

RGGI Model Rule - Points for Discussion

Allocation of allowances. Proposals range from allocating 100% of allowances to emitting suppliers to requiring these suppliers to purchase credits for 100% of their requirement. Suppliers will be faced with timing risk associated with the purchase of allowances and sale of generation into the wholesale market. They also face financing costs. Will these added costs and uncertainties result in unit retirements? How will this impact new project funding? One solution is to hold frequent periodic auctions of allowances relative to the 3-year compliance period.

Dual fuel units. These provide reliability benefits in NY, but may very well operate at a lower capacity factor under RGGI. One solution is to determine CO₂ allowances for units classified as dual fuel based on the fuel with the lowest CO₂ emissions rate, as long as they use at least x% of the cleaner fuel. Another would be to credit these resources with Early Reduction Allowances.

Cap level. For NY, is 64.3 MT. 2005 CO₂ emissions from RGGI-covered units are estimated to be 57.2 MT. Energy projections based on NYISO 2006 Gold Book, combined with historic capacity factors for various unit types and assuming enough new combined cycle generation to meet 18% reserve margin would produce roughly 63.3 MT. At a high level, this would indicate we can meet our projected energy requirements, but does not indicate how units on the margin will change, or if margins on some units will become negative, forcing these units to turn off during certain periods. Coupled with the lack of back-end solutions for CO₂ mitigation, no new coal would likely be built in NY.

Offset price trigger levels (Sec. 6.5(a)(3) of MR). – Tiered trigger prices and their interaction with the price of offsets are considered by some to be overly complicated.

CO₂ leakage from non-RGGI regions. It is impossible to estimate the amount of additional leakage that might occur due only to RGGI; imports are driven by the markets which are in turn subject to relative fuel prices, not to mention the impact of market rule changes not currently contemplated. A better approach would be to determine a baseline prior to RGGI implementation and base decisions on that level. Identifying specific sources of leakage from imports is also problematic given the way transactions occur. Some portion of leakage estimates will have to be based on the mix of a pool of units.