ENVIRONMENTAL ENERGY ALLIANCE OF NEW YORK

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February 24, 2017

Andrew McKeon, Executive Director
RGGI, Inc.
90 Church Street, 4th Floor
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Comments submitted by email to info@rggi.org

Dear Mr. McKeon,

I am pleased to write on behalf of the Environmental Energy Alliance of New York, LLC ("the Alliance"; participating members identified below) to provide comments related to the February 8 RGGI stakeholder webinar. 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 February 17 given our obligation to review the new program materials, prepare a response and receive approval from our members. Our comments address the assumptions for load forecasts in New York, the Emission Containment Reserve (ECR), the supply of allowances and compliance entity purchasing behavior, and the option to include the Clean Power Plan in the modeling.

<u>Modeling Assumptions for Energy Demand</u>

The assumptions for regional energy and peak demand are based on ISO-NE and PJM analyses but for New York the NYISO data are adjusted to accommodate the Clean Energy Standard (CES). The method used for the alternative demand calculations are provided by the NYSDPS in Appendix B of the DPS Staff White Paper on the Clean Energy Standard. NYISO 2015 Gold Book values were adjusted to include expected demand from electric vehicles and heat pumps, offset by expected energy efficiency gains during the forecasted years. Comparing values for 2025 (the final year of the 2015 Gold Book projections) the NYISO projects over 6,000 GWh more demand than that estimated using the CES parameters. The Alliance suggests that RGGI states conduct a model sensitivity using the NYISO demand projections as a check on the possibility that the DPS corrections are not met (particularly that energy efficiency will outpace NYISO projected growth); and to use ISO data consistent with other data used for the balance of the RGGI states. In the alternative, we suggest a model sensitivity that has a slower ramp rate for renewables buildout, in anticipation that the CES will not be fulfilled as quickly as proposed. We believe this sensitivity is more probable than a delay in the retirement of Indian Point until 2024 – 2025.

Emission Containment Reserve

While the theory of the ECR could be an elegant solution to addressing over-supply in the market, we believe additional details describing how the ECR trigger price will be determined and the ultimate disposition of allowances withheld from the market are necessary. If the purpose of the ECR is to adjust and control allowance supply, this new design feature along with the Cost Containment Reserve and the hard floor price should be sufficient to achieve program objectives; introduction of the ECR should only be implemented in lieu of further cap reductions.

Supply of Allowances and Purchasing Behavior

As we have argued previously in the white paper we submitted to RGGI on May 27, 2016, the major drivers for emission reductions and allowance costs to date (e.g., CO_2 reductions from the declining use of coal and residual oil) will likely change in the future suggesting that future emission reductions will be more difficult and costly. It is prudent to see what happens as these drivers change to evaluate how the RGGI allowance market operates in a condition of allowance scarcity. The last program review established interim emission caps with the express intent of drawing banked allowances into the marketplace 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.

Several presenters who commented during the stakeholder webinar were concerned about over-supply in the market but did not appear to appreciate that allowance over-supply has significant advantages. In particular if the cap is too low, under-supply could force affected sources into a non-compliance situation or require affected sources to decline to operate. Also important is an apparent disconnect between the economic theory of the RGGI cap and trade program and the reality of compliance. In previous cap and trade programs (e.g., NOx and SO_2), the market drives innovation and investments at some affected sources, which frees up additional allowances for trade with other affected sources. However, since there are limited technology options for CO_2 reductions, companies simply purchase allowances to meet their requirements and include that price in their bid price for the power they produce. Reductions in carbon dioxide emissions at one particular source does not open a market opportunity for that source, it merely reduces that number of allowances required for purchase to remain in compliance.

Moreover, companies generally purchase the allowances needed for compliance as they go and do not make purchasing decisions based on market conditions. In general, companies purchase relative to the "compliance period" at the lowest possible cost given the existing and projected pricing. They may purchase allowances looking forward, but do not exceed the overall estimate of need for current or the next compliance period. The IPM modeling presumption of "perfect foresight" is the most telling example of the problems with this. Stated simply, compliance entities will not be purchasing allowances in 2020 to address modeled market shortages after 2025. There are important reasons for this type of market behavior: a) buying allowances for the future ties up capital that could be used elsewhere; b) accounting practices may require balancing accounts on a more short-term basis; and, c) allowance investments today for a facility that may need them in five or more years in the future may be stranded if the facility closes

before then due to unforeseen circumstance. In a similar vein, multiple presenters endorsed a theory that affected sources react to the RGGI market prices to make long-term decisions for investments. That is simply not the case. RGGI allowances are not investments but rather are compliance tools. There are too many other pressures on facility finances to make long-term decisions based on projected RGGI allowance prices when those allowance costs can be built into an affected source's NYISO bid price.

Modeling the Clean Power Plan

It seems unlikely the Clean Power Plan will be enacted during the current federal administration, and modeling the economic impact of that reality on ratepayers in the RGGI region is therefore prudent. At least for the current term of the RGGI program review, we encourage a realistic review of the economic impacts of states' acting in the absence of a national program.

Thank you for your time and consideration.

Sincerely,

Sandra Meier
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