

# NYS RGGI Allowance Allocation Recommendations

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# Use Part 238 as the Foundation for RGGI Allowance Allocations

- Provides for fair and equitable allocation
- The affected sources are the same as in RGGI
- Recently developed over a multiyear period with significant stakeholder input
  - Went through NY's public comment and hearing process
  - Successfully withstood legal challenge
- Data gathered for Part 238 is the same as needed for RGGI allocation
- Only minor changes would better tailor the Part 238 allocation procedure to a RGGI application

# EPA's AP-42 Basis for Fuel Specific Emission Rates

- Fuel specific allocations provide for equitable distribution of allowances in a manner which maintains fuel diversity, which is critical to New York and the region.
- The relative difference in emission rates of different fuels needs to be factored into allocations
- Part 238's fuel specific emission rates are applicable to SO<sub>2</sub>, not CO<sub>2</sub>
- To simplify the process, suggest that single emission rates for coal (bituminous), oil (No. 6) and gas be used

	Avg. AP-42 CO <sub>2</sub> Emission Rate (lbs/MMBtu)
coal	228
gas	114
petroleum	165

# Allocations Should be Based on Average Operational Characteristics During Baseline Period

- Part 238 has an annual compliance period
  - Individual annual variations in unit utilization used to derive allocations can therefore have serious compliance consequences if allocations do not reflect a unit's greatest utilization
- RGGI has a minimum 3-year compliance period
  - Compliance is more a function of 3-year (or more) average unit operation, not individual year utilization
  - Individual year variation is of less importance than in a program with an annual compliance period
  - Due to RGGI's multi-year compliance period, it is suggested that an averaging function would more closely match the characteristics of RGGI and provide for the most equitable distribution of allowances

# Allocations Should be Based on a 6-Year Baseline

- Allows for normalization of the volatile influence of severe weather, fuel price, prolonged unit outages, etc.
- Due to RGGI's multi-year compliance period it is appropriate to have a baseline period that represents a range of conditions that can be expected to occur over a longer baseline period than used in Part 238
- RGGI already has a good 5-year baseline database, and there will be at least one additional year's data (2005) available by the time allocations need to be made
- Therefore, suggest that the initial allocations be made based on 2000 – 2005 data, and that subsequent allocations also be based on 6-year's historic data

# Factors to be Considered in Energy Output Based Allocations

- Power needed to run air pollution control equipment needs to be factored into allocation
  - FGDs and SCRs use significant power
  - Without factoring in this consideration a well-controlled unit will receive significantly fewer allowances than an uncontrolled unit
  - Not an issue with heat input based allocations

# Contract Plants

- Some facilities with long term contracts do not have a compliance cost pass-through mechanism. Accordingly, RGGI should provide for full allowance allocation (e.g., the average annual emissions during the baseline period) to contract plants, for the term of their contract
  - Such contracted plants should be required to provide a clear demonstration of the lack of compliance pass-through to the appropriate designated regulatory agency

# How Should New Units be Handled?

- Current ISO reports (NY, NE, PJM) indicate the need for new generation capacity in the 2006 to 2008 timeframe.
- Assume 1,000 MW of new clean coal fired generation and 1,000 MW of new combined cycle generation is added in New York
  - ~9.6 million tons/year = 15% of New York's Phase 1 CO2 budget of 64.3 million tons
- Question: How can new units be developed with sufficient level of certainty to provide incentive for necessary investment (both debt and equity) while still providing for maintenance of needed existing generation resources?