

NYSERDA

Rural Area Flexibility Analysis

21 NYCRR Part 507, CO₂ Allowance Auction Program

On December 20, 2005, New York State entered into a historic regional agreement to reduce greenhouse gas (GHG) emissions from power plants, an important step to protect our environment and meet the significant challenge of climate change. Under the agreement, the governors of ten Northeast and Mid-Atlantic States have committed to propose the Regional Greenhouse Gas Initiative (RGGI), a program to cap and reduce carbon dioxide (CO₂) emissions from power plants in the region by 10 percent by 2019, for adoption in their states.¹ In order to carry out the State's commitment, the Department of Environmental Conservation (the Department) has proposed to establish the CO₂ Budget Trading Program by promulgating 6 NYCRR Part 242.

The CO₂ Budget Trading Program is designed to allocate CO₂ emissions allowances ("Allowances") to an Energy Efficiency and Clean Energy Technology Account ("Account"), which will be established and administered by the New York State Energy Research and Development Authority ("Authority") under this Part 507. The proposed CO₂ Allowance Auction Program as set forth at Part 507 is designed to complement the provisions of the CO₂ Budget Trading Program and to effectuate the purposes thereof.

As stated in Section 242-5.3 of the proposed CO₂ Budget Trading Program rule, the Account will be established to promote and reward investments in energy efficiency, renewable or non-carbon emitting technologies, and/or innovative carbon emissions abatement technologies with significant carbon reduction potential. The Authority will conduct CO₂ allowance auctions ("Auctions"), through the process provided in Part 507, through which the allowances will be made available for sale. The proceeds of the Auction(s) will be

¹ In addition to New York, the other states participating in RGGI are: Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, Rhode Island, and Vermont.

used to promote the above-stated purposes of the Account, and for administrative and implementation expenses incurred.

1. TYPES AND ESTIMATED NUMBERS OF RURAL AREAS

The proposed CO₂ Allowance Auction Program is designed to facilitate compliance with the CO₂ Budget Trading Program by providing for the sale of the CO₂ allowances to the owners of affected sources of CO₂ emissions and other entities. Owners and other entities that are located in rural areas will be affected, if at all, no differently than those in other areas of the State.

2. REPORTING, RECORD KEEPING AND OTHER COMPLIANCE REQUIREMENTS AND PROFESSIONAL SERVICES

Bidders in the CO₂ Allowance Auction Program will be required to comply with the Auction application requirements, including the requirements for supporting documentation, as is outlined in Part 507. The Auction process has been designed to provide a user-friendly, web-based auction platform, and participation will not require qualifications or expertise not already available to regulated parties.

3. COSTS

The costs to regulated parties and other bidders of participation in the CO₂ Allowance Auction Program are expected to be minimal.² The auction process has been designed to provide a user-friendly, web-based auction platform, and participation will not require qualifications or expertise not already available to regulated parties.

The Authority will incur costs associated with the administration and implementation of the CO₂ Allowance Auctions and associated with administration and implementation of the Account and the programs that will be funded thereby.

With regard to the administration and implementation of the auctions, the Authority will need sufficient staff to: administer the auction process on an ongoing basis, including the preparation of notices to the public

² An analysis of the costs of the CO₂ Budget Trading Program, promulgated by the Department at Part 242, is included in the Regulatory Impact Statement for that program.

and other documents required under the process, to review applications submitted by prospective bidders, to conduct and/or supervise the conduct of each auction, to complete the transactions reached under each auction, and to coordinate the administration of the CO₂ Allowance Auction Program with the Department. The Authority estimates that between two and three person years (the full time equivalent of working 100 percent on the project for a full work year expressed as 220 days) will be required to administer and implement the Auctions, at a cost of \$110,000 per person per year, inclusive of employee benefits, or up to \$330,000 annually. The Authority also expects to contract for the services of an auction service provider and an independent auditor, who will assist in the actual conduct of each auction.

The costs incurred by the Authority and the number of staff needed to administer and implement the programs that are to be funded through auction proceeds are difficult to quantify at this time, as those costs will depend in large part on the size and scope of those programs, which in turn will be determined by the amount of funds realized through the auctions.

The Authority currently administers application-based offerings and implements programs, under the System Benefits Charge (SBC) program, that are similar to the energy efficiency and clean energy technology programs that the Authority expects to administer and implement, through the use of auction proceeds, under the CO₂ Allowance Auction Program. Under the SBC program, the Authority's administration and evaluation expenditures are capped at 10% of the funds available. Based on the similarity between the current SBC programs and those that the Authority expects to initiate under the CO₂ Allowance Auction Program, the Authority expects that administration and evaluation costs under the CO₂ Allowance Auction Program will approximate 10% of the funds available to the Authority through auction proceeds. The Authority expects that all costs will be recovered from the auction proceeds.

4. MINIMIZING ADVERSE IMPACT

Since the proposed CO₂ Allowance Auction Program regulations apply equally to affected parties statewide, rural areas are not impacted any differently than other areas in the State. The Auction process has been designed to provide a user-friendly web-based auction platform, and participation will not require qualifications or expertise not already available to regulated parties.

5. RURAL AREA PARTICIPATION

Since the announcement of the Regional Greenhouse Gas Initiative in September of 2003, numerous stakeholder meetings were held with affected parties and various representative coalitions and consultants to the electric industry. Copies of the draft regulations for the CO₂ Budget Trading Program were forwarded to all affected parties prior to initiating the promulgation of the regulations and interested parties afforded informal opportunities for public comment. Initial drafts and the discussions that ensued included the auction of allowances and the use of the auction proceeds.