COLLABORATIVE FOR RGGI PROGRESS

PRELIMINARY JOINT RECOMMENDATIONS FOR THE 2016 PROGRAM REVIEW[1]

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Acadia Center, Calpine Corporation, Exelon Corporation,
National Grid and Natural Resources Defense Council

The Collaborative for RGGI Progress is pleased to submit these recommendations to guide the 2016 Program Review.

Recommended Principles to Guide RGGI

In making 2016 program review decisions, the RGGI states should:

(1) Lead the nation by example and pave the way for a national market for carbon reductions including developing a plan that is designed to trade with other states, provided that trading with other states can ensure preserve program environmental and market integrity.

(2) Ensure that RGGI continues to play its fundamental role in achieving economy-wide greenhouse gas emissions reductions of 80% by 2050.

(3) Design the RGGI cap to ensure that it functions effectively to reduce emissions, informed by the reductions expected from complementary policies and legislation, while accounting for the total energy cost that will be incurred by the customer from multiple mechanisms being deployed to reduce emissions from the generation sector.

(4) Design the RGGI cap to send sufficient price signals to the market to promote low- and zero-emitting generation in the region.

(5) Protect electricity consumers with a balanced approach that provides both cost containment and the continued investment of auction proceeds in energy efficiency and/or other consumer benefit programs including mitigation of bill impacts.

[1] Additional comments are anticipated once RGGI has completed the modeling analysis and the true cost to customers has been evaluated.

A Framework for Meaningful Progress

The Collaborative recognizes that a critical element of the review process has not yet been completed – the retail cost impact analysis. While it is therefore premature to stake a view on a proper cap, we believe it is important to share agreed upon fundamental program guardrails.

(1) The reduction trajectory should continue through 2030. This promotes market certainty and provides an effective means of complying with EPA's Clean Power Plan.

(2) RGGI has modeled a 5% reduction region-wide, which would go a long way toward meeting the 80% by 2050 goals. The group could endorse such a target if the customer bill impacts and electric system reliability implications were projected to be reasonable.

(3) RGGI could continue to implement a limited cost-containment reserve (CCR) that would be issued in addition to the RGGI cap, but it should be limited in size so that the reduction each year is no less than 2.5%.[2] The price trigger for the CCR should be set high enough above expected allowance prices in order to avoid distorting bidding behavior and avoid releasing additional allowances under normal market conditions.[3] The CCR should in any event function as intended.

(4) Prior to the next program review in 2020, RGGI should evaluate the need to adjust for the private bank of allowances existing as of December 31, 2020 by reducing the annual caps over time to account for the bank, similar to the method used in the 2012 review. Implementation of any adjustment should commence after 2020.

Reflections on Modeling to Date

Collaborative participants have reviewed the modeling results made available to date by the states. There are a number of trends in the region's electricity sector that may not be adequately captured in these modeling results, including the effect of:

- energy policies not included in the reference case scenarios, including updated renewable and clean energy standards;
- differences in forecasted demand;
- differences in natural gas prices and availability;
- additional retirements of fossil fuel-fired plants;
- additional retirements of nuclear plants;

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[2] It is possible that the Collaborative would suggest a minimum reduction level that is higher than this 2.5% per year—such as 3.5% per year—if additional modeling showed a higher minimum level could be accomplished without an undue burden on customers.
[3] The price trigger should take in to account the customer bill impact from complementary policies and can serve as a means to ensure over-all energy bill impact is minimized as necessary.

- differences in the cost of new renewable energy capacity; and
- differences in the availability of new transmission lines.

These various inputs could have implications both positive and negative. If these dynamics were included in RGGI's reference case sensitivities, the impacts of the various policy scenarios would be better understood. The Collaborative urges the RGGI states to consider the impacts of these dynamics and, if possible, provide these additional analyses to inform all stakeholder input on the 2016 Program Review.

2020 Program Review and Interaction with the Clean Power Plan[4] States

The Collaborative is interested in seeing RGGI leverage its regional leadership to achieve strong results nationally and pursue trading in a way that reaps the cost-reduction benefits of a broader market while building on RGGI's demonstrated functionality. RGGI should undertake a 2020 program review and as part of that review, the region should:

(1) encourage trading with other states that take a mass-based approach and cover both existing and new power plants or implement an equivalent approach to addressing emissions leakage.

(2) ensure that RGGI maintains a minimum allowance price by protecting its auction floor price or through other comparable mechanisms.

(3) consider sunsetting any remaining cost-containment reserve once broad trading with other states is established and it is demonstrated that a CCR is unnecessary.

(4) encourage and enable best practices among other states that use mass-based trading under the Clean Power Plan, including by making the RGGI auction platform available to states that choose to auction allowances, and by sharing information on the benefits of RGGI's cap and invest model.

(5) strongly consider covering additional sectors, especially transportation, to ensure that states will achieve their 2050 economy-wide reduction goals.

[4] These comments assume the Clean Power Plan is implemented largely as finalized.