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April 27, 2017

Dear Mr. McKeon and Members of the RGGI Board:

The organizations listed below (Joint Commenters) respectfully submit the following comments in response to the April 20<sup>th</sup> stakeholder webinar. We appreciate the RGGI states' ongoing efforts to engage stakeholders in the current program review and to solicit feedback on RGGI's future. The RGGI program has provided a model for successful climate policy, and as the federal government fails to act on this issue, the need for RGGI state leadership has become more pressing. For that reason, we are encouraged to see that the RGGI states are considering changes to strengthen the program and reduce harmful emissions through 2030. The states' proposals to do so, however, do not go far enough to deliver the overall emissions reductions that our region needs. As detailed below, we see tremendous opportunity to achieve climate, public health and economic benefits by committing to a more ambitious RGGI program.

The states' updated Reference Case indicates that baseline emissions will be even lower than expected last year, due to a combination of factors including low demand, falling renewable energy costs, strengthened clean energy policies in the region, and sustained low natural gas prices. Lower emissions levels also contribute to lower projections of firm power prices in RGGI, as allowance prices are projected to be at or near the minimum reserve price in the central Reference Case and most of the reference case sensitivities as well. These results suggest that achieving additional emission reductions in RGGI, beyond the current cap, through 2030 will be less expensive and easier to achieve than previously expected. We believe that the states' ambition in the program review should similarly increase, and that it is more important than ever to ensure that the program review modeling considers appropriately ambitious cap scenarios to ensure that the region does not leave achievable emissions reductions and associated economic, public health, and climate benefits on the table. Our specific recommendations for the states are:

- As we have previously requested, the states should model a cap reduction of 3.9 million tons per year (5%), consistent with the actual rate of emissions reduction in the region since RGGI began, in their updated analysis of cap policy scenarios.
- Consistent with the approach taken in the 2012 program review, the states should adjust the RGGI cap downward in the first full year following final state adoption of the revised model rule, expected to occur in 2018, rather than waiting until 2021. This would result in a revised cap starting in 2019. Also consistent with past practice, the 2019 cap level should be set at the level of expected emissions in 2019, as opposed to the states' current proposals, which would likely result in a revised cap that is oversupplied on day one. Such revisions should be made to the starting points of all modeled cap scenarios.

- Also consistent with the 2012 program review, we continue to support a full adjustment for banked allowances. We further reiterate several of our earlier and continuing recommendations on other program elements, including the Cost Containment Reserve (CCR), Emissions Containment Reserve (ECR), and auction reserve price.
- Finally, we continue to request that the states conduct an environmental justice analysis as part of the program review to ensure that RGGI's benefits are distributed both widely and fairly.

### **I. The RGGI States Should Model a Scenario in Which the Regionwide Emissions Cap Declines by 5% – 3.9 million tons – Per Year from 2020 to 2030**

In November we urged the RGGI states to revisit a more ambitious strategy that would reduce the regionwide emissions cap by 5% per year between 2020 and 2030, laying out both the need for this rate of electric sector emission reductions as well as the benefits that would accrue to the states from implementing such a cap.<sup>1</sup> Since we submitted those comments, the need for aggressive state leadership on climate has grown, while at the same time, based on the updated reference case modeling discussed on April 20<sup>th</sup>, the ease of achieving such a cap trajectory has substantially increased. Whereas the prior reference case modeling showed the RGGI emissions cap to be fully subscribed or to even result in bank withdrawals in the later years with RGGI allowances prices rising in real dollars over time, changes in state policies incorporated into the most recent reference case modeling have created a situation where the RGGI cap is now projected to be undersubscribed by the mid-2020s and allowance prices remain at the floor prices in all of the later years. Consequently, a 5% declining cap trajectory can be achieved more readily and at lower cost than previously understood, and should be included as a policy model run.

