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RGGI Programs

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In response to the Department of the Environmental Commissions and New York Energy Research Development request for stakeholder input, please find comments by the Business Council of New York State. These comments address the proposed New York's Regional Greenhouse Gas Initiative Operating Plan Amendment for 2019.

The Business Council is the leading business organization in New York State, representing the interests of more than 2,500 member businesses statewide. Our membership is composed primarily of electric power consumers, including more than 1,100 manufacturing firms. The primary function of the Business Council is to serve as an advocate for its members in policy matters affecting economic development, jobs and the general business climate in the state.

The Business Council is calling upon the DEC and NYSERDA to revisit the proposed New York Regional Greenhouse Gas Initiative Operating Plan Amendment for 2019 to make the following amendments:

- To reduce the administrative costs to ensure more revenues are dedicated to reducing GHG
- To conduct a study to determine if and how the cost of RGGI allowances have altered CO2 emissions by altering generation unit dispatch and its effects on Locational Based Marginal Prices (LBMPs) since its adoption
- To ensure that RGGI proceeds are dedicated to customers proportional to the cost of the RGGI allowances upon energy consumers

Administrative Costs

New York currently spends the most of any RGGI State on administration, and New York has historically transferred the most RGGI proceeds to cover traditional general fund expenses. New York is projected to commit at least 12% of their RGGI proceeds to cover administrative and other costs. The next closest state is only committing 10% of their RGGI proceeds to cover administrative and other costs while the average across the RGGI states is only 5%.¹

Of the nearly \$1.045 billion in New York RGGI allowances that have been expended, \$280 million was spent on items that will not help reduce GHG or reduce the cost of RGGI allowances upon energy consumers (i.e. general fund relief, New York State Cost Recovery fee, and administration). RGGI

¹ https://www.rggi.org/docs/ProgramReview/2017/09-25-17/Customer_Bills_Results_Overview_09_25_17.pdf

allowances should be primarily dedicated to providing current or future savings on customer bills as a means to reduce the impact of the RGGI program.

The proposed Operating Plan should be amended to remove the \$23M to cover the cost of Environmental Tax Credits. This proposal is a blatant shell game, RGGI proceeds are being transferred to the State General Fund to “reimburse” a tax credit that was adopted before RGGI. No other state programs are required to cover the cost of the similar credits; Empire State Development is not required to cover the cost of the Film Tax Credit, the State Education Department is not required to cover the lost revenue of College Tuition Credit, and so on. NYSERDA has already transferred \$87M to the General Fund to “cover” the cost of the tax credit. This Operating Plan would have the State transfer an additional \$92M over four years.

Next the Operating Plan should be amended to reduce the administrative costs. New York has spent \$29M on program administration, \$4M on Program Evaluation and \$11M on the State Cost Recovery Fee. Now New York is projected to increase its program administration while reducing the complexity of the programs it operates. New York spends more than any other state on administration. The State should eliminate the State Cost Recovery fee, and should reduce program administrative and evaluation costs to less than \$1 million.

RGGI Study

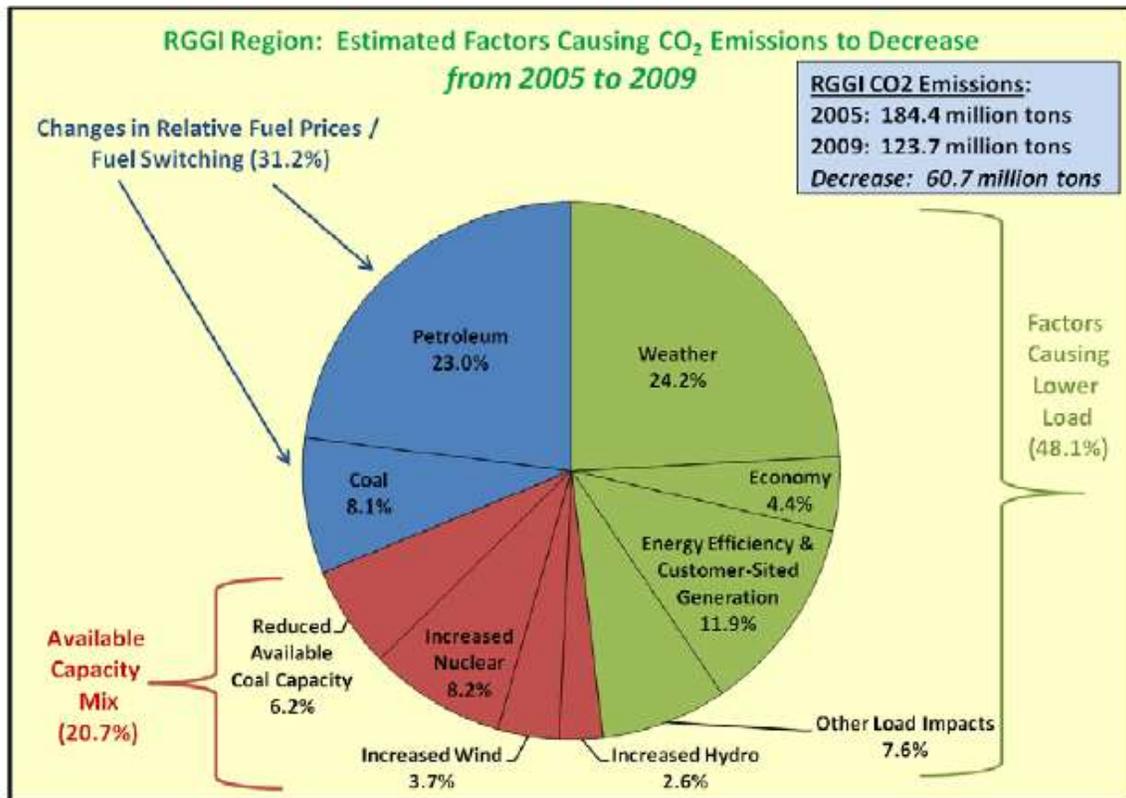
The Public Service Commission and the New York Independent System Operator, Inc. (NYISO) this summer began the process to explore whether and how New York State environmental policies may be pursued within the existing wholesale market structure. This exploration is an open acknowledgement that, since 1990, state-wide power sector emissions have fallen 40% and these declines are due to gas-fired generation displacing coal-fired and oil-fired generation, but RGGI may not have been a significant factor in those reductions.

