

Joint Stakeholder Comments on the RGGI Program Review

June 22nd, 2016

Our organizations welcome the opportunity to submit comments in response to the June 17th stakeholder webinar. We appreciate the responsiveness to stakeholder input that the RGGI states have demonstrated through the program review thus far. In particular, we appreciate the receptiveness to modeling a 5% annual cap reduction scenario. We look forward to continued engagement through the modeling and decision-making process.

As the states move forward in the program review, we respectfully request additional time to provide stakeholder input on materials presented in webinars and meetings. With extra time for comments, stakeholders can provide more detailed and comprehensive feedback, and additional time would facilitate collaboration among stakeholders to streamline input to the states.

1) Request for Additional Policy Scenario

The modeling scenarios presented on June 17th offer valuable information on a robust range of program design options, but there remains an important scenario that has yet to be analyzed. Throughout the program review, numerous groups have requested that the RGGI states model a scenario with capped emissions declining by 5% of the 2020 baseline each year through the modeling horizon, resulting in a 2030 cap level of 39 million tons. This request is based on the dual justification that A) such a trajectory is consistent with RGGI emissions reductions to date, and B) multisector analysis has demonstrated that this is the most cost-effective pathway to achieving the RGGI states' 2030 economy-wide GHG commitments.¹

We appreciate that the June 17th presentation included two scenarios with a nominal 5% cap decline ("CPP N+E 5%" and "CPP 5% CCR"). However, the use of banked allowances from 2020 and earlier years (both scenarios) and allowances purchased from the CCR ("CPP 5% CCR") is expected to result in 2030 emissions of 57 to 60 million tons. These 2030 emissions levels are not consistent with the historical rate of RGGI emissions reductions nor are they aligned with achieving 2030 economy-wide targets.

We would like to understand the impacts of a scenario with capped emissions declining by 5% of the 2020 baseline each year through the modeling horizon, without the availability of banked allowances from 2020 and earlier years or additional allowances from the CCR. This would require an adjustment for banked allowances following 2020, and put the RGGI states on pace to achieve their 2030 economy-wide climate targets by limiting 2030 power sector carbon pollution to 39 million tons.

¹ Synapse Energy Economics (2016), *The RGGI Opportunity 2.0: RGGI as the Electric Sector Compliance Tool to Achieve 2030 State Climate Targets*, available at http://www.synapse-energy.com/sites/default/files/RGGI_Opportunity_2.0.pdf

2) Model a Sensitivity in Which All RGGI State Renewable Portfolio Standards Are Extended Through the Full Modeling Horizon Using Current Rates of Increase

An important driver of renewable development in the RGGI region has been and will continue to be state renewable portfolio standards (RPS). Every state in the region has adopted an RPS, and compliance with these standards has driven much of the recent renewable development in the region. At present, only three states have developed a standard that both extends and continues to increase through at least a 2030 time horizon: Massachusetts,² New York,³ and Vermont.⁴ Other state standards currently stop increasing in 2017 (Maine⁵), 2019 (Rhode Island⁶), 2020 (Connecticut⁷), 2022 (Maryland⁸), 2025 (New Hampshire⁹), or 2026 (Delaware¹⁰). Of these latter states, however, some are already looking to extend and increase their standards. For example, both houses of the Rhode Island legislature very recently passed bills that would extend the Rhode Island RPS to 2035 and increase it to 40% in that year.¹¹ And others are likely to do so as their end dates approach.

Because it is highly probable that many if not all of the RGGI states will update their renewable portfolio standards with procurement targets that extend and continue to increase through the full modeling horizon, and because supplementation of these existing renewable portfolio standards will increase renewable generation in the region¹² with positive effects on carbon emission levels, we urge the RGGI states to model a sensitivity in which each state's RPS is extended through the end of the modeling horizon using the RPS's current rate of increase. In other words, rather than assuming that each state's RPS plateaus—in most cases prior to 2030—each state RPS would instead continue to grow at its current annual rate of increase through the 2030-2031 timeframe. So, for a state like Rhode Island, the sensitivity would model Rhode Island's RPS as increasing at an annual incremental rate of 1.5 percent through 2031 rather than plateauing in 2019. We believe that such a sensitivity would more closely

² M.G.L. ch. 25A, § 11F (increasing by 1% annually beyond 2020).

