

NYS RGGI Meeting

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RGGI Goals and Guiding Principles

- All potential decisions that may be taken by the states in implementing the power plant cap and trade program must be evaluated against RGGI's stated goals:
 - Maintaining energy affordability
 - Maintaining system reliability
 - Accommodating, to the extent feasible, the diversity in policies and programs in individual states

New York/New England Competitive Positions

- New York's electric rates are currently the highest of any state involved in RGGI, and the RGGI states are at an economic disadvantage to the rest of the nation.
- 2002 electricity prices (EIA data)
 - 11.50 cents/kwh - NYS
 - 9.65 cents/kwh - Other 8-participating RGGI states
 - 6.83 cents/kwh – Remaining U.S. states
- A restrictive/inflexible program will further reduce NY's and the region's competitiveness, and increase generation and emissions leakage.

Maintain System Reliability

- New York must avoid overdependence on any one fuel type.
 - Overdependence on gas-fired generation seriously jeopardized the reliability of the New England electric system during the January 2004 cold snap.
 - New York's fuel diversity represents the backbone of the state's electric system reliability and provides a significant market competitive advantage.

Additional Key Considerations

- The power industry is extremely capital intensive with long term planning horizons (up to 30 years).
- Unlike other plant emissions, there are no emission control technologies for CO₂. Major reductions would require fleet turnover, which would be extremely costly and take many years to achieve.
- Infrastructure assumptions must be realistic
 - Gas supply and transmission
 - Electric transmission
 - Additions to current fleet of generating plants

Program Phase In

- Any proposal must be founded on realistic assumptions as to how overall power plant emission reductions can be achieved, with associated modeling conducted to ascertain costs, impacts on electric system reliability, jobs and leakage. Lacking such modeling, any reduction proposals are premature.
- The program must be phased in over time, with sufficient time between phases (possibly 10 years) since there are no CO₂ emission control technologies that can provide incremental reductions, and fleet turnover can only be done over decades, at significant cost.
- Any proposal that calls for rapid reductions over a short timeframe does not account for the long planning horizon of the industry.

How Should The Regional Cap On CO2 Emissions Be Set?

- The goal of an initial phase should be stabilizing emissions at current regional levels.
- The cap should be based on emission reductions from regional 1990 levels.
 - 1990 fuel use data should provide good information with which to develop 1990 emissions.
 - The baseline year is consistent with various proposals (e.g., New England Governors and Eastern Canadian Premiers agreement).
 - Consistent with the basis of the EU trading program, which should greatly facilitate having linkage between the EU and RGGI trading programs.

How Should Each State's Allowance Budget Be Established?

- NYS has achieved very significant power plant CO₂ emission reductions since 1990 as a consequence of a number of actions, including those that came at significant expense to the state.
- The state must get full credit for these reductions, otherwise it puts itself at a significant competitive disadvantage to states which haven't taken similar actions.
- Each state's allowance budget should be determined based on its 1990 power plant emissions and a uniform reduction percentage for all involved states.

How Should Allocations Of Allowances Be Done?

Who Should Get Allowances?

- Allowances should only go to emitting sources.
 - Based on locational-based market pricing used by the ISO's, incremental CO₂ compliance costs will be factored into energy dispatch costs, and the entire market, including non-emitters, will see energy price increases.
 - Allocations to non-emitting sources would provide them with a double financial benefit; higher forward energy prices and windfall allowances.
 - Many of the existing hydro and nuclear units already operate at high capacity factors. Therefore, a RGGI initiative will not change their current output.

Who Should Get Allowances, con't

- All allowances should go to plants.
 - Assessments that suggest that plants do not need all or the lion's share of allowances are very theoretical and do not have timeframes applied to them.
 - Such projections possibly reflect conditions that may exist in several decades once there has been a fleet turnover, but do not reflect near term conditions or needs.
 - Theoretical extrapolations from results of the Acid Rain SO₂ Program are inappropriate.
 - There were a number of actions that plants could take to reduce SO₂ emissions very significantly, relatively quickly and at relatively moderate costs (e.g., use low sulfur coal or oil, add flue gas desulfurization controls). Comparable control alternatives do not exist for CO₂.

Allowances Should Go To Generators Not Load

- Allocations to load:
 - Does not address emissions leakage, and could result in an increase in high emitting generation both within and outside of the RGGI region.
 - Could disrupt the efficient operation of the recently developed regional electricity markets.
 - Does not directly incorporate the cost of emissions in generators' decisions.
 - Does not lend itself to expansion to other sectors that emit GHG.
- An Emissions Portfolio Standard, which would require Load Serving Entities to meet specified aggregate emission rates of its electricity suppliers has the same problems as an allocation to load approach.
- Allocation to generators has a proven track record of success in reducing emissions in a cost-effective manner.

Allocations Should Be Fuel-Specific

- Allocations should be fuel-specific
 - Maintains fuel diversity
 - Promotes system reliability and further avoids the potential of an event in New York similar to what occurred last winter in New England when gas supply limitations threatened the reliability of its electric system and created a potential public safety concern.

Baseline Years

- The basis for source allocations should be plant utilizations that reflect current operational regimes since the industry was deregulated in ~1999.
- Allocations should be a function of each plant's highest annual utilization from 2000 – 2003.
 - Reflects the new deregulated electricity market.
 - Modeled on how NYS proposed to allocate SO₂ and NO_x allowances in its ADR Program.
 - Provides for exclusion of unusually low use years that may not represent a plant's typical operations.
 - Maintains the state emissions budget (cannot allocate more allowances than are in the budget).

Allocation Methods Should *Not* Be Uniform Across The Region

- Each state has its unique fleet of power plants (with a unique fuel mix, age, and geographic distribution), natural resources, electric and gas transmission-related issues, and specific reliability concerns. Coupled with this is each state's own set of public policy priorities. These considerations make the use of a one-size-fits-all approach for determining source allocations between states inappropriate.
- There is no environmental reason why a uniform allocation approach is needed or even desirable. The OTC and NO_x SIP Call cap and trade programs provide for state-specific allocation methodologies and have been very successful.

State-Specific Allocations, con't.

- A prescriptive, one-size-fits-all approach to allocating allowances to sources reduces the likelihood that states outside the RGGI region will decide to join the RGGI developed CO2 cap and trade program.

What specific flexibility mechanisms should be included in the program?

- Offsets, with no limits on use
- Forest sequestration, with no geographic constraints, back to 1990
 - These can represent real tons of CO₂ removed from the atmosphere. There is a need to develop mechanisms to assure that sequestration out of the region is real and maintained; however, the possible difficulty of developing this should not be used as an excuse for not allowing use of forest sequestration. This mechanism could provide very cost-effective tons for plants, while at the same time providing VERY valuable secondary environmental benefits to preserve and grow some of the most threatened and ecologically valuable habitats on the planet – rainforests.
- True-up period beyond annual (5 yr)
- Early reduction allowances
- Use of allowances from other GHG programs
- Non-CO₂ offsets
- Banking with no constraints