A 5% declining greenhouse gas emission cap in the power sector is an integral component of a least-cost build-out to the RGGI states' collective mid- and long-term climate goals. As discussed in detail in our prior comments, an analysis by Synapse Energy Economics<sup>2</sup> found electric sector emissions must decline to approximately 40 million tons by 2030 to achieve a 40% economy-wide reduction in greenhouse gas emissions from 1990 levels by that year and keep the RGGI states on track to meet their substantially more aggressive 2050 climate goals. Specifically, even with the electrification of 10 million vehicles in the RGGI states by 2030, acceleration of energy efficiency in all states to levels achieved by the highest performing states in the region, and large improvements in building efficiency and heating, emissions from the electric sector must continue to decline at a rate of 5% off a 2020 baseline each year between

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<sup>1</sup> *Joint Stakeholder Comments on Updated RGGI Reference Case Modeling Assumptions* (Feb. 17, 2017), [https://www.rggi.org/docs/ProgramReview/2017/02-08-17/Comments/Joint\\_Comments\\_Environment\\_Health.pdf](https://www.rggi.org/docs/ProgramReview/2017/02-08-17/Comments/Joint_Comments_Environment_Health.pdf); see also NRDC, *Why the RGGI States Should Model a 5% Annual Cap Reduction in the 2016 Program Review* (May 2016), [https://www.rggi.org/docs/ProgramReview/2016/04-29-16/Comments/Natural\\_Resources\\_Defense\\_Council\\_Comments.pdf](https://www.rggi.org/docs/ProgramReview/2016/04-29-16/Comments/Natural_Resources_Defense_Council_Comments.pdf)

<sup>2</sup> Synapse Energy Economics, *The RGGI Opportunity 2.0: RGGI as the Electric Sector Compliance Tool to Achieve 2030 State Climate Targets* (updated Mar. 4, 2016).

2020 and 2030<sup>3</sup> – i.e., at the rate of 3.9 million tons per year. Synapse’s results are consistent with other analyses.<sup>4</sup> For example, Clarke *et al.* (2014) summarized the results of nine top energy-environment-economy models looking at reducing economy-wide domestic greenhouse gas emissions by 50% and 80% by 2050.<sup>5</sup> The authors observed that these models call for reductions in the electric sector in excess of 75% to achieve a 50% reduction in economy-wide greenhouse gas emissions.<sup>6</sup>

The importance of fully evaluating a 5% declining cap has only grown since we filed our prior comments in November. During the past five months, it has become increasingly clear that the federal government will not be leading the way on climate, rendering state leadership more critical than ever before. Bipartisan regional programs like RGGI have the potential to demonstrate a path forward on reducing electric sector climate emissions for other states, and caps should be calibrated to position states to achieve their long-term goals of reducing greenhouse gas emissions across the economy by 80% by 2050—necessitating consideration of a 5% declining trajectory through 2030.

Implementing a cap that declines by 5% annually between 2020 and 2030 is associated with massive benefits for the RGGI states. Synapse’s analysis shows that complying with RGGI states’ collective 2030 climate goals in a least-cost manner and decreasing electric sector carbon intensity by a further 50% between 2020 and 2030 is a win-win for the region. Not only does reduced climate pollution and reduced air and water pollution mitigate risks to human health, a least-cost buildout to a 40% reduction in economy-wide carbon emissions will promote economic growth and jobs. According to Synapse’s analysis, reducing electric sector emissions to 40 million tons while electrifying 10 million vehicles<sup>7</sup>, increasing energy efficiency to levels of the top-achieving states in the region, replacing inefficient heating oil in buildings with highly efficient heat pumps and ramping up renewable generation in the region would achieve \$25.7 billion in total savings while adding an average of 58,400 job-years per year.

Moreover, achieving a 5% annual reduction in regionwide greenhouse gas emissions between 2020 and 2030 is likely to have only a modest impact on power prices – even before accounting for state reinvestments of RGGI revenues in energy efficiency and other programs that could reduce customer bills, consistent with program performance to date in which RGGI has led to at least \$4.67 billion in customer energy bill savings,<sup>8</sup> and as suggested by the tens of billions of dollars in net energy bill savings projected by Synapse. As discussed in our November 2016

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<sup>3</sup> Indeed, given that the non-electric sector core emission reduction strategies rely so heavily upon electrification (e.g., of transportation and heating/cooling) and provide climate benefits only to the extent the electricity replacing these other fuels is low-carbon, declining to require more aggressive reductions from the power sector will be make it difficult for states to achieve mid-term 2030 climate goals.

