Shell ENERGY

Christa Lim
Regulatory Affairs Manager
Shell Energy North America
4445 Eastgate Mall, Suite 100
San Diego, California 92121
Christa.Lim@shell.com

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Via Email

TO: Regional Greenhouse Gas Initiatives (RGGI)
Info@RGGI.ORG

RE: RGGI Program Review Comment

To the RGGI Participating States and Program Review Staff:

Shell Energy North America (US), L.P. ("Shell Energy") appreciates the opportunity to comment on the RGGI states' Third Program Review objectives. Shell Energy markets and trades natural gas, power and environmental products and provides risk management support to its wholesale and retail customers throughout North America. Shell Energy's goal is to provide more energy to meet growing demand while providing cleaner energy to reduce carbon emissions. Overall, Shell Energy believes the RGGI states' CO_2 budget trading program should foster a strong price that will send clear market signals and incentivize greenhouse gas abatement practices, while allowing participating entities to maintain flexibility to respond to market factors. With that objective in mind, Shell Energy respectfully submits the following recommendations.

I. REGIONAL CO_2 EMISSIONS CAP AND ADJUSTMENT FOR BANKED ALLOWANCES

The RGGI states seek comment on adjustments to banked CO2 allowances. The Third Adjustment for Banked Allowances reduced the RGGI states' allowance base budgets equivalent to the private bank of CO2 allowances over the five-year period 2021-2025.

Shell Energy encourages the RGGI states to adopt more frequent bank adjustments and modify the time-period for adjustments to take place over a 3-year period, rather than a 5-year period. Addressing the private bank of allowances on a more frequent basis would enable the regulatory framework established by the RGGI states to better keep pace with changes in the carbon products market and consequently,

more appropriate holding levels for each state. A 3-year period sufficiently controls for market shocks while maintaining the stringency of the program to continually encourage reductions in emissions.

II. AUCTION MECHANISMS

The RGGI states utilize a Cost Containment Reserve (CCR), consisting of a quantity of allowances in addition to the cap which are held in reserve. If allowance prices exceed predefined price levels, CCR allowances are sold; in other words, the CCR is triggered only if emission reduction costs are higher than projected. In a similar vein, if prices fall below an established trigger price, RGGI states may use the Emissions Containment Reserve (ECR) to withhold allowances from circulation to secure additional emissions reductions. The Minimum Reserve Price (MRP) is the minimum acceptable price for each CO_2 allowance in a specific auction. These auction mechanisms ensure that the market, via pricing and CO_2 quantity controls, maintains balance to achieve the objective of holding emissions under the adopted RGGI cap.

Shell Energy has three primary points regarding auction mechanisms. First, Shell Energy recommends that CCRs be incorporated into RGGI CO2 cap, as the cap is currently set, rather than incremental to or in addition to the cap. Allowing the CCR volumes outside of the cap hurts the integrity of the program and renders the cap relatively meaningless as additional supply outside the cap results in emissions above and beyond the RGGI states' goal. Including CCR volumes under the cap would build in flexibility around demand events while supporting a strong price and the stringency of the RGGI program.

Second, the CCR price trigger should be raised, relative to the ECR. Fundamentally, the ECR and CCR are meant to constrain the carbon price between them. If the gap between the ECR and the CCR is narrow, the price has little room to fluctuate and becomes prescriptive, much like a tax, rather than reflecting the outcome of a market-determined equilibrium.

Third, the gap between the ECR and the MRP should be tightened. The MRP should be closer to the ECR because including a robust emissions price influences the aggregate supply curve of electricity resources in a manner that increases the likelihood that zero emission and low emission resources are committed and dispatched ahead of high emission resources; the MRP currently fails to accomplish that. A strong price would help achieve state goals for limiting greenhouse gas emissions while sending a transparent market signal that zero or low emission resources, as well as efficient flexible resources that provide needed reliability services, are economically desirable.

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III. COMPLIANCE

The RGGI states seek comment on how the three-year control period and interim control period compliance structure has worked to date and on any potential changes to the compliance requirements. Under the current framework, compliance is evaluated at the end of each three-year control period. Starting in the third control period, the RGGI states have also conducted interim control period compliance, which requires each CO_2 budget source to hold allowances equal to 50 percent of their emissions during each interim control period (the first two calendar years of each three-year control period).

Shell Energy recommends that RGGI eliminate the interim compliance obligation showings, and opt only for compliance showings at the end of the three-year period; in the alternative, Shell Energy suggests a simplified interim showing mechanism. In either case, eliminating or simplifying interim showings will not only reduce administrative burden and complexity but also provide compliance entities the flexibility to view and plan their carbon strategy over a broader time frame.

IV. OFFSETS

Presently, the RGGI states permit the use offset allowances by companies to meet up to 3.3% of their compliance obligations. Shell Energy supports the continued inclusion of offsets and presents four points for consideration on this issue.

First, Shell Energy suggests the RGGI states consider increasing the limit from 3.3% to 10%. A higher usage limit would encourage investment in long-term projects and create more affordable options for obligated entities. Once set, the usage limit rules should permit entities that did not utilize their allowable offset percentage to sell the balance to other compliance entities. This is not a new concept and would allow obligated entities of any size to achieve value from the offset program when other risks may have made it cost prohibitive for them to participate.

Second, Shell Energy strongly encourages expanding the number and types of projects that are eligible to create offsets. Landfill, Forestry and Livestock, Mine Methane Capture (MMC), Carbon Capture Use and Storage (CCUS), Ozone Depleting Substances (ODS), grasslands, soil carbon, wetlands and pneumatic valves are all projects that have been proven to provide environmental benefits. The RGGI states should also recognize Nature Based Solutions as viable offsets, along with a suite of other measures to achieve their compliance obligations. For example, the use of sustainable aviation fuel (SAF) and the use of biomass-based diesel fuel in heating oil should be counted toward the ability to generate offset credits.

Third, as Third Program Review continues to develop, the RGGI states should consider use of existing international standards and practices of offsets. This will ease the burden of program management and allow participants to hedge across multiple demand channels and integrate opportunities of emission reduction. Standards like Verra, Gold Standards, CAR and ACR are well recognized and utilize science-based methodologies to ensure offsets generated create actual emission reduction and removals.

Finally, Shell Energy encourages the RGGI states to streamline the review and approval of offset projects by centralizing the offset project submission process to ensure consistency in the program and reduce complexity. Separate processes for each participating State could result in significantly higher costs, would be less efficient and could create eligibility discrepancies between states participating in RGGI. The RGGI program can and should rely on third party registries to provide expertise and economies of scale in the initial offset project review administration.

Shell Energy appreciates the RGGI states' consideration of the program modifications recommendations above and looks forward to continued engagement.

Respectfully submitted,

Christa Lim
Regulatory Affairs Manager
Shell Energy North America