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July 11, 2017

Andrew McKeon, Executive Director
RGGI, Inc.
90 Church Street, 4th Floor
New York, NY 10007
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RE: Comments on 2016 Program Review in response to June 27, 2017 Stakeholder Meeting

Dear Executive Director McKeon and Members of the RGGI Board:

As a Boston-based organization working with some of the nation's most influential businesses, institutional investors, and leading nonprofits to create a more sustainable economy for people and the planet, Ceres appreciates the opportunity to submit comment into RGGI's Program Review and encourages RGGI states to strengthen the RGGI program moving forward. **Ceres, and many of the companies and investors with whom we work, urges RGGI states to adopt a strengthened program that sets a more stringent annual cap as well as more ambitious program design elements.**

Companies and investors understand the importance of addressing the risks of climate change and the need for policies to reduce carbon pollution. Ceres' BICEP (Business for Innovative Climate and Energy Policy) Network comprises more than forty companies including Gap Inc., IKEA, Autodesk, and Timberland who are advocating for policy solutions because they see climate change as a major risk to their supply chains and operations. They also recognize the immense economic opportunities of clean energy investments.

Ceres and many of our members recognize the importance of RGGI for its value in reducing the region's electric-sector carbon emissions—sending important market signals while also attracting investments and economic growth. RGGI has a successful track record of reducing electric-sector carbon emissions while lowering regional electricity costs and continuing to grow the economy.[1] As the sixth largest economy in the world, RGGI states have an important role to play, and the program's success sends an important signal to other countries and other states.[2]

The RGGI program can and should be strengthened moving forward. RGGI currently sends a relatively weak price signal for the emissions market, which highlights the need for a more ambitious RGGI program. RGGI-state carbon emissions have reduced on average five percent per year since the program's inception—demonstrating that more ambitious emissions reductions can be achieved at relatively low costs.

[1] From 2008-2015, RGGI states' CO_2 emissions dropped 16 percent more than the rest of the country, while the region's economy grew 3.4 percent more and retail electricity prices dropped 3.4% across the region. *See:* Acadia Center. *Regional Greenhouse Gas Initiative Status Report: Part I: Measuring Success.* July 2016. http://acadiacenter.org/document/measuring-rggi-success
[2] Acadia Center. *RGGI on the World Stage.* June 2017. http://acadiacenter.org/document/rggi-on-the-world-stage

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Recognizing the need for a more ambitious RGGI program—and in response to the updated policy scenario modeling presented at the June 27th RGGI Stakeholder Meeting—Ceres offers the following recommendations:

We urge the RGGI states to adopt an ambitious carbon cap that declines at a rate of at least 3.5 percent annually. A more ambitious cap (Scenario #2) sends a stronger market signal and better reflects historic emissions reductions under RGGI. There is broad business support for a more ambitious RGGI cap as well: last August, more than 90 companies and investors wrote to RGGI leaders to encourage them to adopt a stronger annual cap reduction rate.[3] The modeling presented on June 27th demonstrates only a minor cost differential between the three scenarios and does not reflect the benefits of RGGI—especially the immense value of state reinvestments in energy efficiency and renewable energy. These reinvestments provide additional emissions reductions, local investment, reduced energy price volatility, and lower energy bills. Furthermore, establishing new cap levels in 2019 rather than 2021, as proposed in Scenario #3, would help align the RGGI program with recent market trends while capturing emissions reductions achieved to date.

RGGI states should also adopt ambitious program design elements that further incentivize emissions reductions:

- RGGI leaders should provide market certainty by creating a **standard practice to address banked allowances**. As the previous program review included, the RGGI states should conduct a full adjustment of banked allowances in order to address allowance oversupply while preserving the value of RGGI allowances. A multi-year adjustment schedule can create a buffer for compliance entities while correcting the market for abundance of supply.

- RGGI states should also **adjust the Cost Containment Reserve (CCR)** so that it is only triggered to mitigate price spikes in exceptional circumstances. A CCR trigger price that is too low can undermine RGGI's ability to reduce emissions. In addition, controls on the size of the CCR released at a particular auction would also help prevent an oversupply of allowances.

- Program design elements should also **correct the market in instances where the price signal is too weak**. The reserve price in an important element to spur actual emissions reductions while preserving the value of RGGI allowances and continuing to provide states with the revenues they often need. The reserve price should be increased—and should increase annually above the rate of inflation—in order to better reflect what the baseline market signal should look like.

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[3] Ceres. "90+ Companies and Investors Call On Northeast and Mid-Atlantic Governors To Double Down On Their Efforts To Cut Carbon Emissions." August 2, 2016. https://www.ceres.org/news-center/press-releases/90-companies-and-investors-call-northeast-and-mid-atlantic-governors

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- Finally, states should establish a well-designed **Emissions Containment Reserve (ECR)** that allows states to achieve greater emissions reductions under acceptable market conditions. A multi-tiered ECR would enable RGGI states to better balance supply and demand of allowances, without driving large changes in supply and with minimal resulting costs to ratepayers.

Businesses and investors across the country are increasingly making climate commitments and are asking their electric utilities to supply clean energy. By the end of 2015, 63 percent of Fortune 100 companies and nearly half of Fortune 500 companies had commitments to reduce greenhouse gas emissions, procure renewable energy, or invest in energy efficiency.[4] In addition, this proxy season there was an unprecedented size and scope of investors voting (reaching majority or near-majority of votes) in favor of electric utilities taking climate change into account in their business decisions.[5] Clean energy allows companies to hedge against the volatility of fossil fuel prices—while reducing potential stranded fossil fuel assets—and lowers electricity bills for ratepayers.

By setting an ambitious future for the RGGI program, RGGI states will capture economic value through the creation of incentives for economic growth.

After the Program Review is complete, **RGGI leaders should consider opportunities to expand the RGGI trading market** by including or linking with other states or regions. Provided the integrity of the RGGI program is preserved through any expansion or linkages, a larger emissions trading market would be beneficial for all. A larger market would create greater flexibility for compliance, more opportunities to keep costs low and find cost-effective emissions reductions, and a bigger pot of allowance proceeds that can be reinvested in the clean energy economy.[6]

We appreciate the RGGI states' leadership and continued commitment to reduce carbon emissions, while growing the region's economy. Thank you for consideration.

Sincerely,

Anne Kelly
Senior Director, Policy and BICEP Network
Ceres

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[4] Calvert Research and Management, CDP, Ceres, World Wildlife Fund. *Power Forward 3.0: How the largest U.S. companies are capturing business value while addressing climate change.* April 2017. https://www.ceres.org/powerforward3.0

[5] Bakal, Dan. "The Power Sector Must Heed Shareholder Calls for 2-Degree Scenario Analysis." Ceres. June 27, 2017. https://www.ceres.org/news-center/blog/power-sector-must-heed-shareholder-calls-2-degree-scenario-analysis

[6] Analysis Group, Inc. *RGGI and CO2 Emissions Trading Under the Clean Power Plan*. July 2016. http://www.analysisgroup.com/uploadedfiles/content/insights/publishing/rggi_co2_emissions_trading_final_report.pdf