<sup>4</sup> Leon E. Clarke et al., *Technology and U.S. Emissions Reductions Goals: Results of the EMF 24 Modeling*, *The Energy Journal*, Vol. 1 (Special Issue 1: The EMF24 Study on U.S. Technology and Climate Policy Strategies) (2014), at 21 (noting that “electricity is the least-challenging sector to decarbonize directly so it takes on the largest initial emission reductions.”).

<sup>5</sup> *Id.* at 9.

<sup>6</sup> *Id.* at 21.

<sup>7</sup> For purposes of the analysis, electric vehicles were assumed to be full battery electric vehicles, not plug-in hybrid electric vehicles.

<sup>8</sup> RGGI (2016), *The Investment of RGGI Proceeds through 2014*, [https://www.rggi.org/docs/ProceedsReport/RGGI\\_Proceeds\\_Report\\_2014.pdf](https://www.rggi.org/docs/ProceedsReport/RGGI_Proceeds_Report_2014.pdf)

comments, prior policy modeling of 2.5 and 3.5% declining cap trajectories shared with stakeholders on November 21<sup>st</sup> shows that both these scenarios have a limited impact on firm power prices compared to the reference case. In both scenarios, firm prices are less than 8% above those in the modeled reference case, and the difference in firm power prices between the 2.5 and 3.5% policy scenarios is negligible despite the significant additional greenhouse gas emission reductions modeled to occur throughout the Eastern Interconnect in the 3.5% scenario.<sup>9</sup> Indeed, the November sensitivity runs clearly showed that the differences in firm power prices are driven far more heavily by assumptions regarding natural gas prices, import levels, nuclear retirements and renewable costs, than by differences in the cap trajectory. The modest firm power price impacts of both the 2.5% and 3.5% scenarios strongly suggest that a 5% declining cap trajectory could likewise be achieved in a highly cost-effective manner.

Importantly, the updates to the reference case, which incorporate a number of recently adopted policies that continue to reduce anticipated emissions in the region, will further limit the relative impact of a 5% declining cap trajectory on power prices. As noted above, the latest reference case now shows excess emission allowances in the region beginning in the mid-2020's independently of the fate of the Clean Power Plan. The existence of these excess allowances will ease the achievement of a more aggressive cap decline. Moreover, the modeled reference case does not yet incorporate all recent or likely near-term developments that will reduce regional emissions. First, it is unclear whether the reference case fully incorporates the 1,600 MW of offshore wind for which utilities have already commenced an RFP process under Section 83C of the Massachusetts Act to Promote Energy Diversity, as we believe it should, or if that offshore wind is only fully captured in the low emissions sensitivity.<sup>10</sup> Second, it is likely that more states will extend and/or increase their renewable portfolio standards in the coming years, particularly given that five of the nine RGGI states (Maine, Connecticut, Maryland, New Hampshire and Delaware) have renewable portfolio standards but have not yet established RPS requirements for all years out to 2030.<sup>11</sup> Any increase or extension of a renewable portfolio standard will ease achievement of a 5% declining cap trajectory. Third, increasing investments in energy efficiency and behind-the-meter solar are likely to drive downward the load forecasts used in the modeling.<sup>12</sup> Indeed, successive load forecasts in the region have continued to be lower every year, suggesting that less generation may actually be required in the future, making lower cap

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<sup>9</sup> ICF Consulting, Draft 2016 RGGI Program Review IPM Modeling: Policy Scenarios and Sensitivity Cases (Nov. 21, 2016), at Slide 20 (approximately 115 million tons of cumulative emissions reductions in the 3.5% policy scenario as compared with approximately 85 million tons of cumulative emission reductions in the 2.5% policy scenario).

