



**DRAFT MEETING SUMMARY**

**Regional Greenhouse Gas Initiative**  
**Regional Stakeholder Meeting #12**  
**May 2, 2006**

**Offices of the Connecticut Department of Environmental Protection**  
**79 Elm Street**  
**Hartford, Connecticut**

Facilitator: Mark D. Lowery, NYS Department of Environmental Conservation

Approximately 120 people attended the meeting, which began at 9:30 am and concluded at approximately 4:00 pm.

**I. Materials Distributed and Presented**

Prior to Meeting

1. Meeting Agenda

At the Meeting

2. Staff Working Group Offsets Update
3. Stakeholder Presentation by Mark Buzel of AES
4. Stakeholder Presentation by Larry Dewitt, Pace Energy Project
5. Stakeholder Presentation by Michael Bradley, NE Regional GHG Coalition
6. Stakeholder Presentation by Michael Bradley, NE Regional GHG Coalition on Offsets
7. Stakeholder Presentation by Seth Kaplan, Conservation Law Foundation
8. Stakeholder Presentation by Derek Murrow, Environment Northeast
9. Stakeholder Presentation by Derek Murrow, Environment Northeast on Offsets
10. Stakeholder Presentation by Bill Prindle, ACEEE
11. Stakeholder Presentation by Stephen Galowitz, Ridgewood Renewable Power
12. Stakeholder Presentation by Alan Noguee, Union of Concerned Scientists

## DRAFT

13. Stakeholder Presentation by Rob Sargent, Association of State Public Interest Research Groups
14. Stakeholder Presentation by Bob Teetz of Keyspan
15. Stakeholder Presentation by Sarah Murdoch of the Nature Conservancy
16. Stakeholder Presentation by Jay Wintergreen of First Environment
17. Stakeholder Presentation by Michael Ashford, The Climate Trust

Stakeholder presentations are available at [http://www.rggi.org/stakeholder\\_schedule.htm#summaries](http://www.rggi.org/stakeholder_schedule.htm#summaries) .

## II. Introduction, Process Update and Review of Agenda

Facilitator Mark Lowery opened the meeting. Commissioner Gina McCarthy of the Connecticut Department of Environmental Protection welcomed the meeting participants and thanked them for their participation. Mark Lowery reviewed the agenda for the day. Franz Litz provided a brief process status and thanked stakeholders for their input.

### III. Presentations from Stakeholders on the Question:

- A. *What are your top 3 to 5 recommendations for the states in finalizing the model rule (other than the offsets component?)*
  - Mark Buzel, AES.
    - The model rule should address plants with long-term contracts that due not have a compliance costs pass-through mechanism.
    - The model rule should allow a unit to convert to 100% biofuel and continue to treat the unit as a fossil unit for purposes of the program.
    - The set-aside allowances should be “distributed” into the market on a monthly basis.
    - States should coordinate regionally on the distribution of set-aside allowances.
    - Distribution of set-aside allowances should be limited to affected sources.
    - Auctions workshop should include representatives from the financial markets and traders.
    - Establish a working group to look at the question of how new units will be accommodated in the market.
    - If output-based allocations are used, then it should focus on gross output, or net output with an adjustment for energy usage by FGD/SCR.
  - Larry Dewitt, Pace Energy Project.

## DRAFT

- “At least 25%” is way too low. 75% to generators is too much.
- Conceptual Basis:
  - allowances are a public good owned by the public.
  - sale of the emissions commodity is consistent with the free market—we should not subsidize the market.
  - risk of carbon constraint has been known since 1992.
- Analytic Basis:
  - generators charge for allowances even if they are given them.
  - Major losers are the coal plants, but they are also the low-cost provider, and give up some profit margin rather than incurring losses.
  