³ The New York Clean Energy Standard establishes a renewable energy requirement through 2030.

⁴ H. 40 (codified at 30 V.S.A. § 8002 *et seq.*), establishing RPS goals that increase out to 2032.

⁵ Pub. L. 403 (2007) (codified at 35-A M.R.S. § 3210); *see also* http://www.maine.gov/energy/initiatives/efficiency_renewable.html.

⁶ *See* R.I.G.L. § 39-26-4.

⁷ Conn. Gen. Stat. § 16-245a; *see also* <http://www.ct.gov/pura/cwp/view.asp?a=3354&q=415186>.

⁸ Md. Pub. Utility Code § 7-701 *et seq.*; *see also* <http://www.psc.state.md.us/electricity/renewable-energy/>.

⁹ *See* N.H. Stat. § 362-F.

¹⁰ *See* 26 Del. C. § 351 *et seq.*

¹¹ H.7413A; S.2185A.

¹² During the June 17th webinar, Chris McCracken of ICF confirmed that in all of the modeled scenarios, renewable portfolio standards were fully subscribed with economic additions of renewables and in no scenario were RPS obligations met through payment of Alternative Compliance Payments.

mimic reality, given the considerable likelihood that state renewable portfolio standards will in fact be revisited and extended between now and 2031. And, consequently, we believe that the results of this modeled sensitivity would provide states with important information about the region's likely fuel mix out to 2031 and about likely future RGGI allowance prices.

3) Macroeconomic, Bill Impact and Health Benefits Modeling

Power sector modeling of potential cap scenarios is a crucial source of information for RGGI decision-making, but it does not provide a complete scope of the program's impacts on the region. During the 2012 program review, REMI macroeconomic modeling¹³ and customer electricity bill analysis¹⁴ offered a more detailed perspective on how differing RGGI cap levels would affect the region's economic production, jobs, income, and electricity bills. We commend the RGGI states for taking this more holistic approach, and offer the following suggestions for the 2016 program review:

- **Apply REMI, electricity bill and health analysis to the broad range of cap scenarios.**

As the states pursue economic modeling of potential policy scenarios, we request that a range of scenarios related to the 5% annual cap reduction be analyzed. For reasons described above, thorough consideration of the 5% annual reduction is critical to assessing the contribution that RGGI can make to states achieving economy-wide emissions reduction requirements. Accordingly, we request that the RGGI states undertake economic modeling of the 5% scenarios already put forward ("CPP N+E 5%" and "CPP 5% CCR"), and the additional policy scenario described above in part 1.

- **In addition to REMI and electricity bill analysis, include an assessment of the benefits of avoided pollution.**

Measures taken to reduce CO₂ emissions result in both climate benefits (mitigating the long-term effects of climate change) and health co-benefits (arising from decreased emissions of co-pollutants, particularly in overburdened communities). The RGGI states should undertake a similar analysis to that included in EPA's Regulatory Impact Analysis for the Clean Power Plan to determine the climate and health co-benefits associated with modeled policy scenarios in comparison to the reference case.¹⁵ Avoided health costs and the welfare of communities most directly impacted by the power sector are important considerations in policy decisions.

