



**ENVIRONMENTAL
ADVOCATES OF NEW YORK**

YOUR GOVERNMENT WATCHDOG

October 5, 2011

Regional Greenhouse Gas Initiative, Inc.
90 Church Street, 4th Floor
New York, NY 10007
Sent by email to: info@rggi.org

Re: Comments on Issues from the September 19, 2011 meeting and the 2012 Program Review

Dear RGGI State Commissioners and Staff:

Environmental Advocates of New York appreciates this opportunity to provide comments for the Regional Greenhouse Gas Initiative ("RGGI") to the RGGI states as they continue with a comprehensive review of the RGGI program (the "Program Review"). While addressing climate change has correctly been called one of the greatest environmental challenges of our time, climate change is not only an environmental threat. The effects of a changing climate threaten our public health, infrastructure, coastal property, agriculture, and potentially our drinking water supply. We strongly support the efforts of RGGI to reduce climate pollution in the Northeast.

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.

Although a nascent program, RGGI has already demonstrated that it has great potential as one of the tools for reducing greenhouse gas emissions (GHG) by 80 percent by the year 2050. It 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 13 auctions have occurred in an efficient and transparent manner without any indication of market manipulation; once again demonstrating that a market based environmental policy can reasonably move us to cleaner sources of energy in a cost-effective manner.

Not only have we experienced some modest environmental benefits with carbon emissions from the power sector at more than 30 percent below their 2005 levels¹, but also the revenues from the

¹ While RGGI has successfully generated auction revenues that have been invested in energy efficiency and renewable energy projects that reduce GHG emissions, due to its inflated cap RGGI is only partially

sale of the allowances are being invested by the states to save consumers over \$1.1 billion and create over 21,000 job years of employment in the RGGI region.²

Despite the successes shown by this modest program, it has become apparent that several changes will greatly improve the environmental benefits and realign this program with the original environmental goals as outlined in the Memorandum of Understanding. The Program Review should be used to make appropriate policy changes that reflect the lessons learned during these first few years of the program. In order to fully meet the environmental goals of RGGI the price of an allowance must fully capture the societal costs of carbon. RGGI is currently functioning well but RGGI states have failed to send the correct signals to the marketplace so that the societal cost of carbon is captured in the allowance price. A correct price will drive the appropriate amounts of carbon reduction. The cost of carbon includes the damage that is already occurring and will incrementally increase with each ton of carbon. This includes costs associated with health impacts, property damage, and agricultural losses to name a few.

The following comments are in response to the questions posed in the agenda for the September 19, 2011 meeting:

RGGI Market Fundamentals

RGGI has a serious over-allocation problem. It is abundantly clear that RGGI has a “serious over-allocation problem” as is highlighted in the Point Carbon Presentation and was also resoundingly agreed to by all of the experts who presented on September 19, 2011. More allowances are being offered than will be required by emitters to meet the reduced cap through 2018. This lack of scarcity is providing incorrect price signals and the allowances are trading at the reserve price. The over-allocation of allowances is so substantial that several different decisive and aggressive actions must be taken to reduce the number of allowances in circulation.

IPM Modeling Reference Case and Sensitivity Analyses

Energy efficiency programs must be more accurately captured in the modeling. As we highlighted in our earlier comments submitted in the review process, 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.³ We urge ICF to run an alternative scenario assuming 100 percent success of Energy Efficiency Portfolio Standard (EEPS) in 2015, with continued robust energy efficiency investments from 2015-2030.

responsible for this marked drop in emissions. Some utilities have made investment decisions to reduce the carbon intensity of their power plants as a result of the program being established, but until the cap is adjusted to better reflect actual emissions in the region and stronger price signal is sent via higher allowance prices, RGGI will be limited in its impact on CO2 emissions.

² See http://env-ne.org/public/resources/pdf/ENE_RGGI_Macroeconomic_Benefits_110915.pdf (last visited October 4, 2011)

³ *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}>

Don't let modeling limitations impact the adoption of a long term reduction goal.

Environmental Advocates of New York also believes that modeling should be extended until at least 2025 to facilitate sound policy decisions. Additionally, the shorter modeling period should not preclude the adoption of a long-term reduction goal to achieve at least an 80 percent reduction by the year 2050.

Modeling makes clear that the cap must be lowered, unsold allowances retired and banking must be halted, at least temporarily if not permanently, and limited once reinstated in the future. The major lesson here is that actual emissions are well below projections and the reference case makes it clear that the cap will not actually force any carbon reductions. As such, adjustments must be made to RGGI to realign the cap with actual 2009 emission levels and other processes must be put in place to deal with the over abundance of allowances.