<sup>10</sup> See An Act to Promote Energy Diversity, Sess. L. ch. 188, Sec. 12 (2016) (requiring distribution utilities to solicit proposals for approximately 1,600 MW of offshore wind generation and, separately, for 9.45 million MWh of clean energy generation, and, if reasonable proposals are received, to enter into cost-effective long-term contracts with the owners of those generation resources).

<sup>11</sup> See Joint Stakeholder Comments on the RGGI Program Review (June 22, 2016), at 2 (summarizing status of each state's renewable portfolio standard). Currently, renewable portfolio standards in these states cease increasing in the following years: Maine (2017); Connecticut (2020); Maryland (2020); New Hampshire (2025); and Delaware (2026). Maryland recently strengthened its RPS, and several bills have been introduced in Connecticut that would extend Connecticut's RPS out to 2030 and beyond.

<sup>12</sup> For example, ISO New England's recently finalized 2017 PV forecast increases behind the meter solar PV estimates for the year 2025 by approximately 1,000 MW from the prior 2016 forecast.

levels easier and more cost-effective to achieve.<sup>13</sup> Fourth, the modeling omits the known retirement of Bridgeport Harbor Station Unit 3, which is obligated to shut down by July 1, 2021 pursuant to a Community Environmental Benefits Agreement between PSEG and the City of Bridgeport.<sup>14</sup> This unit should be modeled as a firm retirement, further decreasing carbon-intensive generation in future years.

In addition to these trends, it is important to note that in the current program review the states have not yet modeled state reinvestment of RGGI revenues through 2030, in either the reference case or in any modeled policy scenarios. Historically, these reinvestments have produced significant benefits to all states in the region, including contributing to regional macroeconomic growth – \$2.9 billion through 2014, as well as job growth of 30,000 job-years<sup>15</sup> – and expected lifetime customer energy bill savings of at least \$4.67 billion<sup>16</sup>. Continued reinvestment of RGGI revenues in clean energy is likely to produce similar benefits economically *and* make it even easier to achieve tighter emissions caps by helping further ramp up deployments of zero-emitting energy efficiency and renewable energy in the region.

In selecting the policy scenarios to model, and in comparing scenarios to arrive at the states' eventual cap, it is important that the states consider these benefits to ensure that they arrive at the best possible decision and avoid leaving RGGI emissions and economic benefits on the table. Independent of the climate rationale for considering a 5% annual cap reduction scenario, failing to model this more ambitious cap trajectory in the states' forthcoming modeling will make it more likely that the states' final decision will fail to maximize RGGI's *economic* benefits, particularly given the significant bill saving and jobs benefits projected by Synapse at that level.

Every indication is that a RGGI cap that declines by 5% per year from 2020 to 2030 can be achieved at low cost with significant benefits to the region. Reducing regionwide electric sector carbon emissions to approximately 40 million tons by 2030 is also critical to ensuring that the RGGI states are well positioned to achieve their longer-term climate goals. We urge the states to model a 5% declining cap so that they can make an informed decision about whether to pursue this policy scenario.

## **II. Consistent with Their Approach in the 2012 Review, the States Should: (a) Adjust the Cap Starting in 2019, i.e., Prior to 2021; and (b) Set the 2019 Cap at a Level That Reflects the Current Emissions Reduction Trajectory in the Region**

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<sup>13</sup> In January 2017 PJM finalized its 2017 Load Forecast, which significantly revises downward its load forecasts from the 2016 forecast. ISO New England's recent Forward Capacity Auction saw its capacity target reduced by 720 MW thanks to updates to ISO's forecast of behind-the-meter solar PV growth. ISO New England, Press Release: Auction Acquires Power System Resources Needed for 2020-2021 At a Lower Price (Feb. 9, 2017).

<sup>14</sup> See Comments of the Sierra Club, Pace Energy and Climate Center, Environment America, and Acadia Center Regarding RGGI 2016 Reference Case Analysis Assumptions (Feb. 12, 2016).

