 3: *To the greatest extent possible, trading with non-RGGI states should encourage the adoption of program design best practices.*

One of the original goals of RGGI was the development of a model national program for carbon reduction. We reiterate the Joint Comments' point that trading with non-RGGI states is a valuable opportunity to promote the sound program designs resulting from RGGI's development and implementation. Program design criteria that are not required to ensure adherence to Principles #1 and #2, but would result in better environmental outcomes nationwide, should be explicitly

encouraged by the RGGI states. Pace recommends that the RGGI states explore mechanisms that reward and incentivize non-RGGI states for adopting program design best practices mentioned in the Joint Comments, including the auctioning of allowances, the reinvestment of allowance value into consumer benefit programs, and the completion of environmental justice analyses.

We thank you for the opportunity to comment on these issues as part of the 2016 Program Review, and we look forward to engaging further on them as the process continues.

Sincerely,

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