



**ENVIRONMENTAL
ADVOCATES OF NEW YORK**

YOUR GOVERNMENT WATCHDOG

November 30, 2010

VIA EMAIL: info@rggi.org

Regional Greenhouse Gas Initiative, Inc.
90 Church Street, 4th Floor
New York, NY 10007

Re: Comments on Modeling for 2012 Review

Dear RGGI, Inc. and RGGI State Governors, Commissioners and Staff,

Thank you for the opportunity to provide comments on the modeling for the RGGI reference case for the 2012 comprehensive review. Environmental Advocates of New York is a member of the RGGI Advisory Committee in New York and has been an actively involved stakeholder in the design and implementation of RGGI. Environmental Advocates has commented on the process throughout and looks forward to participating throughout the comprehensive review and to applying lessons learned from design and implementation to strengthen the already successful RGGI program.

Environmental Advocates of New York's mission is to protect our air, land, water and wildlife and the health of all New Yorkers. Based in Albany, we monitor state government, evaluate proposed laws, and champion policies and practices that will ensure the responsible stewardship of our shared environment. We work to support and strengthen the efforts of New York's environmental community and to make our state a national leader.

RGGI is a successful model for a cap and trade program for other regions, as well as a federal climate program. RGGI has shown that there is broad bipartisan support for actions to combat climate change. The first nine auctions have occurred in a transparent manner without any indication of market manipulation demonstrating that a market based environmental policy can reasonably move us to cleaner sources of energy.

The states are wisely taking the initiative to review the RGGI program and we look forward to working with the states to apply corrective measures to strengthen the program.

As discussed in greater detail below, the emissions decline which is a positive result for the first two years of the program and consistent with other cap and trade programs has led to an early over-allocation of allowances. The program review should be used to make appropriate policy changes to account for the lower than expected emission levels.

SPECIFIC QUESTIONS

Environmental Advocates provides the following responses to the specific questions posed by the participating states in the Request for Stakeholder Input in Preparation for the RGGI Program Review dated November 5, 2010.

IPM Model Reference Case:

Do you have any comments or suggestions on the reference case results?

Firm New Capacity Assumptions List: The model does not appear to reflect some renewable energy projects in New York that are fairly far along in the siting/scoping process. New York Power Authority (NYPA) Great Lakes offshore wind capacity (120-500 MW nameplate); NYPA solar PV RFP (100 MW nameplate); and the Long Island-New York City Offshore Wind Project (350-700 MW nameplate) should be incorporated into the modeling.

Achievement of Energy Efficiency Goals: Environmental Advocates believes that the reference case does not fully account for reductions in load from energy efficiency in the RGGI region. In New York, the model incorrectly assumes that New York will not meet its current policies to reduce demand through energy efficiency. However, the Department of Public Service staff states that New York can and will achieve the 2015 goal.¹ We urge ICF to correct the reference case to account for 100% success of EEPs in 2015, with continued robust energy efficiency investments from 2015-2030 that assume a 1.5% annual reduction in load forecasts from aggressive energy efficiency installations across the entire RGGI region through 2030.

IPM Model Reference Case Sensitivities:

Do you have any comments or suggestions regarding use of specific assumptions in any of the sensitivity runs?

It should not be assumed that economic growth and emissions are tied to one another. Although it was once true that economic growth lead directly to emission growth, that that is no longer an absolute truth. The “linkage between economic growth and emissions has weakened” because of the deployment of energy efficiency improvements and renewable sources of generation.² Sensitivity runs should be performed that provide for economic growth with no corresponding emission growth, or even modest reductions in concert with economic growth.

The RGGI modeling assumes an inexplicably tiny amount of offshore wind deployment with only 1,106 MWs or 1.1 GWs by 2030. This level of deployment is far below the true capacity and levels projected by the Department of Energy.³ The DOE strategic plan calls for U.S. installed capacity of offshore wind of 10 GWs by 2020 and 54 GWs by 2030. In addition, the RGGI states have a viable offshore wind capacity of 607.7 GWs within 50 nautical miles from shore –well above and beyond that which is prescribed by the state’s RPS).⁴ In New York, the NY Climate Action Plan calls for aggressive renewable energy deployment, but still conservatively calls for only 3,000 GWs of offshore wind; however this conservative number does not appear to be included in the RGGI sensitivity analysis. ICF needs to account for this development of offshore wind in its sensitivity runs. ICF can adjust the U.S. projection proportionately for the RGGI states to forecast their offshore wind deployment by 2030. Although we believe this is

¹ *EEPS Second Quarter Status Report*, NY PSC, August 2010. Available at:

<http://documents.dps.state.ny.us/public/Common/ViewDoc.aspx?DocRefId={E51645E4-875E-4DD5-9FC9-FDBA10D981EB}>

