REGIONAL GREENHOUSE GAS INITIATIVE

Initial Comments of Con Edison and Orange and Rockland Utilities on Issues Raised in the November 17, 2015 Regional Greenhouse Gas Initiative Program Review Stakeholder Meeting

December 4, 2015

I. *Introduction*

On November 17, 2015, the Regional Greenhouse Gas Initiative ("RGGI") States formally began their 2016 Program Review process by hosting a stakeholder meeting.[1] Following the meeting, the RGGI States requested stakeholder input in the form of written comments.[2] In response to this request, Consolidated Edison Company of New York, Inc. and Orange and Rockland Utilities, Inc. (collectively the "Companies") respectfully submit these initial comments for the RGGI States' consideration.

Through the 2016 RGGI Program Review process, the RGGI States must consider multiple objectives, including compliance with the U.S. Environmental Protection Agency's ("EPA") Clean Power Plan ("CPP") and attainment of new state energy goals. Policies must be designed within a challenging and changing environment amid unprecedented market-driven changes to the generation mix and a dynamic new customer-sided marketplace that is prompting fundamental questions about the future of the power sector. Moreover, consideration must also be given to carbon reduction goals, including in the transportation sector, and the potential increased electricity usage that could result, over time, to support electric vehicles. In New York State, the Public Service Commission's Reforming the Energy Vision proceeding may result in how bulk generation assets are utilized, which may need to be considered. In any case, states

[1] *See* http://www.rggi.org/design/2016-program-review/rggi-meetings
[2] *Id.*

must promote the continued provision of safe and reliable electric service at reasonable cost to all customers while continuing to make progress toward addressing climate change.

II. *Comments*

A. *Setting Targets*

The Companies have long supported RGGI and New York State and federal efforts to reduce greenhouse gas emissions that allow for the continued reliable operation of the power grid at reasonable costs to customers. In fact, the Companies have successfully reduced greenhouse gas emissions by over 45 percent since 2005. The Companies are confident that some further emissions reductions are feasible within New York's power sector, although doing so will require additional state policies and programs to support those reductions.

Low natural gas prices are driving electricity market conditions that are effectively increasing the financial support needed for zero-emissions resources. Moreover, New York State policies that are currently underway with respect to nuclear facilities must be considered, including timing and potential results in both upstate and downstate areas. In any case, non-emitting resources such as wind, hydropower, and solar will be needed to address the eventual potential loss of those facilities, whether in the near or longer term. At the same time, potential operational needs that result from intermittent resources as well as impact on needed ancillary services must be fully addressed in order to reliably integrate large volumes of variable renewable generation,.[3] The Companies urge the RGGI States to address these considerations when contemplating ultimate targets (whether rate- or mass-based), emissions reduction glide paths, and cost-containment mechanisms within RGGI. The Companies look forward to

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[3] *See the National Renewable Energy Laboratory's* Eastern Renewable Generation Integration Study, http://www.nrel.gov/electricity/transmission/eastern_renewable.html.

engaging with the RGGI States on these issues in more detail throughout the upcoming RGGI Stakeholder Process.

B. *A Single Emissions Reduction Program*

The Companies favor developing a single emissions reduction program to meet both EPA's Clean Power Plan and State objectives to reduce emissions from the electric generating sector. Multiple programs would create an unnecessary administrative burden on both the RGGI States and compliance entities. Further, such an approach would increase the risk of unanticipated consequences stemming from interactions between multiple emissions allowance trading markets and compliance programs.

C. *Transmission Needs*

Transmission solutions should also be a separate category for a state's compliance strategy, as new transmission can improve access for renewable energy across the state, offer more balance in renewable resource availability, enhance the efficiency of operations and dispatch of existing units, at times at a lower cost than building a new power plant. For example, the proposed AC Transmission project in New York State would help bring upstate wind to downstate markets.