The Business Council requests that some of the RGGI proceeds be dedicated to conducting a study to determine if and how the cost of RGGI allowances has altered CO2 emissions by altering generation unit dispatch. Additionally, the study should determine if and when Locational Based Marginal Prices (LBMPs) increased by the additional RGGI allowance cost paid by affected (fossil-fired) power generating facilities since its adoption. Using modern modeling it is possible to calculate changes in (1) unit dispatch, (2) wholesale electric prices, and (3) payments by consumers attributable to RGGI.

Simply put, we should know if RGGI has been a factor in fuel switching and/or emissions reductions. Furthermore, as a function of that determination, the study should also determine through an evaluation of historic dispatch which customer classes, what location and at what cost have RGGI allowances had upon consumers.

The best study on the factors causing emission to decrease was developed by NYSERDA in 2009, and since that time has not been updated. The report concluded that reductions in CO2 emissions from the generation sector were attributable “(1) lower electricity load (due to weather; energy efficiency programs and customer-sited generation; and the economy); (2) fuel-switching from petroleum and coal to natural gas (due to relatively low natural gas prices); and (3) changes in available capacity mix

(due to increased nuclear capacity availability and uprates; reduced available coal capacity; increased wind capacity; and increased use of hydro capacity).”



In the twenty-five page report, the effects of the RGGI program in reducing CO₂ are examined only in the following footnote:

The analysis did not explicitly evaluate the estimated impact on CO₂ emissions of compliance with the RGGI CO₂ cap-and-trade program and did not attempt to estimate the relative contribution of the RGGI program to the reduction in CO₂ emissions from 2005 to 2009. Such an evaluation is beyond the scope of the analysis. Conceptually, it is expected that the impact of RGGI, implemented in 2009, is embedded in some of the factors identified in Figures 1 and 2. For example, lower electricity load may be partially due to the use of RGGI CO₂ allowance auction proceeds to fund state energy efficiency programs. Fuel switching may be partially due to CO₂ allowance costs further narrowing the fuel price differentials between fuels with different carbon content. Coal plant retirements may be partially due to consideration of projected future CO₂ allowance costs in the economic evaluation of the plants that preceded their closure.

The NYSERDA report acknowledges that the need for evaluation is beyond the scope of the analysis. It is understandable, given the economically constrains in 2009, that the State governments may not readily have the resources to devote to such analysis.

To date there has been no comprehensive evaluation of the LBMP impacts of RGGI allowance cost paid by affected power generating facilities. The study could determine if the impacts have been limited to some parts of the State or have been truly de minimis.

Auction Proceeds Should be Dedicated to Consumers Based upon Impact

The Business Council requests that the Regional Greenhouse Gas Initiative Operating Plan Amendment for 2019 should be amended to ensure auction proceeds are dedicated in equitable means to the maximum extent possible. Now that the RGGI states have proposed amendments to the model that will increase the consumer impacts of RGGI, New York should commit to helping to reduce the cost-impacts to end-use electric consumers by mitigating the impact in an equitable means to the maximum extent possible.

Once a study has been conducted on the direct impacts of RGGI on energy consumers, future proceeds should be dedicated based upon the consumer impacts. Until the completion of the study proceeds should be dedicating based on a per-kilowatt hour (“kWh”) basis by customer classes. By dedicating proceeds on a per kWh basis, the proceeds will be focused on industries that are a significant risk of generating carbon leakage.

New York State has so far dedicated a less than 1.3% of committed RGGI proceeds to assist energy intensive businesses, but are close to 10% of the energy market. To date the impacts associated with RGGI have been limited but that is likely to change. It is in the best interest of the economy and the environment to commit RGGI proceeds because it will address carbon leakage and output leakage.

Conclusion

The Business Council is calling upon the DEC and NYSERDA to revisit the proposed New York Regional Greenhouse Gas Initiative Operating Plan Amendment for 2019 to ensure more proceeds are dedicated to addressing CO₂, to increase the understanding of RGGI and to ensure that proceeds are equitably distributed.

If you have any questions about our comments or would like to discuss them further, please contact me (518-694-4461, darren.suarez@bcnys.org).

Sincerely,

Darren Suarez
Director of Government Affairs
The Business Council of New York State