<sup>15</sup> Analysis Group (2015), *The Economic Impacts of the Regional Greenhouse Gas Initiative on Nine Northeast and Mid-Atlantic States: Review of RGGI's Second Three-Year Compliance Period (2012-2014)*, [http://www.analysisgroup.com/uploadedfiles/content/insights/publishing/analysis\\_group\\_rggi\\_report\\_july\\_2015.pdf](http://www.analysisgroup.com/uploadedfiles/content/insights/publishing/analysis_group_rggi_report_july_2015.pdf)

<sup>16</sup> *Supra* note 8.

In the last program review, the RGGI states agreed to institute changes in the RGGI program beginning in 2014, immediately following adoption of the revised model rule. The states further agreed to set the 2014 starting point for their new cap trajectory based on a more reasonable prediction of what actual emissions would be in that year. We recommend that the states take a similar approach in their current program review by modeling across all policy scenarios a revised cap trajectory that begins in 2019 and reflects expected emissions in that year, based on the region's current emissions reduction trajectory.

There are several reasons to set an earlier start date than 2021 in implementing changes under the current program review. We note that, not only have emissions in the region already been declining by approximately 5% per year since the inception of the RGGI program, but also the current annual RGGI caps substantially exceed actual annual emissions. Consequently, it is neither necessary nor useful to defer modifications to the RGGI cap trajectory until 2021. Waiting four years to correct the cap will needlessly result in excess allowances being released to the market and continue to dampen RGGI's carbon price signal, as we have seen in recent allowance auctions. Waiting until 2021 will also likely increase the size of the banked allowance adjustment needed to restore effective price signals and achieve future emissions reductions under RGGI. As noted below, we support a full adjustment for banked allowances moving forward, similar to the adjustment that the states agreed to in the last program review. However, waiting to make a larger adjustment in 2021 rather than a smaller one now alongside a correction to the RGGI cap trajectory would serve no useful policy purpose, while providing a clear, early signal to the market would support market participants in planning for the future.

The most reasonable starting year for the revised cap, consistent with past practice, is 2019. In the 2012 review, the states released a final model rule in early 2013, and formally adopted this rule through state processes by the end of that year. This enabled the states to implement cap changes starting in 2014. In the current review, the states anticipate releasing a final model rule later this summer. Because at least some states will likely need to finalize implementing regulations and/or legislation in 2018, the most realistic starting year for a revised cap trajectory and other program reforms is 2019. This is also consistent with the states' past approach of implementing changes at the beginning of the first year following state adoption.

The decision in the last program review to start program changes in 2014 rather than delaying to a later year produced observable benefits. After the final model rule's release in early 2013, clearing prices in RGGI's quarterly allowance auctions rose above the minimum reserve price for the first time in two-and-a-half years, providing a stronger market signal for clean energy and increased revenues for the states to invest in energy efficiency and other programs that accelerate pollution reductions and save consumers money. Allowance prices continued to rise in 2014, as expected with a tightening cap, and have remained above the minimum reserve price ever since, though have more recently begun to fall. This experience shows that RGGI market participants are able to quickly and effectively respond to clear signals from the states about the future direction of the RGGI program, and do not require a delayed phase in. Had the states delayed making changes and kept RGGI's significantly oversupplied cap in place beyond 2013, it is doubtful that the market would have responded in the same way.



It is also important that the states' updated RGGI cap reflect reasonable expectations about emissions levels in the first year of the new trajectory. Under RGGI, cap levels have consistently reflected overestimates of emissions, leading to immediate and persistent allowance oversupply. In the 2012 program review, the states attempted to address this problem by adopting what they believed to be a more reasonable estimate of emissions levels at the start of the revised cap trajectory. This resulted in a 2014 cap reduction of 45 percent, which significantly narrowed but did not eliminate the gap between the RGGI cap and actual emissions. In 2014, actual CO<sub>2</sub> emissions were nearly 4.5 million tons below the annual cap, as compared to 78.6 million tons in 2013, although this gap has started to widen again, reaching 7.3 million tons in 2016. Avoiding future allowance oversupply problems can be achieved by (a) adjusting the cap downward to account for existing allowance bank, as discussed below; (b) setting a sufficiently ambitious future emissions reduction trajectory; *and* (c) getting the starting point of the revised cap right. While getting the cap exactly right is challenging, it is notable that the states have never underestimated regional emissions in setting the cap; the cap has exceeded emissions in every year of the program. This suggests that setting a lower cap level at the start of the next cap trajectory may be more prudent.

