

December 2012 Stakeholder Comments



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Thank you for giving us the opportunity to provide stakeholder feedback on the RGGI program and on the stakeholder material that was presented on November 20 and November 28. In general we are very pleased with the positive direction that RGGI is moving in. In particular, we commend all of the RGGI states for agreeing to retire their unsold allowances and for planning to subtract a quantity of allowances equivalent to the bank from the new cap at the time of cap adjustment. These decisions show strong environmental stewardship and a commitment to instating a strong program that can eventually serve as a national model.

However, Maryland and several other participating states have economy-wide greenhouse gas reduction goals for 2020. It is imperative that the RGGI cap be lowered below 91 Million tons, preferably to 85 Million tons or less, and that several other programmatic changes are implemented in order for this program to play a meaningful role in achieving our goals. The 91 Million ton cap scenario presented to stakeholders on November 28 projected a 3 million ton CO₂ reduction between 2012 and 2020. That is inadequate to drive emissions reductions on the scale that is necessary for Maryland and other RGGI states to achieve their 2020 goals. Due to both the scale of the reduction requirements of the RGGI states and the economic benefits of setting a lower cap, we implore the RGGI states to consider and adopt a lower cap as well as other some other specific program changes.

Those other changes include accelerating the reduction schedule for the bank, instating interim compliance periods, establishing a higher cost-containment reserve trigger price, and, if no higher trigger price can be agreed upon, then switching to a cost-containment mechanism whereby an “allowance reserve pool” is held below the cumulative cap.

Lower the Cap to at most 85 Million Tons

In 2020 Maryland must reduce economy-wide greenhouse gas emissions by 25 percent below 2006 levels. In the Draft Plan that the Maryland Department of the Environment released in 2012, RGGI was ascribed a significant portion of the greenhouse gas emission reductions that Maryland is counting on to achieve that goal. Several other RGGI states also have economy-wide greenhouse gas reduction goals with a target year of 2020 that would benefit greatly from a lower cap.

If RGGI is to contribute to the progress of Maryland and other states with 2020 goals beyond the investment of auction proceeds, the cap should be set below 91 million tons to at most 85 million tons. The IPM model predicts that RGGI emissions at affected plants would fall from 91 million tons in 2012 to 88 million tons in 2020 in the 91 million ton cap scenario. That is good news, and it demonstrates RGGI's ability to reduce emissions below current levels, but 3 million tons is very small relative to the scope of our collective reduction goals.

Another reason to set a lower cap is the uncertainty surrounding the reference case emissions forecast. The IPM forecast assumes the retirement of several nuclear generators in the northeast, which may or may not end up happening. If even one of these generators stays online, that would have a significant downward effect on its state's future emissions, which would also justify a lower cap.

In addition, we are also very supportive of proposals to reduce the cap by upwards of 3.5 percent per year to reduce the cap by 20 percent in 2020.

Accelerate the Reduction Schedule for the Bank

The 2020 cap-level emissions target in each of the modeled scenarios is well below the 2020 policy case emissions. For example, in the 91 million ton cap scenario, the 2020 cap-level emissions target is 78 million tons. The total emissions at affected plants however are projected to be 88 million tons. Because that 10 million ton difference would be covered by banked allowances, RGGI affected entities would face no penalty emissions above the cap. However, this would cause problems in 2021 when the bank runs out and affected plants would have to dramatically reduce emissions to reach the cap. In the 91 million ton scenario, emissions are projected to decrease by 3 million tons between 2012 and 2020. After the bank runs, the affected facilities would have to reduce emissions by 10 million tons between 2020 and 2021. That would be 333 percent as much emissions reductions in one year as was achieved in the preceding eight years.

We encourage the RGGI states to accelerate the schedule for eliminating the bank. This would require that facilities reduce their emissions closer to the cap before 2020, which would avoid the need for such a dramatic emissions reduction in 2021.