- Don Neal, Calpine, contested the proposition that generator will charge for allowance even if they get it for free.
- Chris Wentlent, AES, suggested that oil plants are also going to suffer in an auction regime. Dewitt suggested that most of them are dual-fuel and can operate as NG plant.
- Jon Russell, NU. Would your answer be any different if you were in a regulated context? Dewitt said no, because you want the cost of the carbon allowance included in the cost of electricity.
  
- Michael Bradley, Northeast GHG Coalition.
  - Allowance allocations should be consistent across the states to prevent distortions in regional electricity markets.
  
  - Program cost controls are a problem: the offset triggers send unclear signals to the offsets markets, not clear how the states will come up with the allowance cost determination and the 3-year rolling average leads to problems .
  - Need to address imports and leakage because this is the “Achilles heel” of the RGGI program. Need to consult with California on this issue.
  
  - Questioner asked if he could expand on the concern around the offset triggers. Bradley responded that price discovery is the main issue—market participants will have a hard time predicting if the price will go over \$7, which leads to uncertainty relative to the offsets that are permitted after threshold is triggered.
  
- Seth Kaplan, CLF.
  - Need to ward off threats to the integrity of the program: imports & leakage, further inflation of the cap in the case of source exemptions.
  - Need to confront claim that leakage will undermine the program. Need to formalize cooperation between the energy regulators and

## DRAFT

environmental regulators; I & L working group needs to devise a model energy regulatory “model rule”/order.

- Need to make sure the cap is firm. The individual state caps cannot be undermined through the 50% biomass exclusion; early reduction credits should not be additional to the cap.
- Chris James, CT DEP. Have you thought about what the energy & air regulatory interface would entail? Kaplan said that the utility commissions are going to need to treat sources inside the region similarly with sources outside the region, and that will require that the air regulators must provide the utility commissions with reported data to make the utility commissions job as simple as possible.
- Chris Sherry, NJ DEP. What do you mean when you talk about having the utility commissions regulate the generators? They do not have jurisdiction over those sources. Kaplan said he was referring to Model Rule provisions that would provide emissions and compliance information for RGGI sources to utility commissions.
- Derek Murrow, Environment Northeast.
  - Congratulations on the progress made on the model rule.
  - Second the comments from the other environmental groups so far.
  - Initial cap levels are too high—about 6% above the 2004 emissions. If you extrapolate from current trends you end up having a non-binding cap at the start of the program.
  - Exemptions for self-generators that sell less than 10% of their power to the grid—states should reduce their cap levels if a source applies for the exemption.
  - Bio-mass generators should have to report their emissions.
  - Strategic energy definition is vague and should meet minimum qualities—aimed at benefiting consumers by reducing costs, and others.
  - Chris Sherry—any recommendation on what the de minimis biomass number should be? Murrow says in the tens of thousands of tons.
  - Sherry again—are you suggesting that there should be an additionality screen on the use of auction funds? Murrow said yes, they want to see the use of funds evaluated through a screen of some sort, and to focus on lowering program costs to consumers.
  - Chris Nelson—if we bring in units that fit under the 50% biomass exemption you raise a host of issues with current inventory, e.g. with municipal waste combustors. These sources don’t monitor CO<sub>2</sub>. Murrow suggested cover new sources and leave out existing sources.
- Bill Prindle, ACEEE

## DRAFT

- Prindle outlined ACEEE’s input in the modeling process and recapped 4 key results:
  - Power sales go down when you invest in EE
  - Reducing energy consumption helps reduce emissions
  - Investments in EE result in net positive to the economy
  - Every customer class saves money with these investments.
- Concerned about the broad definition of the “strategic energy purpose” definition.
- 25% is a minimum—that number should go substantially higher.
- Should have parallel policies, such as efficiency resource standards, building codes and appliance standards.
  
- Stephen Galowitz, Ridgewood Renewable Power.
  - Design for EU reciprocity—need to ensure that RGGI will provide for future reciprocal arrangement.
  - Concern that the 3x allowance penalty is not sufficient to ensure compliance.
  
