

## **Draft Work Plan – Power Supply LI Comments**

### Issue Track 1

Our concern is that drafting a straw proposal prior to the beginning discussions on Interaction with Other Wholesale Market Processes (Track 4), Interaction with Other State Policies and Programs (Track 5) may rule out the possibility of including in the straw proposal a wholistic approach that incorporates and addresses these issue areas. We favor a wholistic approach.

Before drafting a straw proposal, some discussion of what it means to harmonize markets is appropriate, including a proposed definition, and proposed goals. Additional evaluation is warranted. Our thoughts on these issues are as follows:

### Proposed Definition

“Markets are harmonized when there is a single carbon price throughout the broader region, or its equivalent, consistent with and sufficient to bring about carbon reductions equal to those expected to be brought about by CES.”

- We favor a broader regional view.
- Bringing markets into harmony does not require carbon prices that would otherwise yield reductions beyond those targeted by CES.

### Proposed Goals

- Recognize the independent benefits of state renewable goals while allowing carbon prices to reflect carbon reduction targets.
- Meet carbon targets while maximizing the sum of consumer and producer surplus.
- Where possible, allow a regional market based mechanisms to set carbon/carbon reduction prices.

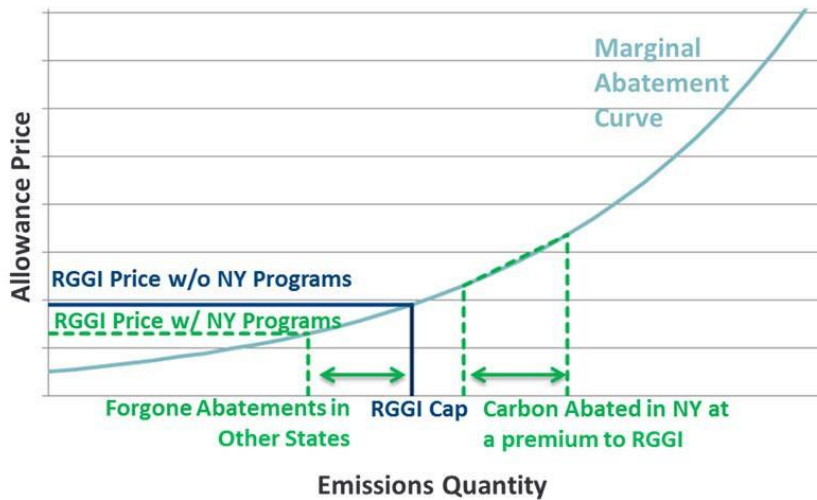
### Proposed Evaluation

- For the sake of evaluation, the Brattle report assumed a RGGI clearing price of \$17/ton in 2025 consistent with the Cost Containment Reserve reservation price.
- Other sources<sup>1</sup> project 2025 RGGI prices well below \$17/ton in 2025.
- Thus, the Brattle assumption forecloses the possibility of retiring allowances at below the Cost Containment Reserve reservation price to conform CES carbon reductions and RGGI prices.
- The impacts on the sum of consumer and producer surplus for such “harmonizing” allowance retirements should be evaluated.

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<sup>1</sup> See for example: [https://rggi.org/docs/ProgramReview/2017/06-27-17/Draft\\_IPM\\_Policy\\_Case\\_Results\\_Updated\\_06\\_27\\_17.pdf](https://rggi.org/docs/ProgramReview/2017/06-27-17/Draft_IPM_Policy_Case_Results_Updated_06_27_17.pdf)

**Figure 4**  
**RGGI Binding with Price Less than NY Abatement Cost**



For example, Brattle's Figure 4 (shown above) illustrates that the RGGI price with NY programs is trading below what the RGGI price would be without the carbon abated at a premium to the RGGI price through CES. Recognizing the CES has other benefit streams that may justify the cost premium, but working to conform RGGI prices to CES abatements, allowances sufficient to cover these NY abatements are purchased and retired, raising prices to the blue line. Depending on the slope of the actual RGGI allowance supply curve, the price w/o the CES may be below the Cost Containment Reserve reservation price, implying the possibility to harmonize CES carbon impacts at a much lower cost to load and at a larger aggregate consumer and producer surplus.