

# RGGI Allowance Allocations

**NYS RGGI Stakeholder Meeting**

**December 2, 2004**



Dale S. Bryk  
Natural Resources Defense Council  
[dbryk@nrdc.org](mailto:dbryk@nrdc.org)

# Allowance Allocation Issues

- **Reducing overall cost of program**
  - To create a sustainable model
  - To achieve state reduction goals
- **Reliability / fuel diversity**
  - Do allocations really affect this?
- **Incentives**
  - To drive investment in clean energy technologies
- **Equity/ fair treatment**

# Reducing Overall Program Costs

- **RGGI states should aim to meet all projected demand growth with efficiency, renewables and clean distributed generation**
  - Modeling shows this is the best way is to keep cost of RGGI low
- **We can achieve zero load growth at a net savings to consumers**
  - NEEP report shows twice as much cost-effective energy efficiency is available as is needed to avoid projected load growth
- **We cannot meet this goal with current policies**
  - Existing SBC, codes & standards, only reduce growth rate to ~1.5%

# Reducing Overall Program Costs

## How to bridge the gap?

- **RGGI Allowances**
  - Same benefit as increasing SBC but with opposite effect on rates
  - Substantial portion likely needed to achieve goal
- **Complementary low-carbon energy policies**
  - Increased SBC
  - RPSs in states that lack them
  - Appliance efficiency standards & building codes
  - Portfolio Management
  - Revenue Decoupling

# Reliability and Fuel Diversity

- **Shutdown of units needed for reliability**
  - ISOs will use existing (and new) mechanisms to prevent this
    - Must run payments
    - Capacity payments
    - Location based marginal pricing
  - Allowances do equal payments but do not equal these kinds of payments
    - they won't necessarily keep a plant in operation
    - We don't need to use them for this purpose because we already have these mechanisms in place

# Reliability and Fuel Diversity

## ● Financial health of plant owners

- Allowances won't save a plant that will substantially reduce output under the cap
- With restructuring, states are no longer in the business of protecting plant profitability
- Will poor financial performance affect operations of needed plants?
  - If the ISO is going to pay to make a plant economic it will have value to a new owner
- Will poor financial performance affect energy markets? Relative to other factors that, e.g., prevent investment in new generation?

# Reliability and Fuel Diversity

- **Explore means of ensuring reliability that do not keep dirty, uneconomic plants in operation**
  - Long-term contracts to drive investment in new plants, repowering and energy efficiency (portfolio management)
  - Targeted energy efficiency and distributed generation
  - Natural gas efficiency
  - Transmission upgrades
  - Promoting more dual fuel capability
  - Others?

# Incentives

- **Output-based allocations**

- Rewards and promotes investment in lower emitting resources and fuels

**BUT**

- A blunt instrument likely to result in windfalls to many generators
- **Is this really the best way for states to spend RGGI allowances?**
- **We can use allowances as incentives in a more targeted fashion to promote what the market is not delivering**

# Equity

- **Consumers vs. Generators**
  - **Consumers will pay the cost of implementing RGGI**
  - **All generators will recover allowance costs in bid prices**
  - **States should prevent windfalls to generators**
  - **No public policy basis for subsidizing compliance in restructured environment**
    - **Consumers don't share revenue increases e.g., from increased natural gas prices**
    - **Up and down risks now born by generators**
    - **Regulatory risks, including carbon caps, are well known**
    - **Some “loser” plants are owned by companies that will profit from RGGI**

# Next Steps

- **Conduct modeling to determine cost savings from**
  - flat demand curve
  - all cost-effective efficiency
- **Assess political viability of complementary low carbon energy policies to reduce demand curve**
- **Assess funding (number of allowances) needed to capture**
  - enough efficiency to achieve flat demand curve (with and without complementary energy policies); and
  - all cost-effective energy efficiency

# Next Steps

- **Assess reliability benefits of flat and negative demand curves**
- **Assess potential for expanded set of measures to improve reliability**
- **Determine types of desirable low carbon energy investments that the market or existing policies are unlikely to deliver**