To determine the starting point for the next RGGI cap trajectory, we recommend that the states consider the current rate of emissions reductions in the region (e.g., the average annual reduction of 3.8 million tons of CO<sub>2</sub> since 2009, or over a more recent period) and project this rate of reduction forward. This approach has the advantage of both reflecting current trends in the region and reducing the starting point of the cap, which will incentivize further reductions between now and the start of the new trajectory. By starting this trajectory in 2019 rather than in 2021, the states are also more likely to arrive at a reasonable estimate of future emissions, as uncertainties about technologies, resources, and over variables tend to grow over time.

In contrast to our proposed approach, the starting points that the states have proposed in their cap scenarios are inconsistent with emissions trends in RGGI and are likely to perpetuate the region's allowance oversupply. In three scenarios, the RGGI states propose to model new cap trajectories that begin at levels of between 75.1 and 76.2 million tons of CO<sub>2</sub> in 2021. In comparison, emissions in 2016 were 79.2 million tons of CO<sub>2</sub>. This suggests that the states are assuming emissions in RGGI will fall by only 3 to 4 million tons of CO<sub>2</sub> over the next five years, despite the fact that, as noted above, emissions in the region have fallen by nearly 4 million tons *each year* since 2009. We are aware that the updated reference case modeling suggests that emissions will decline more slowly in future years, which could provide some justification for a more conservative initial cap. However, we also note that this modeling has consistently predicted RGGI emissions that are higher than observed values, including an earlier version of the current reference case that projected 2016 emissions would be well over 80 million tons.<sup>17</sup> Moreover, setting RGGI cap levels is not simply an exercise in predicting where emissions will be, but rather a policy decision to reduce – or not – emissions moving forward. Setting the initial cap level near expected levels has some logic, but going beyond projections is also necessary to achieve RGGI's fundamental purpose: to reduce carbon emissions and address climate change.

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<sup>17</sup> See *DRAFT 2016 RGGI Program Review IPM Modeling: Policy Scenarios and Sensitivity Cases* (Nov. 21, 2016), [https://www.rggi.org/docs/ProgramReview/2016/11-21-16/2016\\_Nov\\_21\\_IPM\\_Modeling\\_Draft\\_Results.pdf](https://www.rggi.org/docs/ProgramReview/2016/11-21-16/2016_Nov_21_IPM_Modeling_Draft_Results.pdf)

For the reasons above, we strongly encourage the RGGI states to both move up the starting date of their next cap trajectory to 2019, and reevaluate the starting point of this trajectory. To be clear, this recommendation applies to *all* of the cap policy scenarios that the states will model, rather than any specific scenario alone. That is, we recommend these steps regardless of the future cap trajectory, and encourage the states to continue to evaluate a range of future emissions reduction levels post-2019 to inform their decision on the final cap. While our recommendation departs from the states' current proposed approach, it mirrors the approach that the states took in the 2012 program review. In contrast, the RGGI states' currently proposed approach is a departure from that past practice, which could undermine the states' efforts to establish a reasonable future cap trajectory that continues to reduce emissions and avoids further allowance oversupply problems in the region.

### **III. The RGGI States Should Conduct a Full Adjustment for Banked Allowances**

Emissions reductions have been achieved more quickly and cost effectively than projected since RGGI began, creating a large gulf between cap levels and actual emissions. This has led to a market flooded with low-priced allowances, diminishing the program's impact and undermining the environmental integrity of the cap. Recognizing these problems, the RGGI states agreed during the previous Program Review to gradually eliminate all allowances banked prior to 2014 by adjusting 2014-2020 cap levels downward.<sup>18</sup> This proved to be an effective, innovative approach to addressing market oversupply while preserving the value of investments in RGGI allowances.