² http://env-ne.org/public/resources/pdf/ENE_RGGI_Emissions_Report_20100617_FINAL.pdf

³ US DOE (September 22, 2010). *Creating an Offshore Wind Industry in the United States: A Strategic Work Plan for the United States* Department of Energy (Predecisional Draft); p. 7; available at:

[://www.windpoweringamerica.gov/pdfs/offshore/offshore_wind_strategic_plan.pdf](http://www.windpoweringamerica.gov/pdfs/offshore/offshore_wind_strategic_plan.pdf)

⁴ Schwartz, M., Heimiller D., Haymes S., and Musial W. (June 2010). *Assessment of Offshore Wind Energy Resources for the United States*. National Renewable Energy Laboratory. Technical Report NREL/TP-500- 45889; pp. 2-4 (Table 1); available at: <http://www.nrel.gov/docs/fy10osti/45889.pdf>

conservative, at the very least the sensitivity run should assume 2.5 GWs of offshore wind by 2020 and 13.5 GWs by 2030 in the RGGI region.

Do you have any comments or questions on the results of the sensitivities?

How are hydro uprates being treated in the reference case and/or sensitivities?

Does the modeling include an analysis of the deployment of energy storage such as the Stephentown Flywheel project? If so how is energy storage being treated in reference case and sensitivities?

Are there additional sensitivities that should be considered in the analysis?

ICF should run sensitivities that account for implementation of all cost-effective uprates for all hydro and wind. ICF must perform sensitivity for full achievement of cost effective energy efficiency and renewable energy. Additionally, the model must account for lowering costs as technologies mature.

IPM Reference Case Results:

- 1) The IPM reference case results indicate that CO₂ emissions from RGGI compliance entities are projected to be less than the regional CO₂ allowance budget for the foreseeable future. What are the implications and issues the participating states should consider in looking at the projected CO₂ emissions levels and the RGGI CO₂ allowance budget? If the RGGI participating states consider changes to the regional CO₂ allowance budget, what guidance would you provide on ways to do this?**

Environmental Advocates is concerned about the clear over-allocation of allowances and that that the region-wide cap is higher than business-as-usual emission levels and will continue to remain above the cap well past 2030.

As indicated in the NYSEERDA report the actual 2009 emission levels are 33 percent below 2005 levels.⁵ Clearly the cap is set too high. We encourage the RGGI states to take the necessary steps to realign the cap with the original intent of the RGGI, which was to cap emissions at actual 2009 levels and reduce emissions 10 percent by 2018.

Getting the cap right is important for two reasons. First, flooding the market with allowances in the program's early years has sent the wrong price signal. Second, the RGGI requires greenhouse gas reductions of 10 percent off the 188 million-ton cap by 2019, or an approximately 18 million ton reduction in regional CO₂ emissions. Because actual emissions are already 60 million tons lower than cap levels the cap needs to be adjusted so that the program can continue to reduce emission levels.

a. Retire unsold CO₂ allowances at the end of each control period

Environmental Advocates advocated for this approach during the design phase of the RGGI and this remains the preferred method for dealing with unsold allowances.

⁵ See RGGI Inc. Draft White Paper—11/2/10: "Relative Effects of Various Factors on RGGI Electricity Sector CO₂ Emissions: 2009 Compared to 2005", prepared by NYSEERDA and available at:
http://www.rggi.org/docs/Retrospective_Analysis_Draft_White_Paper.pdf

b. Revise the regional CO2 allowance budget; a few examples include:

i. Revise the regional CO2 allowance budget to reflect recent average CO2 emissions (e.g., 2008-2010 emissions; 131mt);

No, the regional allowance budget should be revised to reflect actual emissions in 2009. As indicated by NYSEDA, the actual emission level for 2009 was 123.7 mt.

ii. Extend the scheduled 2.5% annual CO2 emissions reductions beyond 2018

According to the science, GHG emissions need to be reduced by 80 percent from by the year 2050. The RGGI program should therefore extend its scheduled reductions to 80 percent by the year 2050. (Note that any extension of the program should be in conjunction with and not take the place of immediately revising the current regional allowance budget to actual 2009 emission levels) Policy scenarios analyzed should include near, mid- and long-term reductions (i.e., 20 percent by 2020, 40 percent by 2030 and 80 percent by 2050), as well as a 2.5 percent annual reduction through 2050.

iii. Other

One solution to consider is to begin the reduction phase of the program in 2012 rather than 2015. Another solution could be to require a straight percent reduction off each state's allocation of allowances. This solution may avoid the painful negotiating that helped produce the regional cap to begin with. A third solution could be for those states that control large portions of the regional allowance allocation, such as New York, New Jersey, Connecticut, Massachusetts, and Maryland, to adjust their caps with the consent of the other RGGI states.

c. Create a strategic reserve of CO2 allowances as a cost containment mechanism

Environmental Advocates supports the use of a contingency bank but prefers retiring allowances not sold at the reserve price. Further, if allowances in the contingency account are reintroduced at a higher price, it should be at a price above the \$10 offset trigger.

d. Other options

The options listed above are not mutually exclusive and should be combined to create a robust RGGI. The RGGI should seek to implement several of the above options.

