

Climate Change Briefing

C L I M A T E P O L I C Y N E W S & A N A L Y S I S

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BI-WEEKLY UPDATE

State/Regional Activity

RGGI Releases Additional Energy Modeling

As the RGGI states continue to discuss the program proposal released in August, and seek agreement on the memorandum of understanding, the RGGI Staff Working Group released additional electricity sector modeling this week. The new modeling runs were completed in response to requests from RGGI state Commissioners and industry stakeholders. Additional modeling undertaken included:

- higher natural gas price assumptions (\$11/mmBtu) throughout the modeling horizon (2006-2024),
- unlimited new coal capacity builds in the RGGI region,
- limitations on the amount of renewables (i.e., wind) that could be built to 50% of the renewable portfolio standard (RPS) requirements in the RGGI states, and
- consumer benefit allocation—25% of allowance value is dedicated to incremental energy efficiency investment.

Many stakeholders have been critical of the natural gas price projections utilized in the main body of modeling that the RGGI staff are using to illustrate that the program will have minimal (in the range of (1-2%) impacts on electricity prices. In light of the recent natural

gas price increases, stakeholders have been increasingly critical of the natural gas projections.

Even though the RGGI staff had previously run a \$7/mmBtu sustained gas price, they opted to do the \$11/mmBtu run as well. However, this time, they layered additional changes on top of the higher gas prices (coal builds, renewables limits, consumer benefit allocation) which impacted the results significantly. The RGGI staff have not run the RGGI package on a high gas price by itself—only coupled with unlimited coal builds in the RGGI region.

Along with the modeling results, the RGGI Staff Working Group released a document putting the new runs in context. The document noted that a sustained natural gas price of \$11/mmBtu and unlimited coal builds in the RGGI region are very unlikely—discounting the results significantly.

The bottom-line results of this scenario illustrate that the RGGI program could increase wholesale energy prices by 7%-8%, with CO₂ allowance prices ranging from \$7-\$14/ton. Additional modeling results—this time REMI modeling—are scheduled to be released this week for review by stakeholders.

It is still uncertain when the states will reach agreement on the MOU. RGGI staff have publicly targeted the end of the year. It is more likely that the MOU will be signed on December 1 to align with COP 11 taking place November 28-December 9 in Montreal.

The Climate Change Briefing

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Oregon Carbon Allocation Task Force Discusses Straw Proposal

On October 28, Carbon Allocation Task Force staff released a straw proposal for discussion among Task Force participants. The straw proposal is based on a "load-based" carbon allocation standard. According to the proposal, "load-based" means limiting the CO₂ emissions of investor-owned and publicly-owned distribution electric companies or other retail providers and larger self-generators so called "load serving entities" (LSE).

The proposal indicates that Oregon would limit the CO₂ emissions that an LSE could emit regardless of where the power is generated (in state or out of state) to 10 percent below 1990 levels by 2020 and 75% below 1990 levels by 2050.

The straw proposal indicates that the CO₂ budget for the entire state would be approximately 25 to 30 million metric tons of CO₂ emissions. The limit would decline over time with the 2020 limit equal to approximately 19 million tons and the 2050 limit about 5 million ton.

The straw proposal also indicates that emissions would be calculated by multiplying the load (megawatt hours (MWh)) times the carbon mix of the electricity supplying that load. The initial limit for an LSE would be determined by a formula that accounts for its CO₂ emissions and MWh for the historical period.

The state is proposing that it would issue 95 percent of the total allowances each year to the

LSEs for free with the remaining 5 percent auctioned. The proceeds from the auction would go to the Energy Trust of Oregon or a similar organization to support energy efficiency programs and renewable resources.

For the free allowances, the state would apportion 95 percent of those allowances each year to the LSEs based on their CO₂ emissions and the other 5 percent based on MWh.

The paper also proposes three year compliance periods, banking of allowances but no borrowing.

The CO₂ emissions tracking system is proposed to be consistent with the current emissions reports provided to retail customers of PacifiCorp and PGE pursuant to the Oregon Public Utility Commission's rule. For market purchases that do not come from identified generating units the tracking system would assign the CO₂ emissions rate for the regional net system power mix.

In addition to surrendering state-issued allowances to meet emission requirements, an LSE could surrender a limited number of offsets. Offsets could not exceed 1 percent of an LSE's annual limit. Furthermore, offsets must come from outside the electrical sector and from outside the state.