A new bank of allowances has been accumulated from 2014-2016, so we are pleased to see that the RGGI states are considering another full adjustment for banked allowances. Given the success of the previous adjustments for banked allowances paired with the current state of the RGGI market (emissions falling below the cap every year, allowance prices at a three-year low), anything less than a full adjustment for banked allowances would be unjustified. The quantity of the full allowance bank should be calculated as:

$$\text{base cap} - \text{RGGI emissions} - \text{unsold allowances} + \text{CCR allowances purchased.}$$

Since 2014, emissions have fallen below cap levels by 4.7 million tons (2014), 5.6 million tons (2015) and 7.3 million tons (2016), and 15 million allowances have been purchased from the Cost Containment Reserve (CCR).<sup>19</sup> All available allowances have been purchased over this period, resulting in an allowance bank of 32.6 million allowances since 2014. As this figure could increase or decline from 2017 through 2020, the RGGI states should commit to adjustments equal to the full post-2020 bank, rather than committing to a specific number at this point.

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<sup>18</sup> This adjustment was conducted in two steps; one adjustment to account for allowances banked during the first control period (2009-2011) and a second adjustment for the second control period (2012-2014). For more information, see: <https://www.rggi.org/docs/SCPIABA.pdf>

<sup>19</sup> RGGI emissions data available at: [https://rggi-coats.org/eats/rggi/index.cfm?fuseaction=search.rggi\\_summary\\_report\\_input&clearfuseattribs=true](https://rggi-coats.org/eats/rggi/index.cfm?fuseaction=search.rggi_summary_report_input&clearfuseattribs=true)



We propose two options for conducting the banked allowance adjustment:

- Implement a full post-2020 adjustment over the five-year period from 2021-2025, as proposed in Policy Scenarios #2 and #3, or;
- Implement a full adjustment as soon as possible, likely beginning with a cap adjustment in 2019 to reflect allowances banked from 2014-2017. This would likely need to be followed by a subsequent adjustment for allowances banked from 2018-2020.

#### **IV. The RGGI States Should Strengthen Program Design Elements**

The RGGI states have also requested stakeholder comments on other program design elements, including the Cost Containment Reserve (CCR), Emissions Containment Reserve (ECR), and auction reserve price. Our organizations have previously provided comments on these items and briefly reiterate these points below, while also referencing the prior comments.<sup>20</sup> Getting these program design elements right is also critically important to ensuring a strong RGGI program post-2019; however, we support the states' decision to model policy scenarios *without* elements such as the CCR and ECR in the next phase of the review to provide a common baseline for comparing cap stringency levels. Following this next modeling, we look forward to further discussions with the states on how to reform or improve existing mechanisms such as the CCR and auction reserve price and establish an ECR to further strengthen the RGGI program.

##### *(a) CCR*

As we have commented previously, RGGI's current CCR undermines the climate goals of the region by releasing extra allowances to emit carbon pollution above RGGI's emissions cap. The CCR's price triggers are also too low, which has resulted in the CCR being triggered under normal market conditions, rather than serving the CCR's intended purpose of mitigating truly unanticipated price spikes in the region. We continue to support elimination or reform of the CCR to address these deficiencies. If the CCR is continued, reforms could include drawing CCR allowances from underneath the RGGI cap, similar to the approach used in California's emission trading program, where prices have been stable;<sup>21</sup> raising the CCR's price triggers to make the mechanism harder to pull; and limiting the size of the CCR to ensure that the region continues to make progress in reducing emissions. The presence of a CCR is justifiable if it serves to mitigate price spikes in times of unexpected and exceptional circumstances, but the CCR should not be triggered under normal market conditions as it was in 2014 and 2015. Nor should the CCR result in release of allowances that will ultimately prevent states from achieving their climate goals.

