

## **Regional Greenhouse Gas Initiative (“RGGI”) Stakeholder Group**

### **Outline of Key Policy Issues**

Stakeholder Group members, Resource Panel members, and the public provided RGGI Staff Working Group (“SWG”) with feedback and suggestions on its draft “Outline of Key Policy Issues.” The essence of these comments and suggested questions were captured in the meeting summary prepared by the facilitator Raab Associates, Ltd. and edited for accuracy based on suggested edits from Stakeholder, Resource, and SWG members.

The SWG then carefully reviewed the comments and suggested questions, and used them as a basis for refining its original set of suggested questions in the Outline. The amended set of questions is shown in redline on the next few pages. This revised Outline is intended to represent the high-level questions that the SWG believe it must address in crafting RGGI, rather than a comprehensive list of all possible questions.

In carefully reviewing the numerous helpful suggestions that the RGGI SWG received, the SWG agreed that many of these were important sub-questions and issues that do not necessarily rise to the high-level questions that the Outline was intended to represent. However, the SWG has attached all the comments and suggested questions from the meeting summary to this document, and will refer to this appendix in addition to the higher level Outline as it works through the myriad of issues throughout the RGGI process.

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### **Outline of Key Policy Issues**

- I. Initial Policy Foundation. The program goal outlined in the RGGI<sup>1</sup> action plan endorsed by the RGGI agency heads on September 29, 2003, identified several key policy decisions, including:
  - (A) to develop a multi-state cap-and-trade program for greenhouse gas emissions (GHGs);
  - (B) initially cover carbon dioxide (CO<sub>2</sub>) emissions;
  - (C) initially cover power plants;
  - (D) agree on program design by April 2005; and
  - (E) consider expanding the program to other kinds of sources in a future phase of the program.
  
- II. Policy Issues and Questions.
  - (A) Technical Groundwork.
    - (1) What data sources will we use for assembling inventory?
    - (2) What energy economic modeling should be done?
    - (3) What macro-economic modeling and analysis should be done?
  
  - (B) Program Applicability.
    - (1) What electric generators will be covered under the cap?
    - (2) Will other stationary sources be permitted to opt-in under the cap, and under what conditions?

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<sup>1</sup> The RGGI document entitled “Regional Greenhouse Gas Initiative (RGGI): Goals, Proposed Tasks, and Short Term Action Items” (the “Action Plan”) establishes the Staff Working Group (SWG), which consists of representatives of participating states’ environmental and energy regulatory agencies.

- (C) Emissions Cap
  - (1) What will the collective regional CO<sub>2</sub> emissions cap be?
  - (2) What will be the size of each state's CO<sub>2</sub> emissions cap?
  - (3) Will the cap be instituted once or phased in over time?
  - (4) How will the cap level be reassessed in the future?
- (D) Flexibility Mechanisms.
  - (1) Offsets or Project-Based Reductions.
    - (a) Will greenhouse gas emissions offsets or project-based reductions be credited toward compliance under the cap?
    - (b) If so, what offsets will be permitted, emissions reductions, avoided emissions and/or sequestration?
    - (c) If so, will offsets be permitted through allowance set-asides or be credited in addition to allowances? If additional, will there be a limit on the number of offset credits?
  - (2) Other Flexibility Mechanisms.
    - (a) Should the banking of allowances be permitted?
    - (b) Should the borrowing of allowances be permitted?
    - (c) How often will sources be required to spend allowances to cover emissions (i.e., "true-up")?
- (E) Allocations.
  - (1) How will each state's cap be allocated?
  - (2) Will a uniform regional allocation method be chosen or will states choose different allocation methods?
  - (3) Will auctions, output-based, input-based, fuel-neutral, fuel-specific, or another allocation method be chosen? Should

allocations be made to load or generation?

- (4) Will allocations be made only to sources covered by the cap or will they be made to non-emitting generators?

(5) How will historical or early reductions be treated?

~~(5)~~(6) How will new sources be handled?

~~(6)~~(7) How will retired sources be handled?

~~(7)~~(8) How will re-powering of units be handled?

(F) Regional Greenhouse Gas Registry ("RGGR") and Emissions and Allowance Tracking.

- (1) What role will the Regional Greenhouse Gas Registry (RGGR) play in relation to RGGI?
- (2) How will emissions and allowances be tracked under the program?

(3) Will offsets or project-based reductions be tracked in RGGR?

(G) Other Policy Decisions.

- (1) Will there be interaction with other GHG Trading Systems?
- (2) If leakage is shown to be an issue, what policy mechanisms are available to control or mitigate leakage? Will generation performance standards (GPS) or emission portfolio standards (EPS) be considered?
- (3) What measurement, monitoring and reporting requirements will apply to sources under the cap?
- (4) What enforcement penalties will be imposed for noncompliance?
- (5) How will ongoing administration of the program be financed?

(6) What aspects of program design must be uniform to achieve reciprocity between states and what flexibility may be left to each individual state without affecting reciprocity?

- (7) How will compliance be demonstrated and what enforcement mechanisms will apply?
- (8) What design choices will best facilitate expansion of the cap to cover other economic sectors and/or other greenhouse gases?