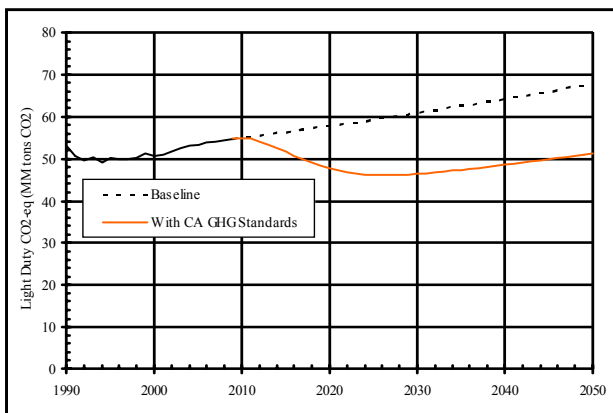
The proposal indicates that the state could recognize as offsets the allowances from the European Union's Emission Trading Scheme, offsets approved through the Clean Development Mechanism (CDM) under the Kyoto Protocol,

and allowances issued under the Regional Greenhouse Gas Initiative (RGGI). The CATF will continue to discuss the proposal through 2006.

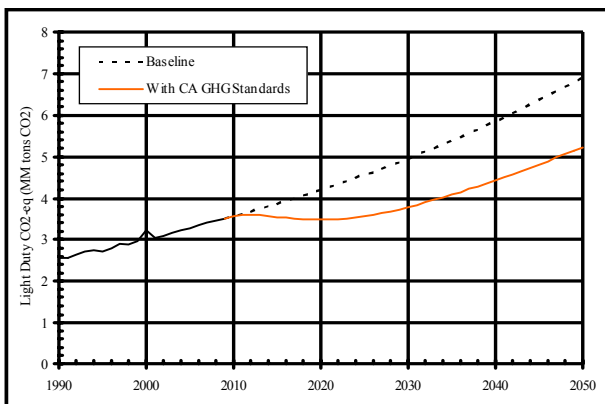
New York and Vermont Adopt CO₂ Requirements for Automobiles

New York recently approved the California motor vehicle GHG standards. This makes New York the second of six Northeastern states considering similar rules to adopt the California GHG standards. Vermont adopted the guidelines in early November.

According to an analysis completed by NESCAUM, implementation of the California motor vehicle GHG standards in New York will result in a 17% reduction (10 million tons) in 2020 and a 24% reduction (14.5 million tons) in 2030 below business as usual levels. See the graphic below.



Also according to the NESCAUM analysis, implementation of the California motor vehicle GHG standards in Vermont will result in a 17% reduction (0.72 million tons) in 2020 and a 24% reduction (1.2 million tons) in 2030 below business as usual levels. See the graphic below.



National Activity

NCEP Climate Workshop Summary

On November 9, the National Commission on Energy Policy hosted its fourth workshop focused on design issues in market based GHG strategies. The workshop theme was incentives for technology innovation and development.

Workshop presenters included:

- Tom Wilson, *Global Climate Change Research, Environment Division, EPRI*;
- Robert Socolow, *Professor and Co-Director, Carbon Mitigation Initiative, Princeton University*
- Anne Smith, *Vice President, CRA International*
- John Holdren, *NCEP Co-Chair; Director, Woods Hole Research Center; Professor, Harvard University*;
- David Doniger, *Policy Director, Climate Center, Natural Resources Defense Council*

The discussion focused largely on the possible global emissions trajectories and the technology options and pathways to reducing global GHG emissions.

Tom Wilson of EPRI's presentation entitled "Stabilizing CO₂ Concentrations: Optimal Emission Pathways and the Role of Technology" stipulated that technology innovation is the cornerstone of climate policy. Tom noted that To stabilize at 550 ppm, Carbon/\$GDP must be <10% of today's by 2100. He went on to note that while technology improvements save money, the timing of reductions dramatically affects policy costs as well.

Robert Socolow's presentation entitled "Stabilization Wedges and the Urgency of Scale-Up" discussed the idea of approaching the necessary emission reductions in terms of strategy "wedges" each of which could deliver 1 gigaton of carbon reductions annually. He suggested that the wedges consist of the following strategies: energy efficiency, decarbonized electricity, decarbonized fuels, fuel displacement by low carbon electricity, natural; sinks and methane management.