Flexibility Mechanisms

When evaluating flexibility mechanisms the RGGI states should take into consideration the fact that a cap and invest program is by its nature the most flexible regulatory mechanism for reducing climate pollution. It provides a polluter with several options for compliance in contrast to the rigid command and control mechanisms that were historically used to limit pollution. A compliance entity can buy allowances, can trade allowances, can directly reduce emissions, and can purchase offsets to meet its compliance requirements. Too much additional flexibility will lead to a situation where the program does not meet its environmental goals. Environmental Advocates of New York strongly believes that to attain the full environmental benefits from RGGI, flexibility mechanisms should be limited if used at all.

Environmental Advocates of New York believes that the current reserve price is too low, and going forward modeling should include reserve prices of five, 10, 15 and 20 dollars. Should the participating states decide to use a flexibility mechanism, the RGGI states should look to the California program trigger prices as a starting point for modeling. In addition, Environmental Advocates would refer the RGGI participating states to "The Economics of Climate Change" by Nicholas Stern, which suggests that because of the environmental, public health and other damages associated with carbon emissions the societal cost of carbon is approximately \$25-\$30 per ton.⁴ Others have set a central number at \$21 per ton, but Economics for Equity and Environment (E3) tells us that the social cost of carbon may be as high as about \$900 in 2010, rising to \$1,500 in 2050.⁵ The United Kingdom's latest carbon price estimates range from \$41 to \$124 per ton of CO₂, with a central case of \$83.⁶

Other Topics Related to Program Review Including Policy Scenarios for 2012

Environmental Advocates believes that the best way to resolve the over allocation problem is to immediately perform the following steps:

- 1) Lower the cap to align with actual 2009 emissions;**
- 2) Retire all unsold allowances;**

⁴ See http://webarchive.nationalarchives.gov.uk/+/http://www.hm-treasury.gov.uk/sternreview_index.htm (last visited Oct. 4, 2011)

⁵ See http://www.e3network.org/papers/Climate_Risks_and_Carbon_Prices_executive_summary.pdf (last visited Oct. 4, 2011)

⁶ See http://www.electricenergyonline.com/?page=show_news&id=130809 (last visited Oct. 4, 2011)

3) End all set asides and retire the allowances that have been “set aside;” and

4) End the bankability of allowances.

None of these steps on their own will be sufficient to alleviate the allowance surplus.

Other important improvements and modeling suggestions include:

- a. Increase the reserve price.** As stated above modeling should be done using policy scenarios of reserve prices of five dollars, \$10, \$15 and \$20.
- b. 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. Modeling must be performed that includes additional states: RGGI should model the impacts of linking with Western Climate Initiative (WCI) and Midwestern Greenhouse Gas Accord and various combinations of other states and regions.
- c. Expand RGGI to include additional sources.** RGGI should be expanded beyond electric generators to other stationary sources and to currently excluded electric sources below 25 megawatts (MWs). In addition, the states should consider whether the coverage of the transportation sector is feasible. The states must begin to collect emission data from other large stationary sources and additional electricity industry sources below the 25 MW threshold. The states must immediately begin the modeling process for other sectors.
- d. Don’t treat all Biomass as equal.** It is critical that RGGI develop rigorous definitions of “carbon neutrality” for the use of biomass and enforce them through effective state implementation.
- e. Introduce life-cycle accounting for GHGs.** We need to get a more accurate accounting of GHGs.
- f. The RGGI states should also perform the REMI modeling that they performed during the design of RGGI.** Otherwise we will have a lop-sided review that ignores the terribly important social impacts of the program—such as employment impacts stemming from the RGGI investments in clean energy
- g. The states must schedule future comprehensive reviews.** Future comprehensive reviews must occur every 3 years in the middle of a compliance period and scheduled so that any changes that occur to the program can be implemented before the start of the following compliance period. Therefore, we suggest the RGGI states schedule another comprehensive program review in 2013 through early 2014 so changes can be in effect for the start of the third compliance period.
- h. Require New Jersey to buy back its allowances.** If New Jersey formally leaves the program, it should be required to buy back allowances that it sold in excess of what its compliance entities require to cover their emissions
- i. Implement a flexible mechanism for reassessing budget allowances.** The RGGI program needs to implement a flexible mechanism for reassessing the level of budgeted allowances.

Environmental Advocates also requests that the RGGI states consider holding panel(s) that provide a review of the latest findings in climate science, especially highlighting the impacts we are already experiencing and the impacts we should expect based on most recent modeling. The

environmental panel(s) should also include discussions of the costs to the RGGI states from climate change and the societal cost of carbon.

Environmental Advocates would also respectfully request that the RGGI participating states provide at least 30 days advanced notice of meetings and two weeks additional time for providing comments on future presentations. Electricity modeling can be complicated and all New Yorkers, including technical experts, deserve more time to read and analyze the states' proposals given the tremendous need to reduce GHG pollution in order to stave off the worst impacts of climate change that affect us all.

Thank you for the opportunity to submit our comments.

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