

ENVIRONMENTAL ENERGY ALLIANCE OF NEW YORK

7679 Bay Circle
Liverpool, NY 13090



December 22, 2016

Submitted via E-Mail to info@rggi.org

Re: Regional Greenhouse Gas Initiative 2016 Program Review – November 21, 2016 Stakeholder Meeting

Dear Mr. McKeon,

I am pleased to write on behalf of the Environmental Energy Alliance of New York, LLC (“the Alliance”; see list of company members on this page) to provide our follow up comments on the 2016 program review, related to the stakeholder webinar on November 21. Alliance members own and operate electric generating and transmission and distribution facilities located throughout New York State and, in some instances, across the nation and the globe. The operations of Alliance members contribute to the reliability of the State’s electric grid and to the economic well-being of New York State.

The Alliance was unable to prepare extensive comments to meet the requested submittal date of November 30 and we only provided abbreviated remarks at that time. Our comments address the schedule, the Emission Containment Reserve (ECR), and the modeling results.

The Alliance believes the proposed schedule to modify the RGGI cap after 2020 is inappropriate. One of the most significant issues to be resolved is the status of the Clean Power Plan (CPP). At this point, the critical details for implementing the CPP are unknown and with the change in the Administration in Washington, the future viability of the entire program is in doubt. On December 19, EPA acting air chief Janet McCabe announced¹ the decision to withdraw the draft final model trading rules for the CPP from interagency review. Even though EPA released the draft model trading rules for both mass- and rate-based compliance, draft EM&V guidance for demand-side energy efficiency, a draft white paper on ESPS tracking systems and a draft technical support document on emissions leakage requirements for a mass-based plan this clearly illustrates the uncertainty of this program.

The Alliance maintains that RGGI should not implement any changes at this time and should rather plan on another program review process before the end of the current RGGI requirements in 2020. In addition, as the white paper we submitted to RGGI on May 27, 2016, explains, the major drivers for emission reductions and allowance costs to date (e.g., CO2 reductions from the declining use of coal and residual oil) will likely change in the future suggesting that future reductions will be more difficult. It is prudent to see what happens as these drivers change to see how the RGGI allowance market operates in a condition of

¹ <https://blog.epa.gov/blog/2016/12/update-on-epas-clean-power-plan-model-rules/>

*Central Hudson Gas & Electric Corporation
Consolidated Edison Company of New York, Inc.
Dynergy Power LLC.
Eastern Generation
National Grid
New York Power Authority
New York State Electric & Gas Corporation*

*NRG Energy, Inc.
Orange & Rockland Utilities, Inc.
PSEG Long Island.
Rochester Gas & Electric Corporation
Roseton Generating, LLC
Selkirk Cogen
TransCanada*

allowance scarcity. The last program review established interim emission caps with the express intent of drawing banked allowances into the marketplace so as to draw down the demonstrated surplus allowances available to compliance entities. Presuming that the analysis in the last program review was correct, the number of surplus allowances available should approach zero by 2020. How the auctions and the secondary market will respond to the first-ever scarcity situation is an unknown, so the RGGI States would be wise not to significantly alter the parameters of the RGGI market until this condition is fully explored in real-time.

The proposal for an ECR is interesting. One of the Alliance's primary concerns has always been how RGGI reacts to uncertainty and we believe that the cost containment reserve has addressed our worries that the allowance market price would get too high. The ECR addresses the allowance price concern of allowance prices getting too low. We believe that this mechanism could address the concerns we raised in our white paper submitted to RGGI on May 27, 2016, that explained that because the major drivers for historical emission reductions can no longer provide as many reductions as in the past, that future reductions may not be as readily available. As a result, the Alliance recommends that the ECR be implemented in lieu of any post-2020 emission reduction commitment at this time. If the Alliance is wrong and the emission reductions can continue at the present pace, allowance prices will fall and the ECR will reduce the allowance bank. The goal of the two reserve mechanisms should be to find and maintain the equilibrium between allowances and emissions.

The Alliance also has comments on the IPM analyses presented. As noted before, it would be inappropriate to make any changes to the post 2020 cap until the potential effect of the elimination of the CPP and how the emissions containment reserve would affect the results have been modeled with new IPM scenarios that address both these changes.

In order to fully understand the ramifications of the modeling the numeric results have to be evaluated. In Slide 20 of the IPM modeling draft results presentation the Eastern Interconnect and RGGI Cumulative Emission Reduction chart shows cumulative CO2 emission reductions in RGGI for the entire Eastern Interconnect, including RGGI, for the 2016-2031 period. However we have not been able to find the numbers used for that chart. The Alliance recommends that in all future presentations the provenance of all charts be described someplace so we can evaluate the numbers presented.

The Slide 20 chart compares the cumulative emission reductions in RGGI and the Eastern Interconnect for two scenarios with a 2.5% and a 3.5% emission reduction. For the 2.5% scenario RGGI reductions total 138 million tons but the Eastern Interconnect reductions are a little less than half of 80 and 100, say 88 million tons. For the 3.5% scenario RGGI reductions total 185 million tons but the Eastern Interconnect reductions are 115 million tons. In the absence of the supporting documentation we cannot determine when the reductions accumulate. Slide 14, CO2 Emission Reductions, CPP N+E 2.5% Cap Decline shows the projected CO2 emissions relative to the cap and the use of banked allowances for compliance. From 2016 to 2020 the model projects that there will be significant reductions to the allowance bank and that there will be a gradual and increasing reduction to the bank post 2024. If IPM projects that the majority of the emission reductions occur before 2020 then the model's "perfect foresight" is generating improbable results because no affected company has an allowance strategy plan for possible allowance deficits ten years out.

Slide 20 also provides insight on a couple of other issues: leakage and the effect of a more stringent cap. The difference of 50 million tons in the first scenario and 70 million tons in the second represents leakage of RGGI emission reductions to the rest of the Eastern Interconnect. The increased stringency of the cap from 2.5% to 3.5% reduces cumulative emissions by 47 million tons in the RGGI region but because there is leakage to the rest of the Eastern Interconnect the environment gets a reduction of only 27 million tons. Because both of these scenarios assume that the CPP is in effect we must presume that the leaked emissions would be higher without the CPP.

If you have any questions about the concerns expressed in this letter, please contact me at (315) 529-6711 or roger.caiazza@eeanyweb.org.

Sincerely,

A handwritten signature in cursive script that reads "Roger Caiazza".

Roger Caiazza
Director

xc: climatechange@dec.ny.gov