2024 Cap-and-Invest Stakeholder Outreach Webinar 2 Summary

By: Maya Gerber

DEC and NYSERDA are holding three webinars in January 2024 to discuss updates to the planned New York Cap-and-Invest Program (NYCI). The second webinar discussed in more detail the Mandatory Greenhouse Gas Reporting Program and the Cap-and-Invest Program and Auction Rule. The updates made to these two aspects of the program are based on stakeholder input, which both the DEC and NYSERDA are continuing to encourage.

<u>The Mandatory Greenhouse Gas Reporting Program</u>

The Mandatory Greenhouse Gas Reporting Program was the first part of the program discussed. Importantly, it was noted that sources that are required to report per the Mandatory GHG Reporting Program that are not Obligated Sources that also must comply with the Cap-and-Invest regulation; because of this DEC is expecting more reporting entities for the GHG Reporting Program than the Cap-and-Invest regulation.

The types of emissions sources are being derived from existing literature in the U.S. EPA GHG reporting program and the California regulatory text, however changes made to meet New York State-specific needs fall into two categories. 1) Minor changes/modifications 2) Major changes/modifications or New Subparts. Reporting threshold categories include:

A. Emission source type is in a specific source category
B. Emission source has more than 10,000 metric tons CO_2e emissions in a year
C. Emission source type is in a specific source category and has a specific operational activity

Some potential emissions data to be collected include fuel, combustion sources, fugitive/leaking sources, supplied industrial GHGs, process emissions and industrial facilities, waste management, and electricity imports.

<u>Cap-and-Invest Program</u>

The Cap-and-Invest program is split into two parts:

1. The DEC Cap-and-Invest Rule
    a. Establishes an annual enforceable GHG emissions cap, which will decline over time to comply with emission limits and goals

   b. Identifies which emissions sources are Obligated Entities and establishes compliance obligations
2. The NYSERDA Auction Rule
   a. Describes the operation of NYCI allowance auctions and mechanisms to protect the integrity of the allowance market.

NYSERDA is seeking stakeholder input on how to proceed with establishing a GHG Emissions Cap and Allowance Budget that would help New York reach its goals. The two potential methods are 1) Historical Method, which would be using the most recent DEC Statewide Greenhouse Gas Emissions Report 2) Projection Method, which would use the 'Historical Method' along with adjustments reflecting the projected impact of the regulations in effect at the time of finalization. The DEC is anticipating a nonlinear GHG Emissions Cap reduction trajectory, with 245.87 MMT CO2e in 2030 and 61.47 MMT CO2e in 2050.

The annual Allowance Budget is the number of allowances distributed among Obligated Entities and General Market Participants. The formula used to calculate this budget is:

Allowance Budget = GHG Emissions Cap – Non-Obligated Entities Adjustment – Banking Adjustments

DEC will determine the Non-Obligated Entities adjustment based on current GHG emissions and data trends of GHG emissions from Non-Obligated and Obligated Sectors. Types of GHG emissions sources include Sationary, Fuel Suppliers, and the Electiricity Sector. The formula used for this is:

Non-Obligated Entities Adjustment = Projected Non-Obligated GHG Emissions +

$$\left(\frac{Past\ GHG\ Emissions\ Discrepancy}{Years\ in\ Next\ Compliance\ Period}\right)$$

<u>Emissions-Intense and Trade-Exposed Industries (EITEs)</u>

Certain industries will be allocated a limited amount of no-cost allowances to help mitigate the risk of GHG and economic leakage. EITEs will remain under the GHG Emissions Cap and be subject to obligations. Additionally, NYCI may include an electric utility consignment mechanism to further advance affordability. If included, electric utilities would be allocated a specified number of allowances annually. DEC and NYSERDA are seeking feedback on 1) the size of the utility consignment 2) How proceeds should be spent to advance affordability.

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NYSERDA and DEC have placed multiple measures into the NYCI that should help enforce program stability. These measures include auction reserve price, emissions containment reserve, cost containment reserve, price ceiling, and a price floor.

The Climate Act requires various program considerations in order to follow the Climate Act properly, which are 1) DEC ensures that activities undertaken to comply with NYCI do not result in a net increase in co-pollutant emissions or otherwise disproportionately burden Disadvantaged Communities (DACs) 2) DEC prioritizes measures to maximize net reductions of both GHG and co-pollutant emissions in DACs. 3) At least 35 percent, with a goal of 40 percent or more, of the NYCI program investments will directly benefit DACs. NYCI will not include any provisions for offsets. The auction format will consist of a single-round sealed-bid uniform price auction. Entities may submit more than one bid per auction and NYSERDA recognizes that the bidding process may be burdensome for certain Entities. Additionally, there is a prohibition of collusion and market manipulation under the Auction Rule. Auction purchase limits and holding limits will be set to ensure this, but guilty parties will also be held accountable. For associations of auction participants, there will be two categories: 1) Corporate/Legal Associations 2) Bidding Associations. Market monitors will be set in place to oversee commodity and energy auctions.

To access stakeholder meeting recordings and its materials, click here. DEC and NYSERDA are actively seeking feedback, and comments on NYCI can be submitted online until March 1, 2024, at www.capandinvest.ny.gov