  - Don Neal, Calpine, suggested that compliance is very good in these types of programs.
  - John Wadsworth, Brown Rudnick, suggested that the compliance penalties be associated with the violation of a Title V permit.
  - Seth Kaplan, CLF. The penalty provision contemplates some portion of the allowances will be given out for free and it may not work in cases where the state has a 100% auction.
  
- Alan Noguee, UCS.
  - To be effective, RGGI must show that the emissions from the electricity sector must go down.
  - Recapped the analyses from the EIA modeling of the National Commission on Energy Policy proposal for a national program.
  - Concerned about the 50% biomass exclusion.
  - Need to do something about coal—replacing it, de-carbonizing coal, etc.
  - Imports & leakage could encourage the construction of new coal plants outside the region, thereby actually worsening the carbon situation in the country.
  - The offset trigger may actually lead to a more expensive program because sources may choose more expensive spot market offsets over cheaper long-term investments. We are seeing this dynamic in the RPS context—where companies are paying as much as double for the alternative compliance payment rather than enter into a long-term commitment to purchase renewable energy.

## DRAFT

- Rob Sargent, State PIRGs.
  - Need to contemplate reductions beyond 2019;
  - Need to prevent loopholes in the cap—no exemption for behind-the-meter sources; cover all fossil fuels used; no exclusion for 50% biomass; need to provide “backstop” in the model rule to address leakage.
  - Revisit the safety valves—they are complex and should be revisited.
  - Concern about the use of public benefit funds. Funds should be spent in ways that maximize the value of the program to consumers.
  - Need to get at reductions from the power plants—not cherry pick them from the other sectors.
  
- Morgan Parke, Multiple Intervenors.
  - On behalf of 55 large industrial and commercial enterprises, as well as the Connecticut industrial alliance. These businesses are very concerned about the cost impacts of the program.
  - Program should minimize the cost to consumers, and therefore the program should auction 100% of the allowances and rebate the costs on a per KWh basis to ratepayers.
  - Have doubts about the effect of energy efficiency claims made. Funds from auction should not be directed toward energy efficiency.
  - Rule should be harmonized with the distributed generation rule—they need to have a very high percentage threshold to avoid coming into the program.
  - Auctioning the allowances is the best way to reduce the impacts of this program.
  
- Jared Snyder, NY Attorney General’s Office.
  - AG is supportive of RGGI. While RGGI is a good first step it is by no means sufficient. We need a national program.
  - Comments on selection of allocation methodology: the allocation methodology should minimize the burdens on the public at large by auctioning off 100% of the allowances.
    - Burden on consumers should be minimized.
    - Resources should go to clean technology and energy efficiency.
    - Costs of the allowances will be passed on to consumers whether or not they are distributed to generators for free or sold.
    - Therefore allocations do not affect total cost of the program, but rather the distribution of costs. Allowances should benefit the consumers who bear the cost of the program.
    - Auction revenues should also go in part to energy efficiency.

## DRAFT

- John Holsapple of the NY Coalition noted that the NYS Business Council has to this point not embraced a 100% auction and that organization represents several thousand NY businesses.
- Chris Sherry of NJ DEP gave a presentation showing how the quantitative limit on offsets was set and the estimated supply of offsets.
- B. *What are your top 3 to 5 recommendations for the states in finalizing the offsets component of the model rule?*
- Eric Haxthausen, Environmental Defense
  - Congratulations to the states participating in RGGI.
  - Offsets with high environmental integrity should not be discounted, and price caps and safety valves are not good design features.
  - Strongly oppose the safety valve triggers for offsets.
  - Apply the offsets criteria consistently across the states—and the model rule should state that the offsets must be “real, surplus...”
  - The triggers are overly complicated and the uncertainty they create may increase the likelihood that the triggers will be triggered.
  - The model rule’s price discovery mechanism is problematic and ED will suggest a better way to achieve price discovery.
- Michael Bradley, Northeast GHG Coalition.
  - Offsets are absolutely essential to effectiveness of the program.
  - Program should be consistent from state to state; avoid state-by-state decision-making on offsets.
  - Offsets will be needed for 10 to 15 years until we have on-system strategies, and therefore we need to have offsets unconstrained for the program.
  - The triggers send the wrong signals to offset developers in the marketplace.
  - Bradley presented a chart depicting the uncertainties faced by project proponents.
    - 2:1 discount is unnecessary and problematic;
    - Safety-valve triggers make the marketplace increasingly uncertain;
  - Chris Sherry asked how Bradley would make offsets less constrained. Bradley said no regional preference; broader set of offset types; remove trigger limitations; remove change of law provision.
- Seth Kaplan, CLF.

