

# The Northeast Regional Greenhouse Gas Coalition

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## RGGI Policy Recommendations Electricity Imports and Leakage



As a stakeholder in the Regional Greenhouse Gas Initiative, the Northeast Regional Greenhouse Gas Coalition (the GHG Coalition) has been evaluating design options for a CO<sub>2</sub> cap-and-trade program in the Northeast. The GHG Coalition has developed a comprehensive policy framework outlining its recommendations for the design of the RGGI program. This one-pager summarizes GHG Coalition recommendations regarding electricity imports and leakage.

Coalition members and other stakeholders in the RGGI process have raised the concern that the usual approach to a trading regime, in which electricity generators are regulated, will lead to “leakage.” *Electricity prices* in the RGGI region are *higher* than in the contiguous area, while *electricity CO<sub>2</sub> emission rates* are *lower*. Additionally, the region is already a net power importer. The concern is that the imposition of CO<sub>2</sub> emissions limits would exacerbate this situation, making generation within the region even more expensive relative to generation outside the region than it is at present. In response, the region would tend to import lower priced higher emitting power from surrounding areas.

The risk that reductions in CO<sub>2</sub> emissions within the region will be substantially offset by an increase in imported higher emitting power threatens RGGI’s fundamental goals. Moreover, an increase in power imports at the expense of local power raises competitive concerns for electricity generators within the RGGI region. The GHG Coalition has convened an Ad Hoc Leakage Working Group to explore options for addressing the higher emissions associated with the power imported into the RGGI region. Additionally, the IPM modeling currently under development should help inform stakeholders further on the issue of leakage. In the meantime, the GHG Coalition offers the following general recommendations:

- design the RGGI program so as to minimize leakage, whether by adoption of a CO<sub>2</sub> emission portfolio standard or by including the emissions from imported electricity in the RGGI CO<sub>2</sub> cap—or by some mechanism that has yet to be identified;
- undertake sufficient modeling to understand more fully the potential for leakage and the opportunities for addressing the problem;
- leverage the existing and evolving electric generation tracking infrastructure of the three northeast power pools to account for CO<sub>2</sub> emissions from imported power.

More information on the GHG Coalition is available at <http://www.mjbradley.com/ghgcoalition.htm>.