OFFICE OF THE MAYOR
253 Broadway - 10th Floor
New York, New York 10007
www.nyc.gov/planyc2030

SUSANNE DESROCHES
Deputy Director – Infrastructure Policy
Mayor's Office of Recovery and Resiliency

(212) 788-7554

July 11, 2017

VIA E-MAIL

Andrew McKeon
Executive Director
RGGI, Inc.
90 Church Street, 4th Floor
New York, NY 10007

Re: 2016 Regional Greenhouse Gas Initiative Program Review

Dear Mr. McKeon:

In accordance with the request at the June 27, 2017 Regional Greenhouse Gas Initiative ("RGGI") stakeholder meeting regarding the 2016 program review, the City of New York ("City") hereby offers additional comments on the maintenance of flexibility mechanisms and the potential expansion of RGGI and/or increasing trading partners.[1]

I. RGGI Should Maintain Flexibility Mechanisms

A. Cost Containment Reserve ("CCR")

As discussed at prior meetings and in its earlier comments, the City supports measures that continue to reduce the RGGI emissions cap. Such reductions should foster and facilitate efforts to more efficiently use energy and reduce greenhouse gas emissions. The City believes that RGGI can continue to be a key component towards achieving the RGGI States environmental policy goals and improving air quality while maintaining reliable and affordable electric service.

Consistent with this position, the City reiterates that RGGI should maintain complementary measures to provide relief in the event that unanticipated changes occur in the future that result in

[1] The City incorporates by reference its comments previously submitted on February 26, 2016 and November 30, 2016, respectively, which address these and other issues.

producing a scarcity of allowances. A firm price ceiling (*e.g.*, $15 per short ton), similar to the current auction reserve price, would be a transparent solution without being administratively burdensome measure to employ.[2] Such a price ceiling would establish a price above which allowance prices could not rise. In addition, because such a price ceiling would not necessitate the release of additional emission allowances, this mechanism would maintain the environmental integrity of the auction process.

To date, RGGI has not addressed the City's proposed price ceiling mechanism. The City strongly urges RGGI to analyze whether the use of a price ceiling mechanism has the potential to provide greater environmental benefits than the current structure.

If, after reasonable analysis, the price ceiling mechanism is not deemed to provide greater benefits the CCR structure should be maintained but at a higher trigger price ($15 per short ton) with an annual escalator corresponding to the annual reduction in the allowance cap (*e.g.*, 2.5 percent). The CCR size could be based upon a percentage of each annual cap. Under the current structure, the size of the CCR, 10 million allowances, on a percentage basis would have ranged from approximately 15 percent to 17.75 percent of the adjusted annual cap. A percentage within this range would be reasonable.

B. Emissions Containment Reserve ("ECR")

RGGI also requested additional comments on an ECR where a portion of the annual cap would be held in reserve if prices fall below a certain trigger price. The City does not oppose the concept of an ECR. However, the establishment of a final ECR trigger price recommendation is not possible until final price models are completed based on the final RGGI market structure. This issue notwithstanding, as the RGGI States commented in their November 21, 2016 presentation, the trigger price should be "sufficiently far below expected prices that the RGGI states can conclude" costs were overestimated based on the final price models. In the last six auctions, clearing prices have ranged from $2.53 per short ton to $5.25 per short ton. Given these results, a floor price of approximately $2.00 per short ton is reasonable. Moreover, given the inherent inaccuracy of long-term price projections, as with the CCR, after the initial year of the reset, any ECR trigger price should use an annual escalator (*e.g.*, 2.5%) rather than annual fixed trigger points.

C. Non-Compliance Entities

The City again urges RGGI to also review its rules governing the participation of non-compliance entities. In order to ensure the availability of allowances for compliance entities, in conjunction with the CCR and potential ECR, market rules should be modified to limit the allowances sold to non-compliance entities in any auction (*e.g.*, 50 percent of the available allowances). This modification would provide an additional safeguard to ensure allowances are

[2] The recommended price ceiling value of $15 per short ton is double the highest allowance auction price to date. As with the current CCR trigger price, the price ceiling could increase by a certain percentage in future years.

available to compliance entities, in particular those needed for reliability purposes. Moreover, the limitation would hinder the ability of entities to inappropriately attempt to exert market power.

II. <u>Any Expansion of RGGI Must Contain Safeguards</u>

As part of the program review, RGGI has requested stakeholder input regarding the potential for the expansion of RGGI and/or increasing trading partners. While the City is not opposed to the expansion of the RGGI market, the City reiterates that such expansion must include protections to ensure the integrity of the market.

With respect to new RGGI members, participation must be fully consistent with the RGGI MOU and Model Rule. For example, the scope of compliance entities and budgets for the new states must be based on the same principles used to establish the budgets for the existing RGGI states. Moreover, new members must participate in the auctions, and have strategies to deploy auction revenues and to adopt complementary programs as directed in the MOU and Model Rule.

Any non-member trading partner must adhere to similar guidelines. In particular, trading partners should have programs of equal or greater stringency than RGGI including but not limited to: (i) application to comparable sources; (ii) participation in an auction process; (iii) comparable emission limits; and (iv) dedication of allowance value for customer benefit. The absence of these requirements upon potential trading partners could dilute the effectiveness of the RGGI program.

If you have any questions do not hesitate to contact me.

Respectfully submitted,

Susanne DesRoches

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