## DRAFT

- Need to prevent offsets from getting in the way of goal to have reductions.
- Put the RSVP & E criteria into the model rule.
- Reconsider the triggers→
- If it's too complex, don't do it.
- If it should be required otherwise, then don't give credit for it.
  
- Chris Sherry: are you suggesting that we set up a case-by-case approval process for offsets that involves applying the five criteria to any project brought forward? Kaplan: no, but it would be helpful to have the criteria in the rule so that a state agency can always say no to a project that doesn't meet the criteria.
  
- Franz—what do you mean “reconsider triggers”? Kaplan: Consider getting rid of them, or have them work differently.
  
- Dale Bryk, NRDC.
  - Likes the offsets standards approach, but not the triggers.
  - Simplify the trigger system: get rid of it; or
  - Or, stay with 3.3%; geographic extent limited to RGGI (no need for 2:1); and those that have adopted a cap; maybe keep the \$10 trigger but have it be EU/CDM.
  - In terms of establishing new offset types, keep them fair and simple.
  - Don't give the “carrot” of offsets development to states that are not participating in RGGI.
  
  - Chris Sherry asked: what other jurisdictions would you allow trading with? Bryk: other states that have power sector carbon cap-and-trade programs.
  - Chris James—what do you mean by simplifying the triggers? Bryk: get rid of the \$7 trigger, keep the \$10 and allow CDMs.
  - Radmilla Miletich—why would we give up the opportunity for out-of-region offsets if they are cheaper? Bryk: we want offsets to be a carrot for other states to do something on climate; we want to see the co-benefits in the region.
  
- Derek Murrow, Environment Northeast.
  - Afforestation. The conservation easement should be very specific about what can be done to the land (e.g., relative to timber harvests). Don't need SFI certification if land is not timber-harvested.
  - Fossil-fuel end-use energy efficiency. Should add additional disqualifier for state, federal grant money recipients. Include building code or equipment standard in the baseline calculation.

## DRAFT

- Ag Methane. Need to discount for the emissions that are attributable to transporting the manure for regional-type methane digesters.
- Question from D. Farnsworth. Projects often rely on multiple sources of funding. Do you think that we could fashion some way to allow multiple streams? Murrow: We are still thinking about the tax issue and whether we can address it.
- John Wadsworth, Brown Rudnick.
  - If people are making money on this system then you have succeeded. Don't worry about people making money when you draft the provisions.
  - There is no control technology now, so you need to switch fuels, cut back on operations—need offsets.
  - Concern about offsets centers around the additionality tests—(a) find proxies like regulatory additionality for landfill gas projects and do not disqualify if the project gets other funding; (b) change in law provision creates great uncertainty that may disincentives investment in offsets and creates the need for the buyer of offset credits to do due diligence to see whether law changes have occurred or are contemplated; These uncertainties cannot be accounted for in a contract; and (c) be more concerned about getting projects done than preventing sponsors from getting double revenue streams.
  - Chris Sherry: why would it be hard for a contract to cover this risk of change in law? Wadsworth: Some of the smaller landfills will not be able to generate energy (and get the income from that power generation).
- Sarah Murdoch, The Nature Conservancy.
  - Winrock, Sampson Group and TNC are doing a study to investigate the availability of afforestation offsets. Appears that there will not be afforestation tons affordable in the region (prices above the trigger price.)
  - Should get rid of the 2:1 discount altogether to make afforestation viable in other parts of the country.
  - Afforestation needs a much longer time period to make it viable (20 years plus 20 years).
  - Provide look-up tables option (with discount factor) to determine carbon sequestration.
  - There should be language in the easement to ensure that the forest remains in perpetuity.
  - The 20% discount is too high. Discount could be 10%.

