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Emissions Trading

Most States in Northeast Trading Program On Track to Meet Clean Power Plan Targets

Six of the nine states in the Regional Greenhouse Gas Initiative (RGGI) are on track to meet or come close to meeting by 2020 the federal Clean Power Plan's mass-based goals for 2030, according to an analysis by Bloomberg BNA.

Only Maryland and Maine are not on schedule to meet the 2030 goal by 2020, when the current RGGI carbon dioxide emissions trading program is set to expire for the nine participating Northeastern states, according to the analysis.

In addition, every RGGI state except Maine will meet or come close to meeting by 2020 the Clean Power Plan's two-year targets for 2022-24, under the current RGGI schedule of CO_2 emissions reductions. There is no mass-based target for Vermont because the state doesn't have any power plants that qualify as electricity generating units under the federal plan.

Similarly, most of the RGGI states will meet the Clean Power Plan's slightly higher 2030 mass-based targets that include existing units and the new source complement.

Goal of EPA's Power Plan. The goal of the Clean Power Plan (CPP), released as a final rule Aug. 3 by the Environmental Protection Agency, is to reduce overall CO_2 emissions from the power sector by 32 percent below 2005 levels by 2030. The reductions will be phased in between 2022 and 2030 (149 DEN B-1, 8/4/15).

The RGGI trading program, which has been operating since 2008, sells allowances in quarterly auctions that allow the holder of one allowance to emit one ton of CO_2. The proceeds are largely used by the states to fund energy efficiency, renewable energy and direct-bill assistance. Under the EPA's proposed mass-based trading plan, allowances would initially be distributed based on historical generation.

The nine RGGI states—Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New York, Rhode Island and Vermont—already have reduced CO_2 emissions from the power sector by 35 percent below 2008 levels and by more than 40 percent below 2005 levels.

Under the RGGI plan currently in place, emissions in the nine states are currently scheduled to decline by 2.5 percent per year until 2020.

While the EPA's Clean Power Plan treats the RGGI states favorably, the exact details of what those states will need to do to comply are still being analyzed by RGGI, electricity generators and others.

Katie Dykes, the RGGI chairwoman and deputy commissioner for energy at the Connecticut Department of Energy and Environmental Protection, told Bloomberg BNA that RGGI is still analyzing the Clean Power Plan's emissions targets and other provisions.

"The RGGI states are reviewing and doing their calculations to understand the targets," she said. "It would be premature to discuss what we're taking away from our calculations."

'Great Position' to Comply. She said, however, that the RGGI states are in "a great position in terms of complying" with the EPA plan because "we already have an effective carbon reduction program in place."

RGGI will begin preparations this fall for a previously scheduled program review that will encompass compliance with the Clean Power Plan and any possible changes in the structure of the program. RGGI's first program review in 2012 led to significant changes in the CO_2 emissions cap (27 DEN A-11, 2/8/13).

Susan Tierney, a senior adviser at the Boston-based Analysis Group and a former secretary for environmental affairs in Massachusetts, said RGGI states also will have to look at the long-term trajectory of emissions reductions to meet out-year goals for 2030, 2040 and 2050.

"There are some big questions in these markets with regard to several nuclear plants that are financially shaky," Tierney said in an e-mail. "On the one hand, there's some room in the RGGI numbers for some nuclear retirements, but, if there were a lot of retirements, then those states' and those regions' systems would have a harder time meeting their caps."

"On the other side," she said, "the states are discussing new Canadian hydro, which would offset some of the in-region fossil generation if such were to occur by 2022."

'Ahead of the Curve.' Gavin Donohue, president of the Independent Power Producers of New York, told Bloomberg BNA that RGGI states "are ahead of the curve, compared to those that are not" in RGGI.

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He said New York state is in a particularly good position to meet the Clean Power Plan's targets because of the state's diverse fuel mix and existing air pollution programs to control mercury and sulfur dioxide emissions.

The EPA's mass-based target for New York is 31.2 million tons of CO_2 by 2030, with a 2012 baseline of 34.6 million tons. Under RGGI, the state's emissions will be reduced by 2.5 percent per year in each year up to 2020. That means New York would meet the EPA target sometime in 2019, and by the end of the current RGGI program, New York's emissions would be 30.2 million tons.