¹³ NESCAUM (2013), *REMI Economic Impact Analysis: Assumptions and Results*. Available at:

http://www.rggi.org/docs/ProgramReview/REMI%2091%20Cap%20Bank%20MR_2013_06_03.pdf

¹⁴ Analysis Group (2013), *Customer Electricity Bill Analysis: 91 Cap Bank Model Rule Case*. Available at:

http://www.rggi.org/docs/ProgramReview/Customer%20Bill%20Analysis_91%20Cap%20Bank%20MR_13_06_03.pdf

¹⁵ EPA (2015), *Regulatory Impact Analysis for the Proposed Federal Plan and Model Rules*. Available at:

<http://www.epa.gov/sites/production/files/2015-08/documents/cpp-proposed-federal-plan-ria.pdf>

4) Cost Containment Reserve Reforms

As we have commented previously,¹⁶ and as confirmed by the states' modeling, RGGI's current Cost Containment Reserve (CCR) undermines the climate goals of the region by releasing extra allowances to emit carbon pollution above RGGI's emissions cap. The CCR's price triggers are also too low, which results in the CCR being triggered under normal market conditions and leads to perverse bidding behavior that can result in *higher* allowance prices,¹⁷ rather than serving the CCR's intended purpose of mitigating truly unanticipated price spikes in the region.

To address these concerns, we reiterate our earlier comments that if the RGGI states retain a CCR mechanism in future years, they should make the following modifications:

- **The CCR should not increase the quantity of allowable emissions in the region.**

Allowances available under the CCR should be drawn from underneath the RGGI cap, such as by adjusting future cap years downward by the quantity of allowances used to fill (or that are released under) the CCR in earlier years. This would preserve a mechanism to mitigate price volatility while ensuring that agreed-upon, aggregate emissions limits are not exceeded. This approach is similar to what is used in California's emissions trading program, where prices have been stable.¹⁸

- **The CCR's price triggers should be raised and possibly made "harder to pull."**

The presence of a CCR is justifiable if it serves to mitigate price spikes in times of unexpected and exceptional circumstances. The CCR should not be triggered under normal market conditions as it was in 2014 and 2015, resulting in the release of 15 million tons of additional allowances above the RGGI cap. Raising the CCR price triggers will dissuade market participants from offering bids intended to trigger the CCR under business-as-usual circumstances. To avoid triggering the CCR unnecessarily, the trigger could also be made harder to pull. For example, the states might redesign the CCR so that a single exceedance of a price trigger would not result in the release of extra allowances. Instead, additional allowances might be introduced into the market only after multiple exceedances, such as in two or three consecutive quarterly auctions.

¹⁶ See, e.g. joint environmental and public health stakeholder comments on the RGGI program review (May 9, 2016), available at: http://www.rggi.org/docs/ProgramReview/2016/04-29-16/Comments/Joint_Comments_Environmental_and_Health_Advocates.pdf.

¹⁷ Commenters at the April 29th Learning Session on the Cost Containment Reserve, in particular Judith Schröter, Lead Analyst US Carbon & Offset Markets at the trade publication ICIS, indicated that market participants were increasing bids to CCR threshold levels in order to earn more allowances.

¹⁸ EDF, Carbon Market California: A Comprehensive Analysis of the Golden State's Cap-and-Trade Program, http://www.edf.org/sites/default/files/content/carbon-market-california-year_two.pdf.

We appreciate that the RGGI states have begun exploring higher CCR price triggers through the “5% Cap CCR” scenario. If a CCR mechanism is retained, raising price triggers and making them more difficult to pull would be good policy. However, price trigger reforms should be pursued together with modifications that ensure that CCR allowances are drawn from underneath the cap. Absent the latter, the CCR may continue to undermine RGGI’s environmental performance, as shown in the 5% Cap CCR scenario, where the modeled emissions remain consistently and significantly above the cap.

Thank you for your time and attention to these comments,

Acadia Center
Appalachian Mountain Club
Chesapeake Climate Action Network
Chesapeake Physicians for Social Responsibility
Conservation Law Foundation
E2 Environmental Entrepreneurs
Environment America
Environment Connecticut
Environment Maine
Environment Maryland
Environment Massachusetts
Environment New Hampshire
Environment New York
Environment Rhode Island
Environmental Advocates of New York
Natural Resources Council of Maine
Natural Resources Defense Council
Pace Energy and Climate Center
Sierra Club
Vermont Chapter of the Sierra Club
Vermont Energy Investment Corporation