Again, we are very supportive of the proposal to make interim adjustments for banked allowances. We just ask that those adjustments be made on a quicker schedule to put the affected units on track to reach at least the cap-level emissions in 2020. It would also lead to more emissions reductions earlier in the compliance period, thus helping states reach their 2020 economy-wide reduction goals.

Interim Compliance Periods

We are concerned that under the current program configuration, RGGI states cannot take action against non-compliant entities until the completion of the three-year compliance period. The recent trend towards lower wholesale electricity prices driven mainly by cheap natural gas has put increased financial pressure on the nation's coal fleet. As the experience with the bankruptcy of AES Eastern

Energy showed, interim compliance obligations may become increasingly relevant and necessary as aging coal plants confront this financial pressure. Under the current rules, the owners of an aging coal plant might feel that it is in their best interest to forego purchasing RGGI allowances if they anticipate they will go into retirement before the end of the compliance period. If, however, emitters are required to surrender allowances proportional to a share of their annual emissions, non-compliance could be addressed in a more timely manner than if allowances are only due every three years.

We would support interim true-up obligations to prevent the accumulation of environmental harm from non-compliant entities.

Set a Higher Cost-Containment Reserve (CCR) Trigger Price

Determining the trigger price for the CCR should start with the recognition that releasing extra allowances causes environmental harm. This can be justified as necessary to provide some certainty against undue allowance price volatility, but the CCR should be triggered at a high enough price point that the proceeds being collected at those allowance price are sufficiently high to offset that harm.

California, for example, set aside three pools of CCR allowances that are triggered at \$40, \$45, and \$50, to be adjusted annually by the CPI plus 5 percent. At those prices, the harm releasing extra CO₂ allowances into the market are offset because states would be receiving such an environmental benefit from auction proceeds that can be invested in energy efficiency.

The CCR should balance environmental gains against economic costs. A CCR trigger between \$5 and \$10 limits economic costs, but it does not sufficiently promote environmental gains. We are confident that the RGGI states can agree on higher price points that continue to provide a safety valve on the price of allowances without compromising the environmental integrity of the cap.

Use an Auction Reserve Pool instead of Cost Containment Reserve

If a trigger price greater than \$10 cannot be agreed upon, then an auction reserve pool mechanism below the cumulative cap could be a more appropriate tool for controlling price volatility than a CCR. Rather than releasing new allowances for sale at auction like the CCR, an auction reserve pool would instead auction a reserve of borrowed future allowances below the cap, thus maintaining the cumulative cap level across the compliance period. An increase in the allowances made available in one year would correspond to a decrease in allowances offered in subsequent years.

At the January 24, 2012 RGGI Learning Session, Dr. Brian Murray said that total reserves less than 1 percent of the cumulative cap would be sufficient to protect against most price risk, and suggested 1.5 to 3 percent greater if there is not a robust offset market¹.

¹ See http://rggi.org/docs/ProgramReview/LearningSession2/Murray_120124.pdf

This approach was also advocated in the *Pace Energy and Climate Center: Joint Comments from Electric Industry Companies and Environmental Nonprofit Organizations* on October 12, 2012. Those joint comments advocated that the reserve pool be populated with 4 percent of cumulative supply of allowances in the in the post-2012 Review cap.²

There is a clear environmental benefit to holding the reserve allowances below the cumulative cap. If the reserve price is triggered, this mechanism would continue to ensure that affected facilities do not emit CO₂ above the allowed level set by the cap. As stated earlier, this could be justifiable at a high enough allowance price trigger point, but at the \$5 to \$10 range being considered, we believe that the auction reserve pool is more appropriate.

Thank you for giving us this opportunity to participate and we look forward to working with the RGGI states in the future.

Sincerely,

Chesapeake Climate Action Network

Environment Maryland Research and Policy Center

Maryland Sierra Club

Maryland League of Conservation Voters

² See

http://www.rggi.org/docs/ProgramReview/2012_10_12_Pace_RGGI_Dialogue_Modeling_Recommendations.pdf