Maryland, the RGGI state with the second largest CO_2 emissions budget, has a mass-based target of 14.3 million tons by 2030, with a baseline of 20.1 million tons in 2012. Under RGGI, Maryland's emissions will be reduced to 17.5 million tons by 2020.

Massachusetts, the RGGI state with the third-largest CO_2 budget, has a mass-based EPA target of 12.1 million tons in 2030, with a 2012 baseline of 13.1 million tons. Under RGGI, Massachusetts's emissions will be reduced to 12.4 million by 2020.

Tierney of the Analysis Group told Bloomberg BNA that the Clean Power Plan ''really positions RGGI states very well.''

''They've already done a lot to clean up their power sector,'' she said. ''This helps give them a comparative advantage.''

Jordan Stutt, a policy analyst for the New England-based Acadia Center, agreed. ''The RGGI states are well-positioned to comply with the Clean Power Plan, as EPA has designed the final rule in such a way that encourages the use of RGGI's multi-state, mass-based trading model,'' he told Bloomberg BNA in an e-mail.

''Even EPA's federal implementation plan, which will be applied to states who choose not submit their own plans, is likely to closely resemble the RGGI approach,'' he said.

Going Beyond Targets. Stutt said he expects the RGGI states to go ''above and beyond'' the plan's emissions targets, unlike some other states which will use the targets as the basis for their compliance plans.

He said most of the RGGI states also have economy-wide greenhouse gas reduction targets for 2050. ''Continuing to 2050 with the current RGGI cap reduction trajectory is unlikely to deliver the emissions reductions necessary to meet those long-term targets,'' he said.

Tierney said the Clean Power Plan is ''incredibly helpful in showing states a pathway for interstate trading'' or possibly intrastate trading. She said, however, it was unlikely that the plan would cause other states to join RGGI.

Tierney said RGGI was ''the one real living example'' of a multi-state trading program before the final Clean Power Plan was released, but now they have the EPA option.

The EPA is considering two options for states that don't submit an adequate compliance plan–a rate-based trading program (measured in pounds per megawatt hour) and a mass-base trading program (measured in short tons of carbon dioxide) (149 DEN B-4, 8/4/15).

Tierney also said there is a political bias in so-called red states against joining RGGI or California's greenhouse gases emissions trading program.

Uncertainty About Expanding RGGI. Kathryn Zyla, deputy director of the Georgetown Climate Center, said it was uncertain whether the Clean Power Plan would lead other states to join RGGI.

''It's an option that may be appealing to states,'' she told Bloomberg BNA in an e-mail. ''But it's also not the only way that states could choose to support interstate trading.''

''The rule allows states to develop 'trading-ready' plans that include interstate trading without having to join a formal multi-state process, and provides models in the proposed federal plan for both rate-based and mass-based plans that could do this,'' she said.

''Now that the rule is final, states will be looking at the goals, looking at the compliance, and evaluating what will work best in their individual circumstances.''

Jessica Wentz, associate director of the Sabin Center for Climate Change Law at Columbia University, told Bloomberg BNA that ''states will be interested in joining RGGI to implement their Clean Power Plan obligations—the cap and trade infrastructure is already there, even if the targets need to be adjusted slightly to correspond with the Clean Power Plan targets.''

''That said, I can think of two key reasons that states might not want to join RGGI,'' she said in an e-mail. ''They would prefer to stick with a rate-based target to accommodate economic growth (or) they want to give away allowances rather than auctioning them.''

Wentz, citing a recent report from the Acadia Center, said RGGI will need to extend its emissions cap from 2020 to 2030, adjust the scheduled year-to-year cap reductions, and amend its cost containment reserve mechanism (93 DEN A-12, 5/14/15).

Gregory E. Sopkin, a partner in the Denver law firm Wilkinson, Barker, Knauer LLP, said RGGI states probably will need to pass new legislation to comply with the Clean Power Plan by making the RGGI plan fully ''enforceable.''

''The CPP allows state trading for a state to meet its individual emission limits, but does not contemplate pooled emissions absent a regional enforceable interstate agreement,'' he told Bloomberg BNA in an e-mail. ''The CPP does not yet set forth the definitions and compliance protocols for state trading,'' according to Sopkin. ''Under the CPP, the state legislation cannot allow for voluntary withdrawal of emission limit enforcement, such as occurred with a former RGGI state, New Jersey.''

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