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POWER news

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Northeastern US states release draft 'model rule' for CO2 trading program

Seven northeastern states officially launched the debate over how to design a "model" CO2 trading program for US power plants. They proposed a rule that each of the states - led by New York and New Jersey - have agreed to adopt in hopes of cutting CO2 emissions from the sector 10% below current levels by 2020.

The states - which also include Connecticut, Delaware, Maine, New Hampshire and Vermont - will now take comments on the draft Regional Greenhouse Gas Initiative rule for 60 days. In addition to taking written comments, the states have now scheduled two public meetings on the proposed rule, one for March 28 at the New York Public Service Commission in New York and the other May 2 at the Connecticut Department of Environmental Protection in Hartford, Connecticut.

RGGI staff - state environmental and energy regulators - will subsequently finalize the rule, which must be approved by individual state regulatory commissions and/or legislatures.

The program is aimed at stabilizing CO2 emissions at current levels - approximately 121 million metric tons - between 2009 and 2014. From 2015 through 2019, power plants with 25 MW of generating capacity or more in the seven states must cut their CO2 releases by 10%.

States will distribute emissions allowances to plant owners, but the states have agreed to allocate 25% of the allowances for "consumer benefit or strategic energy" funds, which could provide consumers with power rebates for the cost of RGGI and/or fund renewable energy projects.

The proposal allows power firms to use project-based emissions offsets from outside of the region to meet up to 3.3% of their CO2 limit.

So far, RGGI staff do not expect the costs of allowances, which power companies can trade to meet the CO2 cap, to exceed $2.50 (Euro 2.07)/mt.

But if CO2 allowances exceed $7/mt on a sustained basis, firms can increase their use of offset to 5% of their total emissions. And if the cost exceeds $10/mt, the threshold rises to 20% of emissions.

The proposed rule still has other offset restrictions. For example, RGGI states plan to ensure that the offsets claimed were not created for other purposes, such as satisfying separate renewable energy requirements.

Dan Riedinger, a spokesman for the US utility lobbying group Edison Electric Institute, said EEI staffers were still examining the model rule.

But the electric sector's concerns with the rule are likely to focus on how allowances will be allocated, Riedinger said. In addition, power companies are likely to be concerned about how much emissions will increase in states bordering RGGI if, as expected, the neighboring states boost electricity exports into the region to compensate for lost generation.

One expert, Lawrence Kogan of the Institute for Trade, Standards and Sustainable Development, raised major concerns with the constitutionality of the program. Although RGGI states claim their approach is constitutional, Kogan told Platts that the rule's references to the United Nations and cooperation with Mexico and Canada raises questions about whether RGGI states are stepping into an international role reserved for the federal government. "By saying non-participating states in the RGGI process, that means everybody else," Kogan said.

Source: Platts Electric Utility Week