ACE NY
ALLIANCE FOR CLEAN ENERGY NEW YORK, INC.

Cap-and-Invest Stakeholder Feedback Session #7: Electricity

June 22, 2023, by Lucy Mastrianni

NYSERDA and DEC co-hosted their last session of this webinar series, focusing on electricity, on June 22. Jon Binder, assistant commissioner for air and energy at DEC, began again with an overview of the Cap-and-Invest Program and reminded viewers that this is the time to have your input and thoughts about the design of the program heard. Webinar recordings and ACE NY's summaries of webinars one through six are available online. It was reiterated that no final design decisions have been made about the program, as they are still in the very early stages of developing the program.

Regarding the electric sector, they are seeking input on one specific question: should electricity sources currently subject to RGGI be obligated or non-obligated under NYCI? Currently, no decision has been made regarding this distinction. One potential option is crediting any RGGI allowance price already paid against NYCI allowance price. Binder went on to cover again what sectors and sources they expect to be non-obligated:

- Aviation sources.
- Direct emissions for livestock.
- Very small emissions, like an individual homeowner or renter.

These non-obligated sources have no compliance obligation. Instead, each year, the state will set aside allowances to "cover" their non-obligated emissions. All emissions, obligated and non-obligated sources, will be accounted for in the starting cap.

Vlad Guttman-Britten, assistant director for policy and markets at NYSERDA, spoke on the considerations and questions regarding the auction structure. They anticipate that most allowances distributed under the NYCI system will be available through auctions, regularly administered by the state. They are looking for input on how the auctions should be performed:

- What auction format should be used?
- Should participation in the allowance auctions be limited to obligated entities or be open to market participants?
- What requirements should entities fulfill to be able to register for auctions?
- Should the auction mechanics contemplate the inclusion of allowances from linked jurisdictions?
- What measures should be considered to uphold market integrity and protect against manipulation?

Regarding more general market rules, they are asking for input on whether constraints should be adopted regarding the trading of allowances and if allowance purchase, holding limits, or minimum allowance holding periods should be applied.

Christopher LaLone, director of DEC's Division of Air Resources, spoke next on considerations related to program development. He recapped some Cap-and-Invest starting points and reviewed California and Quebec's air regulation programs, and reminded listeners that while they are using some elements from other programs, NYCI will be specifically tailored to New York's needs. Design decisions that need to be made include:

- Applicability and thresholds.
- Allowance allocation and auction.
- Cap and allowance budget.
- Program stability mechanisms.
- Compliance and enforcement.
- Reporting and verification.

Three main questions were posed regarding Cap-and-Invest applicability specific to the electricity sector.

1.) What should be considered regarding sources covered by RGGI?
2.) How should we consider the non-CO2 and upstream out-of-state emissions associated with the consumption of fossil fuels to produce electricity?
3.) How should addressing electricity imports be considered, at what point of delivery should emissions be assigned?

Mike Sheehan, director of the Air Quality Planning Bureau in DEC's Division of Air Resource gave more detail on the allowance of auctions. "Set asides" are anticipated to be provided for Energy Intensive and Trade exposed (EITE) sources with allowances retired by the state to cover non-obligated sources and emissions. Sheehan also detailed the specifics of the allowance cap. It will be designed to align with the Climate Act's statewide 2030 and 2050 GHG emission limits. Something they are not sure of is how they will set the starting point and at what rate should the cap decline. This is something they are looking for input on.

Regarding the allowance budget, obligated sources will be identified by regulation and required to provide allowances equal to its GHG emissions. Non-obligated sources of GHG emissions would be accounted for in setting the allowance budget. The allowance budget plus the non-obligated emissions would equal the statewide GHG emission cap.

Another big design consideration for the program is stability mechanisms. DEC and NYSERDA are seeking feedback regarding the use of Cost Containment Reserve and Emission Containment Reserve, and if used, how these elements should be designed. They also want to hear from stakeholders about what information should be considered when evaluating banking provisions and adjustments.

Relating to the compliance process, three main questions were asked:

1.) How many years should a compliance period cover?
2.) How often should sources surrender allowances?
3.) What amount of time should be given between reporting emissions and surrender of allowances?

Additional questions about enforcement and compliance mechanisms were then asked. DEC and NYSERDA have not made decisions regarding this yet, but are looking for feedback.

Nathan Putnam, professional engineer in the Bureau of Air Quality Planning in DEC's Division of Air Resources, described some of the emission reporting design elements. Applicability and thresholds will need to be established to determine what entities are subject to the GHG reporting requirements of NYCI. For reporting and certification, Putnam put forth another list of questions that will help decide how the reporting for NYCI will be done. Regarding the electricity sector, specific questions were posed:

- How should electric generating facilities with units that currently report to RGGI report emissions and fuel consumption?
- How might imported power emissions be identified using NERC E-tags?
- How should electricity imports generated at a facility covered by an emission trading program outside of NYS be identified?
- What should be considered when establishing emission reporting for non-RGGI generating facilities?

Putnam then shifted to talk about fuel suppliers associated with the electricity sector. They are asking for feedback on what considerations should be given to having fuel suppliers report all emissions, what fuel ownership identification systems can be used, and what should be considered when developing reporting timelines. They stated that most of the fuel used in electricity-generating facility is expected to be natural gas and distillate duels, so these considerations are incredibly important.

The last section of the webinar was the substantive Q&A section. Key takeaways from this section included:

- Regarding linking NYCI to other states, Mr. Binder stated that linkage refers to mutual recognition of two cap-and-invest systems, so it can take many forms. One example provided was the potential joint administration of auctions.
- A reminder that NYCI is not the only program being implemented from the Scoping Plan which will focus on reducing emissions from non-obligated emissions.
- The next question was if the DEC and NYSERDA are considering making large grid load consumers obligated sources. They are seeking input on this question.
- They refer to the secondary market to differentiate the trading of allowances after initial distribution. The secondary market refers to entities trading amongst themselves with other market participants.

With this, webinar #7 and thus the first round of stakeholder outreach concluded. They reminded participants that DEC and NYSERDA would be accepting and analyzing comments through the summer which would in turn be used to help inform the first draft of the regulations. After that, the process will move on to the second stage of pre-proposal stakeholder outreach, followed by another opportunity for stakeholders to give input and feedback. They expect to be able to provide more details regarding program development in the second round of outreach, which is set to occur later this year. No set dates have been put forth yet.

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