The Northeast Regional Greenhouse Gas Coalition

RGGI Policy Recommendations

Allowance Allocation Methodologies

As a stakeholder in the Regional Greenhouse Gas Initiative, the Northeast Regional Greenhouse Gas Coalition (the GHG Coalition) has been evaluating available design options for a CO_2 cap-and-trade program in the Northeast. The participants in the GHG Coalition are major energy, technology, pharmaceutical and waste management companies with significant operations in the northeastern U.S. In the coming weeks, the GHG Coalition will submit a comprehensive policy framework outlining our recommendations for the design of the RGGI program. In crafting this framework, our objective has been to develop a set of recommendations that could serve as a model for a national climate change program. In the meantime, we offer the following suggestions for distributing CO_2 allowances under the RGGI program cap.

The GHG Coalition recommends:

- an updating, output-based allocation based on gross electricity output, implemented consistently by all RGGI states in order to avoid distortions in the electricity markets in the Northeast;
- fair treatment of combined heat and power systems based on an allocation methodology that accounts for both the electric and thermal output of these high efficiency power plants;
- an allowance set-aside for new electric generating resources, facilitating the transition to a lower carbon generating fleet in the Northeast; and
- a transparent and standardized process for determining individual facility allocations.

Transitioning to a lower carbon energy system requires intelligent policies that will encourage investments in energy efficiency and advanced energy technology. An updating, output-based allocation creates a powerful incentive for efficiency and pollution prevention within the electric generating sector, and eliminates potential barriers to the development of new, low-carbon electric generating facilities.

The GHG Coalition members are opposed to an auction, or comparable mechanism, within the context of a regional CO_2 cap-and-trade program. Establishing a CO_2 cap while neighboring states remain unregulated creates important competitive concerns for companies in the Northeast. An auction or large set-aside of allowances would only aggravate these concerns, creating further economic disadvantages for power companies in the RGGI region.

Finally, we suggest further discussion regarding the treatment of non- and net zero-CO_2 emitting power facilities within the allocation process. This decision must be coordinated with the offset provisions of the RGGI program and the renewable portfolio standards in the region.

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