D. *Compliance with EPA's Clean Power Plan*

Generally, the Companies are supportive of sustaining the RGGI program and adapting it to be used as a compliance mechanism for the EPA's Clean Power Plan. The new program design should result in emissions credits that are easily traded among states both within and outside of the region to create as broad a market as possible.

i. **Rate versus mass target** – The Companies generally support the use of a mass-based emissions target as consistent with the current program's design; however, the option of shifting to a rate-based program after 2020 should not yet be removed from consideration given potential state and federal policies to encourage the electrification of the transportation sector. The RGGI States should not foreclose the electricity sector from contributing to reducing carbon emissions across the economy by establishing prohibitively stringent emissions caps for the electricity sector.

ii. **Study Outcomes** – The results of studies such as New York's State Resources Planning Assessment should be considered, and the potential needs that may result should any nuclear unit retirements occur. Also, the strategy of neighboring states and other trading-interested states should be taken into consideration, as EPA has stated it will not allow trading between states that elect different compliance strategies (either rate- or mass-based). RGGI states should initiate and engage in substantive discussions with other states outside RGGI to determine whether or not there is such alignment.

iii. Broad-based Markets – RGGI States should preserve the ability for trading within the existing RGGI region, but they should also allow maximum flexibility for trading with other non-RGGI states. This will reduce the costs for compliance on both electric generators and the customers they serve while allowing generators to reach emissions reduction goals. To accomplish this, certain aspects of RGGI should be streamlined for better alignment with the Clean Power Plan design, as outlined further below.

iv. **Compliance Periods –** Compliance periods should be adjusted to match the 3-3-2 year periods that EPA has established starting in 2022. The RGGI requirement should be preserved that generators retain a fraction of their allowances needed for compliance on a yearly basis between compliance deadlines, as this creates greater market stability. Rather than require all banked allowances be retired by 2020, as proposed at the November stakeholder meeting, a phase-out of the RGGI banked allowances through 2022 would be preferable in order to more predictably transition the value of RGGI allowances.

v. **Generation Cohort –** Continuing to include simple cycle turbines in the RGGI program after 2020, even though EPA has excluded them, will lead to the creation of emissions allowances that are useless for compliance with the Clean Power Plan. Therefore, these units should be not be included within the RGGI cap. If feasible, the state agencies can establish separate emissions requirements for these units outside of an auction system.

E. *Preservation of RGGI Features*

Several RGGI program features have worked well and should be carried forward into the new program used to comply with the Clean Power Plan. These features include:

- Preserving 100% auction of allowances, versus allowing some allowance allocation to generators or LDCs as contemplated by EPA.
- Potentially including new units within the emissions cap, as currently done under RGGI. In addition to maintaining consistency with past practice, this will also help states meet EPA’s requirement to address “leakage” of emissions from old units to new units under a mass-based plan. It should be noted, however, that this would need to be a consistent practices across states. Therefore, modeling should be done to examine the potential impacts of either excluding or including new units within the cap.
- The Cost Containment Reserve should be preserved as it creates needed market stability.

- Continued participation by nonprofits and brokers in the RGGI market, which provide benefits including market liquidity, should be considered by RGGI States.

F. *Clean Energy Incentive Program (CEIP) Participation*

RGGI states should elect to participate in the CEIP proposed by EPA between 2020 and 2022, as the additional allowances will add flexibility for compliance and encourage earlier growth in renewable energy as well as energy efficiency. States should allow utilities to create energy efficiency and renewable energy programs that would meet the criteria for receiving matching allowances.

G. *Consideration for Steam-Related Emissions*

RGGI program rules should give appropriate consideration to steam generation emissions related to useful steam output rather than electric system needs. Specifically, steam generating units that operate for a significant portion of the year to serve steam customer needs, and therefore do not serve significant electric system needs, should not be required to purchase emissions allowances for emissions related to steam output. This will create an undue burden on steam customers for the costs of procuring these allowances. The amount of emissions for steam-only production should be an appropriate exemption under RGGIs rules.