Comments of the Western Power Trading Forum to the Regional Greenhouse Gas Initiative on Linkage with other State Allowance Trading Programs

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The Western Power Trading Forum[1] (WPTF) welcomes the opportunity to provide comments to the Regional Greenhouse Gas Initiative (RGGI) for its program review. Specifically, we response to the April 29th Request for Stakeholder comments regarding whether RGGI states should consider trading with non-RGGI states, and if so what program design features should be aligned to enable trading with other states.

Linkage of existing carbon markets and new Clean Power Plan allowance trading programs is the most efficient and least cost means of achieving electric sector emission reductions

As participants in electricity markets throughout the United States, and as regulated entities under California's Greenhouse Gas (GHG) cap and trade program and RGGI, WPTF members wish to ensure that implementation of the Clean Power Plan (CPP) by states does not distort wholesale electricity markets or impair electrical system operations or grid reliability, and produces emissions reductions at lowest overall cost. We believe these objectives would be best achieved through the development of trading linkages between CPP state allowance trading programs and the existing carbon markets in California and RGGI.

Linked regional and state allowance trading programs throughout the US would result in lower overall costs due to the ability to reduce emissions across a wider geographic region. Linkage of RGGI's program to effective programs in other states that include new sources would ensure a consistent carbon price for generation in the linked jurisdictions, thereby eliminating the potential for emissions leakage across those jurisdictions. This would help ensure a level playing field for similarly situated resources, and avoid electricity market distortions.

For this reason, we encourage RGGI to allow linkage of its program to allowance trading programs in non-RGGI states.

Trading-ready status under CPP and inclusion of new sources is all that should be required for RGGI to link with other CPP allowance trading states

RGGI should establish criteria for linkage, but should limit such criteria to the minimum needed to ensure the environmental integrity of emission caps. This can be achieved by requiring that any CPP allowance trading program to which RGGI links be considered 'trading-ready' by the Environmental Protection Agency (EPA) and that linked program apply to both new and existing generating resources.

In developing the final CPP, EPA sought to facilitate linkage of state emissions trading programs and to ensure the overall environmental integrity of the CPP targets. Accordingly, EPA built into the CPP and the draft model rule for allowance trading the necessary elements to ensure program compliance and fungibility of allowances. Together the CPP and final model rule will establish

[1] WPTF is a diverse organization comprising power marketers, generators, investment banks, public utilities and energy service providers, whose common interest is the development of competitive electricity markets in the West. WPTF has over 80 members participating in power markets in the West, as well as other markets across the United States.

requirements for monitoring and reporting of emissions, enforcement of program requirements, and use of an EPA-approved system for tracking of allowance issuance, transfer and retirement. A non-RGGI state's demonstrated conformity with these requirements will enable the state to acquire 'trading-ready' status under the CPP. Thus, a RGGI requirement that any non-RGGI trading program to which it links must be 'trading-ready' will ensure that the program has sufficiently rigorous systems in place for monitoring and reporting of emissions, program enforcement and tracking of allowances. RGGI need not impose additional requirements in these areas.

Unfortunately, limitations on EPA's authority under Section 111(d) of the Clean Air Act prohibit the agency from effectively preventing potential emissions leakage to new fossil resources under the CPP. For this reason, we recommend that RGGI prohibit linkage of the program to state allowance trading programs that do not cover new sources. Failure to do so would undermine the integrity of emission caps by enabling leakage of emissions to new sources.

Additional conditions for linkage will not improve environmental integrity and will discourage linkage.

Other potential condition for leakage have been suggested by RGGI states or stakeholders, including use of auctions to distribute allowances and minimum auction floor prices. While there may be legitimate policy reasons for encouraging the auctioning of allowances and use of allowance price floors, establishing these as conditions for linking will not improve environmental integrity because they will do not affect overall emission levels.[2] Further, states that are just starting emissions trading programs may find it politically difficult to auction allowances. Additional conditions for linking to RGGI would likely serve as a barrier, rather than an incentive. For these reasons, WPTF recommends that RGGI not impose additional conditions for linkage to non-RGGI states beyond 'trading-ready' status and coverage of new sources.

[2] An additional concern has been expressed that linkage of the RGGI program to a state that does not implement an auction with an allowance price floor could result in less auction revenue for RGGI states. WPTF acknowledges that differences in the cost to acquire allowances in RGGI and non-RGGI states could lead to reduced demand for allowances in the RGGI auction and reduced auction revenue. However, we do not believe that this would be a long-term effect. Rather, the reduced auction demand would result in less allowances in the market, which in turn would put upward pressure on allowance prices in the common secondary market. If the auction continued to be undersubscribed, market allowance prices would eventually rise above the level of the RGGI price floor. RGGI could adopt a policy, similar to that in California, whereby unsold allowances could be reoffered at auction at a later date.