ICF should run 2 additional sensitivities that relate to the bankability of allowances: 1) limitation on bankability of allowance for use only in the next compliance period and 2) no bankability of allowances.

2) The IPM reference case results project a bank of accrued CO2 allowances from the first control period (representing both CO2 allowances distributed to the market and CO2 allowances that go unsold at auctions). What are the implications and issues the states should consider in looking at the potential bank of CO2 allowances? If the RGGI participating states consider adjusting the regional CO2 allowance budget to account for an accrued CO2 allowance bank, what guidance would you provide for ways to do this? Potential examples for purposes of discussion include:

a. Retire unsold CO2 allowances

Yes, at the end of each compliance period all unsold allowances should be retired. The RGGI states should make this change in addition to changes to the regional allowance budget.

b. Reduce the regional CO2 allowance budget below projected CO2 emissions levels to compensate for surplus allowances

The RGGI states are under no compulsion to release all of the allowances they have apportioned among themselves. Just as a small number of allowances have been reserved because they could not be sold at or above the reservation price, so also should the RGGI states work together to establish a new, programmatically responsible schedule of allowances to be released in 2011—possibly negating the 2011 auctions entirely. A better alternative would be to

reduce by 50% the allowances offered in 2011 and 2012 and then recalibrate. The RGGI states should probably start by announcing that the allowances reserved will be immediately retired—that is just a small, but very important, first step, and appropriate forewarning to the market that more substantial corrective action is on the way.

c. Other options

As stated above, the additional and preferred option is to as soon as possible both retire unsold CO₂ allowances and revise the regional budget allowance to actual 2009 emission levels.

What suggestions do you have for modeling or otherwise assessing options for evaluating the potential CO₂ allowance bank?

RGGI should model the impacts of removing the ability to bank allowances as well as the impacts of limiting bankability to the compliance period following its purchase.

Other Options for Program Review

1) The RGGI participating states expect to continue stakeholder dialogue throughout the RGGI program review process. Stakeholders are invited to propose options for potential program adjustment that the states should consider in program review, as well as how these options might be assessed. Potential examples for purposes of discussion include:

a. Adjustments in procedures of the RGGI program

The RGGI program needs to implement a flexible mechanism for reassessing the level of budgeted allowances. The RGGI should consider changes such as biannual meetings or meetings that occur at certain predetermined triggers.

In addition, the RGGI states should schedule another comprehensive program review for 2015 and every 3 years thereafter.

2) What other comments or topics do you recommend the RGGI participating states consider as they prepare for program review?

Inflated Cap: Per a report from Environment Northeast, the RGGI cap is currently inflated by as much as 34 percent. This reality makes “getting it right” with this round of modeling all the more crucial. We encourage RGGI Commissioners and Staff to explore all options for correcting this inflation, thereby ensuring the program in fact achieves its core goal—to reduce the Northeast’s power plant carbon emissions by 10% from *actual* 2009 levels by the year 2018. Furthermore, mechanics for a dynamic/self-correcting cap for future years should be explored.

Reserve Price: We support the use of a reserve price to ensure a minimum value for allowances and a minimum level of investment in alternatives to CO₂ producing technologies. It is critically important to evaluate whether the reserve price is set at the correct level or whether it should be raised. In addition, we encourage the RGGI states to implement a transparent approach to adjusting the price reserve upward on a regular basis.

Linkage with other states/regions: The RGGI states should seek to link with other states/regions, but this should not be done in lieu of addressing the over-allocation problem.

Additional sources: The RGGI should be expanded beyond utilities to other stationary sources and to currently excluded electric sources below 25 MWs. In addition, the states should consider whether the coverage of the transportation sector is feasible.

REMI modeling: The RGGI states should also perform the REMI modeling that they performed during the design of the RGGI.

Biomass: It is critical that the RGGI develop rigorous definitions of “carbon neutrality” for the use of biomass and enforce them through effective state implementation.

We thank you for the opportunity to comment on the IPM modeling exercise and the upcoming program review, and we look forward to continuing engagement with states as we build on program successes to create a stronger program with extended reach.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross Gould". The signature is fluid and cursive, with the first name "Ross" and last name "Gould" clearly distinguishable.

Ross Gould
Air & Energy Program Director