

**Rhode Island General Assembly
Senate Committee on Environment and Agriculture
Testimony on S 662, An Act Relating to Health and Safety –
Economic and Climate Resilience Act of 2019**

The New England Power Generators Association (NEPGA)¹ appreciates the opportunity to provide testimony on S 662, *An Act Relating to Health and Safety – Economic and Climate Resilience Act of 2019*. NEPGA applauds the bill's goal to address greenhouse gas emissions through a multi-state carbon pricing mechanism that would apply to all sectors of the economy. However, the bill raises several questions, including whether the carbon price applies only to electricity suppliers and, if so, how those suppliers would account for contributions made through the Regional Greenhouse Gas Initiative (RGGI).

NEPGA is the trade association representing competitive electric generating companies in New England. NEPGA's member companies represent approximately 25,000 MW – or approximately 90% of all generating capacity throughout New England – and roughly 1,919 MW of the generating capacity in Rhode Island. NEPGA companies also provide thousands of well-paying, highly-skilled jobs to the state's workforce, pay millions of dollars in taxes to the state and its cities and towns and contribute millions of dollars in income taxes paid by employees.

Since electric restructuring in the late 1990s, generators participating in New England's competitive wholesale electricity markets have invested billions of dollars in facilities to produce a reliable, cost-effective supply of electricity without guaranteed cost recovery or a guaranteed rate of return. In fact, 2016 and 2017 featured the lowest annual average wholesale electricity prices since the beginning of the competitive markets. The region's markets have also produced a cleaner, more efficient fleet of power plants, reducing more greenhouse gas emissions in New England than any other sector of the economy since 1990.

NEPGA supports putting an economy-wide meaningful price on CO₂ emissions to meet environmental mandates. NEPGA believes that such a program would work best on a New England-wide basis and not in a state-by-state patchwork. NEPGA members are committed to helping enable state CO₂ reductions through competitive wholesale electricity markets, however, additional programs that favor individual technologies make these markets more difficult to function. It is within this context that NEPGA offers the following comments specific to this legislation.

¹ The comments expressed herein represent those of NEPGA as an organization, but not necessarily those of any particular member.

S 662 Raises Questions about its Intent and How It Would Work

S 662 provides that “All suppliers of electricity, including all electric distribution companies operating in the state and all competitive suppliers of electricity to end users, shall pay the fee on behalf of all of their electricity customers on the basis of each kilowatt hour of electricity used by each distribution customer.” The bill further requires a “supplier of electricity” to deduct from the carbon fee “an amount equal to the amount it paid for the same year on account of [RGGI] clearing auctions....” Does the term “suppliers of electricity” include merchant generators or is it intended to apply to electric utilities and third-party retail electricity suppliers only? NEPGA notes that the obligation for RGGI compliance remains on electric generators, and electricity suppliers do not typically participate in the RGGI auctions. Accordingly, there is an incompatibility in the refund mechanism contemplated by the bill that could allow a retail supplier as opposed to the generator to recover costs incurred. Failure of the generator to recover the RGGI compliance costs could subject consumers to overpayment for carbon reduction measures. NEPGA recommends clarification on the applicability of the carbon price to the retail electricity sector and how the carbon fee would account for contributions from RGGI auctions, which typically involve generators and third-party brokers.

S 662 also proposes a method for calculating the emission rate “by taking the weighted average of the natural gas, coal, and oil portions of the fuel mix and multiplying each of those portions separately by the amount of CO₂e emissions created per kilowatt hour of electricity produced by each such fuel....” CO₂ emission rates are very power plant-specific, so it is unlikely that using averages derived from the generation fuel mix would produce a reasonably precise method for calculating CO₂ emissions.

NEPGA appreciates the Legislature’s efforts to replicate the mechanisms modeled by RGGI in balancing carbon reductions with consumer protections. NEPGA strongly recommends that the Legislature remain mindful that a key benefit of RGGI is that the reciprocity with other cap-and-trade programs provides compliance entities with access to a larger pool of allowances and emissions reduction opportunities, thereby increasing program flexibility while delivering credible GHG reductions. Additionally, NEPGA recommends that the Legislature include a “circuit breaker” mechanism that would prevent the consumer energy price from exceeding a predetermined level.

Finally, NEPGA particularly appreciates S 662’s attempt to recognize the role of the region’s wholesale market to supply reliable electricity to the state’s retail customers. S 662 appropriately recognizes the importance of Rhode Island’s participation in regional, multi-state and national programs to effectively implement the state’s CO₂ emissions reduction goals. Rhode Island power plants participate in a regional system that is designed to efficiently dispatch the lowest cost resources to reliably meet consumer demand. A state-specific compliance mechanism would mean that Rhode Island-based power plants would run less (because their production would be more expensive than other regional generators), yet electricity demand in the state would still need to be met. This means that plants outside of Rhode Island, which would not otherwise run as much

if not for the Rhode Island-specific carbon pricing mechanism, would have to increase production to make up for the shortfall. ISO New England, the region's grid operator, conducted an analysis of a Massachusetts emissions regulation that imposes state-wide emissions limits on the state's power generators.² That analysis showed that if Massachusetts' plants were compelled to run less often to comply with the recent regulations, emissions would increase region-wide by 34,000 to 136,000 tons of CO₂ per year.³ NEPGA does not believe that supporters of S 662 intend to create a scenario that would increase overall greenhouse gas emissions in New England in the name of reducing them in Rhode Island. If Rhode Island is committed to reducing economy-wide CO₂ emissions, the most efficient method for doing so would be the state's participation in a regional program that spans the New England-wide electricity market, not by a state-specific policy that would frustrate S 662's environmental goals and put Rhode Island generators, their employees and the state's overall economy at a competitive disadvantage. NEPGA encourages the Committee to continue to prioritize a market-based compliance mechanism that sets a meaningful price on CO₂ that can be implemented on a regional basis for the most efficient and effective results.