**APPENDIX TO KEY POLICY ISSUES OUTLINE  
ISSUES IDENTIFIED AT APRIL 2<sup>nd</sup> STAKEHOLDER GROUP MEETING**

The following is a list of comments and suggested additional policy questions raised at the April 2, 2004 Stakeholder Group meeting by Stakeholder Group and Resource Panel members:

**(B) Program Applicability**

- Units that have CEMS could be a better criteria for applicability than generator size.
- Opt-ins could potentially be an offset.
  - What are the data needs to determine whether the opt-in question should be an applicability or an offset issue?
- Will the modeling be able to project plant closures and associated impacts on local communities and include potential job losses? If not, how will this be assessed?
- What modeling should be done to determine the impact of the program on energy reliability, fuel diversity and security?
- What power generation/emissions modeling should be done to evaluate leakage (i.e., increased CO<sub>2</sub>, SO<sub>2</sub>, NO<sub>x</sub> and Hg emissions in surrounding States and Canadian Provinces that result as a consequence of increased generation to offset reduced generation in the RGGI states)?
- What evaluations need to be done to develop a program that does not create a competitive disadvantage for the industries and consumers in RGGI participating states versus surrounding states and Canadian Provinces that do not participate in the program?
- What is the proper basis for the cost/benefit assessment of the program? What environmental benefit will accrue from the program? Net tons of GHG emissions reductions that may be achieved do not necessarily reflect environmental benefits. What information needs to be developed to allow the preparation of a defensible benefit/cost assessment?
- Could source data for other stationary (non-utility) sources be collected and used later? (Chris replied not at the moment, due to resource constraints.)
- Do sources under B-2 need to be limited to stationary sources?

**(C) Emissions Cap and (D) Flexibility Mechanisms**

- What is the rationale for setting the cap, (e.g., cost benefit analysis, science, etc.)?
- What is the time period of the cap?

- There should be concrete rules for opting-in.
- There could be an implementation challenge, as all states may not adopt and implement a cap at once. SWG should ensure that there would be some flexibility in terms of adoption and implementation.
- What are the implications of not being consistent across states?
- Flexibility could undermine the integrity of the cap.
- The program should be replicable across other parts of the country.
- Flexibility mechanisms should be reviewed on an annual basis to provide a safety valve to protect against inordinate implementation costs for generators.
- Netting and bubbling should be allowed, as well as a cap on allowance prices if there is no access to allowance markets.
- Is there a reason to weather normalize the cap?
- Will generation performance standards or emission portfolio standards be considered?
- How will energy efficiency be accounted for?
- Will sequestration be credited toward compliance under the cap?
- What impacts (e.g., leakage, increased costs, plant closures, etc.) will result by not having flexibility mechanisms available at the beginning of the program?
- Look at current emissions, not just 1990.
- There needs to be an overall goal (e.g., least cost, flexible, cheaper compliance). Other things are then just tradeoffs.
- Piggyback on international trading systems.
- Assuming offsets and project-based reductions for GHG's other than CO2 will be allowed, how will these be converted into a metric usable in the program?
- What time period should be used to determine allowances needed (e.g., possibly each year surrender allowances equal to the past 5-years' annual emission average)
- Should the ability to create early reduction allowances be allowed?
- Should a cap on allowance prices be established to act as a safety valve to assure compliance costs do not significantly exceed what RGGI modeling projects the program will cost society and that is the basis for the development of the program design (e.g., the size of the cap)?
- Should compliance targets be input or output based?

**(E) Allocations**

- What are the economic and resource implications of various allocation choices?
- Should allocations be fuel neutral or fuel specific?
- Look at history under NOx SIP process.
- If you move to a full auction, questions 4-7 may no longer be relevant.
- Should there be set asides, and if so, for what?
- Factor in claims of renewable marketers.
- Look at impact on renewable market, especially for voluntary programs.
- Consider doing this without allocations to avoid winners and losers.
- Consider allocating to load rather than generation.
- How will baselines be established?
- Question E.3 mixes two different issues and should be separated into two questions.

**(G) Other Policy Decisions**

- Northeastern ISOs are working together on attribute trading, and SWG should coordinate with them and Canada with respect to tracking and monitoring.
- Extremely important to have collateral energy policies included to align incentives and reduce leakage (e.g., energy efficiency, renewables).
- Bring more PSCs / PUCs into the discussion.
- How will historical CO<sub>2</sub> reductions be considered in the program (e.g., carbon dioxide emissions (on a carbon equivalent basis) from the electric generating sector in NY have been reduced approximately 23 percent since 1990.)
- Look at cross cutting implications of
  - Leakage
  - Setting the cap, etc.,
- How regional does the structure have to be?
  - What must be uniform, and what can be flexible?
- How will compliance be demonstrated?
- What enforcement mechanisms will be used?
- How to deal with expanded PJM? (As of May 1, 2004 PJM will expand to include all or parts of VA, WV, KY, OH, IN, IL).
- Will offsets be included in the RGGR, both historically and prospectively?

- Expandability—what program design elements are necessary to incorporate other sectors?
- May want to consider how to expand to include other sectors. Otherwise may miss important opportunities (e.g., electrification in other sectors may lead to GHG reductions).
- Decreasing use of coal could significantly impact the cost and availability of rail transport. REMI and ICF models don't take into account these collateral implications of other sectors using rail transport.