COLLABORATIVE FOR RGGI PROGRESS

PROGRAM REVIEW PACKAGE RECOMMENDATIONS

Acadia Center, Calpine Corporation, Exelon Corporation,
Natural Resources Defense Council, and PSEG

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Introduction

The Collaborative for RGGI Progress brings together diverse industry and environmental interests to help the RGGI states identify the best path forward in completing the current program review. Collaborative participants strongly support RGGI as an effective mechanism to reduce carbon emissions from the power sector. We are pleased to submit these final consensus-based recommendations to RGGI states.

RGGI has been a great success to date, locking in reductions in carbon emissions from the region's power sector since the program took effect in 2009 and doing so using a flexible, market-based approach that has kept compliance costs low. The Collaborative is grateful for this opportunity to provide input in this, RGGI's second full program review. We stand ready to meet to answer any questions you may have on these recommendations.

Principles Underlying these Recommendations

In 2016, the Collaborative submitted a set of principles to the RGGI states to guide decision-making in the program review. We have refreshed those principles here below to provide context for our package of recommendations. We urge the states to make program review decisions using these principles.

(1) RGGI should lead the nation by example. Now perhaps more than ever, the country needs RGGI leadership to demonstrate the cost-effective, market-based path to deep decarbonization in the electricity and other sectors by mid-century.

(2) RGGI should link with or expand to include other states in order to most effectively reduce emissions of these harmful global pollutants. RGGI should make program design decisions that facilitate the inclusion of or linking with additional states.

(3) RGGI is fundamental to achieving regional climate goals. RGGI should continue to play a fundamental role in achieving economy-wide greenhouse gas emissions reductions of 80% by 2050.

(4) RGGI should continue to reduce emissions from the electricity sector in a market-based way that works well with the security-constrained, least-cost dispatch system operated by the respective ISO/RTOs.

(5) RGGI should send sufficient price signals to promote low- and zero-emitting generation in the region.

(6) The RGGI region should expand efforts beyond the electricity sector through electrification of transportation and other sectors.

(7) RGGI should continue to protect electricity consumers by providing both cost containment and the continued investment of auction proceeds in energy efficiency and/or other consumer benefit programs, including mitigation of bill impacts.

The Package

No single aspect of a robust program review—cap level, bank adjustment, emissions level, cost containment mechanism(s), or attracting new participant states—should be considered in isolation. In reaching these recommendations, the Collaborative has taken a similar approach. A change in any one element of the recommendations is likely to warrant a change in other aspects of the package to maintain program integrity and cost-effectiveness.

The Cap

- Starting point. The Collaborative recommends that RGGI reset cap levels to projected emissions at the time the program review changes take effect, as the RGGI states did in the last program review.

- Stringency of Cap. Recent RGGI modeling confirms that the rate of decline for the emissions cap is only one factor in determining program stringency. For example, a cap that declines at three percent per year may be more stringent than one declining at 3.5% per year depending on the initial cap level in 2021. Importantly, the price impacts varied minimally between the various runs presented by the states. The Collaborative supports a program package with stringency comparable to scenario #3 as presented by the states on June 27, 2017. (Scenario #3 is the 3.0% run (2.25 million tons per year) with a starting point of 74.95 million tons in 2019).

Bank Adjustment

- The Collaborative recommends that the states carry out an adjustment for banked allowances as that adjustment was implemented in the previous program review, when state adjusted for all banked allowances. This approach protects the continued viability of the program by maintaining all participants' faith in the program's long-term structure, viability, and value.

Cost Containment Reserve (CCR)

In the last program review, RGGI instituted the cost containment reserve, or CCR. The CCR was triggered in 2014 at the then-trigger price of $4 and in 2015 at $6. This led to the sale of five million additional allowances in 2014, or a one-time increase in the cap of 5.5%, and 10 million allowances in 2015, or an increase of 11.3%. The CCR allowances represent the equivalent of about three-fifths of the expected private bank in 2020.

- The Collaborative recommends that RGGI keep the CCR. The Collaborative supports the continued use of a CCR, but the CCR should be designed so that only one quarter of that year's CCR allowances are offered for sale at each quarterly auction and the trigger price should be set at a level that allowance prices are not expected to reach.

- RGGI should set the CCR trigger price at a level that allowance prices are not expected to reach. As a benchmark, the CCR trigger price should be set at least as high as, and preferably at least two times higher than the allowance prices in the high emissions modeling sensitivity run for the chosen cap level.

- The CCR should be five percent of the base cap, with a quarter of the CCR allowances offered in each quarterly auction.

Emissions Containment Reserve (ECR)

In the 2016 program review, the states find themselves considering changes to the RGGI program with allowance prices at or near the auction floor price and a considerable private allowance bank in circulation. RGGI allowance prices are once again much lower than officially projected. The emissions containment reserve, or ECR, offers a potential mechanism for RGGI to achieve additional emissions reductions should allowance prices again end up lower than expected.

- The Collaborative supports the inclusion of an ECR in the RGGI program design going forward. Similar to our recommendation above for the CCR, the Collaborative recommends that only one quarter of the annual ECR allowance pool be subject to withholding in each quarterly auction in the event the auction price is less than the ECR trigger price.

- RGGI should set the ECR trigger price at a level to which allowance prices are not projected to fall—for example, at the price observed in the low emissions sensitivity—but higher than the auction floor price.

- The ECR should be fifteen million tons per year—consistent with the modeling done by Resources for the Future—with a quarter of the ECR allowances subject to withholding at each auction.

RGGI Expansion, Other Sectors and a Transition to a National Program

- The Collaborative strongly supports the expansion of RGGI to new states. We anticipate submitting comments on this issue in the near future.

- Nearly all of the RGGI states have economy-wide goals to reduce greenhouse gas emissions by around 80% by 2050. Through RGGI, the electricity sector has been asked to reduce its emissions first and it has made significant progress to date, with more progress expected through RGGI and other policies. The Collaborative recommends that the states seriously tackle emissions from the other sectors of the economy. The states should step up efforts to reduce emissions from other sectors, including through electrification of transportation, buildings, and industry.

- The states should continue their efforts to encourage the federal government to implement a national program to reduce greenhouse gas emissions.