NEPGA suggests that the Committee give more consideration to these complex issues, particularly in light of the S 662's objectives and the nature of electricity generation and supply in New England.

Power Generators Are Reducing Emissions in Rhode Island

Today, generating facilities in Rhode Island and the other New England states that generate electricity using a carbon-based fuel participate in RGGI. Investments in RGGI are projected to reduce carbon emissions by 5.3 million short tons of CO₂ over the program's lifetime.⁴ Recently, the nine RGGI states proposed an additional 30% reduction in the regional GHG emissions cap from 2020 to 2030.⁵ Participation in RGGI, however, is limited exclusively to the electricity sector.

In addition to programs like RGGI, New England and Rhode Island have already seen significant reductions in carbon emissions because of greater efficiencies following the restructuring of the state's electricity industry. Since 1999, the efficiency (measured in heat rate) for power plants in New England improved by 22%. This means that the electricity output that used to take four plants to produce, today takes only three. According to recent data released by the U.S. Energy Information Agency (EIA), power plants in New England have reduced carbon emissions by 46% between 1990 and 2016.⁶

² 310 CMR 7.74, *Reducing CO₂ from Electricity Generating Facilities*

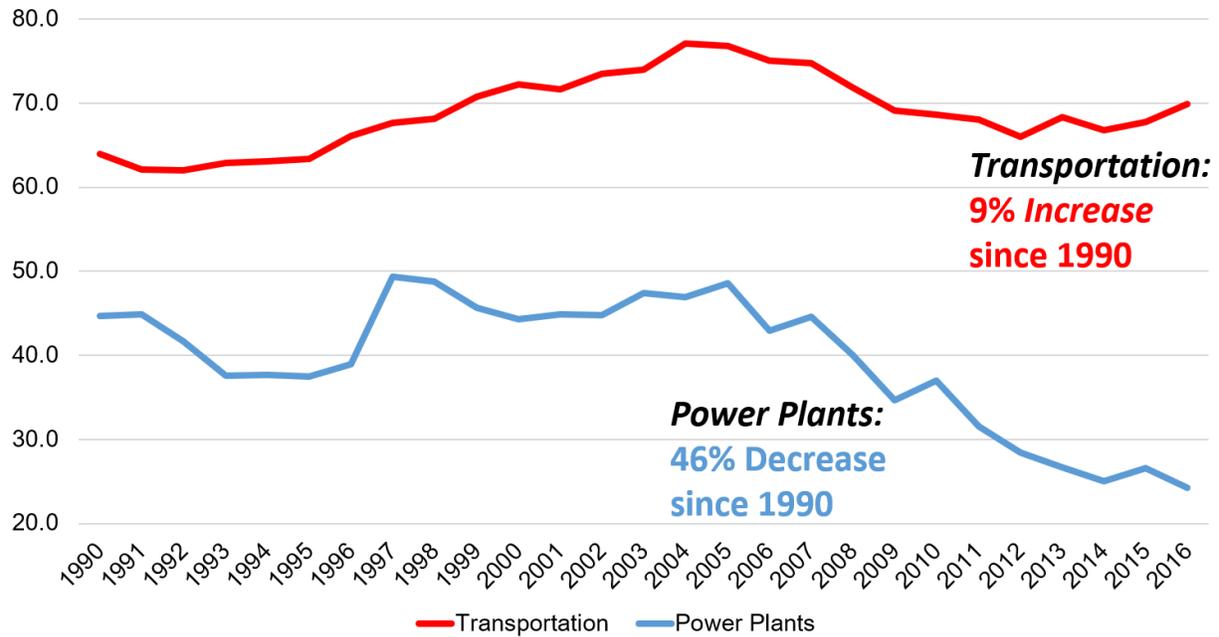
³ https://iso-ne.com/static-assets/documents/2017/02/iso_dep_comments_022017_submit.pdf

⁴ https://rggi.org/sites/default/files/Uploads/Proceeds/RGGI_Proceeds_Report_2015.pdf

⁵ https://www.rggi.org/sites/default/files/Uploads/Press-Releases/2017_08_23_Announcement_Proposed_Program_Changes.pdf

⁶ <https://www.eia.gov/environment/emissions/state/>

New England transportation & power plant CO2 emissions from 1990 to 2016



NEPGA recognizes that more will be expected from the power generation sector. But NEPGA asks the Committee to consider the progress that has been made with respect to electricity sector emissions while the majority of region-wide carbon emissions are now produced in the transportation and buildings sectors. Other sectors of the economy must meet their obligations.

It is important to recognize that electricity rates already include the cost associated with RGGI compliance as well as the above-market costs related to RPS and similar clean energy public policies. In addition, the state's commitment to substantial purchases of offshore wind power, also at above-market rates, will continue to push electricity rates even higher.

In light of the significant progress already being made in the electricity sector, NEPGA encourages policymakers to be mindful of the cumulative impact of these programs and policies. Policymakers should pursue the most cost-effective and efficient ways to reduce carbon in order to avoid over-paying for those environmental benefits, whose rates already include charges for existing state policies such as the Renewable Portfolio Standard and out-of-market contracting for clean energy resources.

Conclusion

NEPGA thanks the Committee for the opportunity to provide testimony on this important issue. We stand ready to work with Members on the best path toward attaining Rhode Island's energy and environmental goals.

Respectfully submitted,

/s/

Dan Collins
Director of Government Affairs

May 1, 2019