##### *(b) ECR*

We continue to support the addition of an ECR, in concept, as a mechanism that could further strengthen the RGGI program and lead to additional, low-cost emissions reductions in times when allowance prices are low (such as the current RGGI allowance environment). As we have

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<sup>20</sup> See, e.g., *Joint Stakeholder Comments on Updated RGGI Reference Case Modeling Assumptions* (Feb. 17, 2017), *supra* note 1

<sup>21</sup> EDF, *Carbon Market California: A Comprehensive Analysis of the Golden State's Cap-and-Trade Program*, [http://www.edf.org/sites/default/files/content/carbon-market-california-year\\_two.pdf](http://www.edf.org/sites/default/files/content/carbon-market-california-year_two.pdf)

previously stated, an ECR should not, however, substitute for setting a sufficiently ambitious cap trajectory upfront, as needed to achieve the states' climate goals. Accordingly, we encourage the states to consider a range of cap policy scenarios that would continue to build on the region's progress to date, including a 5% annual reduction in the RGGI cap as recommended above, independently of any additional emissions reductions that might later be achieved under an ECR.

*(c) Auction Reserve Price*

Continued declines in RGGI's allowance price over the last year, including the recent drop to \$3 per ton in the 35<sup>th</sup> auction, combined with reference case modeling that shows allowance prices are likely to hover around the reserve price absent further action by the states, suggest that a renewed look at RGGI's auction reserve price is necessary. Adopting a stronger RGGI cap trajectory could reverse these declines, but the history of RGGI has also shown that emissions reductions have often occurred more quickly and at a lower cost than projected. Thus, providing a sufficient minimum price for allowance sales is important to preserving a carbon price signal in the market. While an ECR could act as a higher, soft price floor, we also recommend that the states consider increasing the auction reserve price from the current \$2.15 per ton increasing at 2.5% per year to a level such as \$4 per ton, increasing annually at 5% per year plus inflation.

**V. The RGGI States Should Conduct Environmental Justice Analysis as Part of the Program Review**

A stronger cap on climate pollution is needed to protect communities on the front lines of climate change. While climate change affects everyone, it is having a devastating impact on the region's low-income residents, communities of color, immigrants, and other vulnerable communities. As the RGGI states consider new cap trajectories and other policy options we respectfully request that an environmental justice analysis be conducted to examine the impact of those policies on generators in communities that bear a disproportionate burden of negative public health effects, environmental pollution, and impacts of climate change. Such analysis should examine factors including, but not limited to: impacts on co-pollutants such as nitrogen oxides, sulfur dioxide, particulate matter and ozone; the implications of expanding regulations to capture facilities currently operating with multiple units that are individually under the 25 MW threshold; and, the elimination of biomass exemptions.

Thank you for your consideration.

Respectfully submitted,

1199SEIU United Healthcare Workers East – Maryland/DC Division  
Acadia Center  
Appalachian Mountain Club  
ARISE for Social Justice  
Audubon New York  
Coalition for Social Justice  
Connecticut Toxics Action Center  
Conservation Law Foundation

Environment America  
Environment Connecticut  
Environment Maine  
Environment Maryland  
Environment Massachusetts  
Environment New Hampshire  
Environment New York  
Environment Rhode Island  
Environmental Advocates of New York  
Environmental Entrepreneurs (E2)  
Maine Toxics Action Center  
Maryland Environmental Health Network  
Massachusetts Toxics Action Center  
Natural Resources Council of Maine  
Natural Resources Defense Council  
New Hampshire Toxics Action Center  
Pace Energy and Climate Center  
Partnership for Policy Integrity  
Physicians for Social Responsibility  
Physicians for Social Responsibility, Chesapeake chapter  
Physicians for Social Responsibility, Greater Boston chapter  
Physicians for Social Responsibility, Maine chapter  
Rhode Island Toxics Action Center  
Sierra Club  
Union of Concerned Scientists  
Vermont Conservation Voters  
Vermont Energy Investment Corporation  
Vermont Natural Resources Council  
Vermont Toxics Action Center  
Working Families Organization