## DRAFT

- Allow either easement/or establish a temporary credit with insurance mechanism instead of the conservation easement.
- Ron Drewnowski—how much available in the Northeast? Murdoch—we have the data and can make it available. It is a small percentage of available cleared land.
- Jay Wintergreen, First Environment.
  - Should apply the ISO 14064 standards to the RGGI offsets process.
    - Designed to be policy and sector neutral
    - Seriously considered for the Canadian offset program
- Stephen Galowitz, Ridgewood Power
  - End-use energy efficiency is defined too narrowly in the model rule-- should include the waste heat/pressure to power in offset component.
  - Financial additionality is a bad concept.
- Rob Sargent, State PIRGs.
  - Offsets are not necessary to meet the modest reduction targets, and should therefore be significantly limited, at least in the initial phase of the program.
  - Though they are not needed in RGGI, they will be useful to solve this global warming problem in the long run.
  - The rules must guarantee that the reductions come from projects that would not have happened anyway.
  - Include the Real, Surplus, Verifiable, Permanent and Enforceable (RSVP & E)—and the key element is additionality.
  - Financial additionality is important and must include all types of financial incentives.
- Judi Greenwald, Pew Center: can you comment on the specific standards that have been done, do you agree that they've incorporated in the model rule? Sargent: I think the spirit of the 5-point test is in there, but I am dubious about some of them (SF<sub>6</sub> & end-use energy efficiency are going to happen anyway; but the others sound okay).
- Chris Sherry: how do you reconcile your opposition to the end-use energy efficiency offset with your support of the SBC funds? Sargent: I have a problem with energy efficiency as an offset, and with offsets in general.
- Bob Teetz, Keyspan.

## DRAFT

- Focus on end-use energy efficiency offset—needs to focus on carbon efficiency and not just energy efficiency.
- Natural gas can produce carbon efficiencies that energy efficiency through other fuels cannot.
- Therefore, fuel switching will get us much more in the way of CO<sub>2</sub> reductions than other measures. Significant co-benefits that come with using natural gas as opposed to heating oil.
  
- Chris Sherry: do you typically see modifications to equipment at the time of fuel switch? Teetz: yes.
  
- Seth Kaplan: Have you considered CHP? Teetz: we could have both.
  
- Michael Ashford, The Climate Trust
  - Described the Climate Trust and its mission.
  - Described a proposal for an offsets pilot program Idea would be to work with the RGGI states (or some subset) to identify new offset categories and to determine their potential efficacy.

### Comments from the floor

- Edison Electric Institute. The model rule reads that the regulatory agency MAY issue the credits if it meets the requirements. Should read “shall”.
- C. Blodgett, EcoSecurities. Look to CDM for help.
- Marc Breslow, Massachusetts Climate Action Network. Some of the language in the MOU should be carried over into the model rule, including the 5-point test on offsets. Money from allowance sales should go to consumers.
- Bob Maddox with Sterling Planet. Suggests that we hold a meeting to explain the final model rule. Suggests that the model rule address the important voluntary green markets.
- Radmila Miletich, IPPNY. Cautions against 100% auction of allowances, reducing flexibility, making the cap tighter, making penalties tighter, and reducing the operation of the safety valve. Suggests consulting with the financial community.
- Carol Nemore. Concerned that states have not included forest preservation in the offset categories.