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Economywide Strategies Subgroup
Meeting 8

September 12, 2022

Slides are created for discussion and do not reflect any specific recommendation or opinion

Workgroup Overview

> This subgroup will provide further evaluation and guidance regarding the three economy-wide approaches identified in the Draft Scoping Plan.

Meeting 8 Agenda

> Recap and revisiting of draft rationale

> Overview of potential design elements of carbon tax and cap-and-invest & discussion

> Overview of process and outline of a recommendation to the CAC & discussion

> Summary of meeting takeaways & next steps

Level Setting

> This is an invitation only subgroup.

> Participation in all meetings is encouraged.

- The team will be flexible to the extent possible.

> State staff will be responsive to questions but not participate in the discussion.

> Chatham House rule will guide our discussions.

> Notes and presentations from the meeting will be posted to the website within one week.

> Alternative options and perspectives will be considered should consensus not be achieved.

Workplan

Meeting Date	Meeting Focus	
Meeting 1 – June 27 2:00-3:30 PM	Setting the Table for the Work Ahead/Refining and Prioritizing Criteria	✓
Meeting 2 – June 29 9:30 – 11:00 AM	RFF Presentation/Identifying Further Clarity Needed	✓
Meeting 3 – July 20 9:00 – 11:00 AM	Rationale Discussion/Finalizing & Applying Criteria (Emissions)	✓
Meeting 4 – July 25 2:00 – 4:00 PM	Applying Criteria (Certainty and Sufficiency of Funding and Use of Proceeds and Consistency with Other Regulatory Programs; Equity)	✓
Meeting 5 – August 8 2:00 – 4:00 PM	Applying Criteria (Economic; Incorporating Multi-Jurisdictional Programs and Maintaining Administrative Simplicity)	✓
Meeting 6 – August 22 2:00 – 4:00 PM	Setting Priorities for an Economywide Policy	✓
Meeting 7 – August 29 2:00 – 4:00 PM	Comparing and Contrasting Potential Approaches/Incorporating Public Comment	✓
Meeting 8 – September 12 2:00 – 4:00 PM	Finalizing Recommendation	

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Recap and revisit the draft rationale

Rationale

- Based on all the discussions had, what, if any, updates do you have for the rationale for recommending an economy-wide policy?
  - The Economywide Strategies Subgroup finds that an appropriately designed economywide strategy would help ensure the State advance its goals. Such an economywide strategy should serve as an economic signal to market participants and provide a regulatory backstop to ensure economywide emission limits are met. It could serve as a mechanism to generate revenue that can support strategies advanced in the Scoping Plan, including clean energy activities in Disadvantaged Communities. Equity should be integrated into the design of any advanced economywide strategy, accounting for emissions impacts in Disadvantaged Communities and costs realized by low- and moderate-income New Yorkers. Finally, an economywide strategy should be implemented as a complement to, not as a replacement for, other strategies in the Scoping Plan.

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Potential Design Elements – Carbon Tax

Potential High-Level Design of a Carbon Tax

> Sectoral coverage
  - Covered: Fuel use in all sectors; electricity; non-EITE industry emissions
  - Not covered: waste sector methane leakage; agricultural process emissions; aviation and ocean-going vessels. EITE emissions discussed under leakage below

> Certainty of emission reductions: Price would be adjusted based on progress towards meeting statewide emission limits.
  - Program design would hardwire increasing prices if progress is inadequate
  - Q: Should program design hardwire decreasing prices if progress is faster than needed or should price remain unchanged?

> Price certainty
  - Escalating price would be established for each year, subject to any adjustments based on progress towards meeting statewide emission limits.
  - Set price based on projected price level needed to stimulate technology development and deployment as needed to meet emission limits.
  - Provide EGUs credit for RGGI price?

Potential High-Level Design of a Carbon Tax

> Addressing climate justice
  - Program design: Could consider higher tax for stationary source emissions in DAC, but there are no precedents.
  - Investments: Meet/exceed CLCPA requirement for investment in DACs

> Affordability
  - Start with lower price; increase to level targeted to meet 2030 emission limit as choices become available
  - Rebates to LMI households

> Mitigating leakage
  - Exempt EITE industries or include all industry but provide rebate to EITE from auctions proceeds
  - Undertake periodic review of extent of leakage to inform program adjustments

> Implementation
  - Requires legislation

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Potential Design Elements – Cap-and-Invest

Potential High-Level Design of Cap-and-Invest

> Sectoral coverage: all Climate Act emissions attributed to New York, including energy, industrial process, waste, agriculture, etc
  - Subject to allowance budget: energy emissions except those that can't legally be covered (e.g. aviation), industrial process emissions
  - Under cap but not under allowance budget (due to legal and substantive challenges) -- budget is set by subtracting these sectors' emissions from cap: waste sector methane leakage; agricultural process emissions; aviation and ocean-going vessels

> Certainty of emission reductions:
  - Provided rigorous cap and allowance budget design, strong certainty of emissions reductions, including capturing interaction between allowance budget and non-allowance budget sectors

> Price certainty: Create price floor and reserve mechanisms (emissions containment and allowance price containment) to mitigate fluctuations

Potential High-Level Design of Cap-and-Invest

- Addressing climate justice
  - Program design options:
    - Trading limits between DAC and non-DAC areas for stationary sources
    - Hard non-tradeable caps on stationary sources in DAC areas
    - Discount the value of allowances for stationary sources in DAC areas (functionally increasing the price in these areas)
    - Linkage predicated on environmental justice impacts
  - Investments: Meet/exceed CLCPA requirement for investment in DACs
- Affordability
  - Consignment mechanism for utilities where gas and electric utilities own allowances, sell them in state auctions and spend revenue on:
    - Fully mitigating any LMI impact, including impacts from transportation and heating fuels that are not delivered by utilities
    - Securing other benefits for ratepayers, including non-volumetric rebates
  - If not covered by utility rebates, direct rebates based on additional cost burden re fuels not delivered by utilities
- Mitigating leakage:
  - Identified EITE sectors will receive no cost allowances proportional to the facility's output, a benchmark against a best-in-class comparable facility, and potentially a cap-decline factor
  - Undertake periodic review of extent of leakage to inform program adjustments
- Implementation
  - Likely can be done via administrative authority
  - Legislature may need to appropriate proceeds for some investment categories

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Overview of process and outline of a recommendation to the CAC

Process and Outline

> Recommendation will be presented to the CAC on Sept. 29

> Recommendation will include:

- Updated rationale
- Revised/priority criteria
- Potential design elements of a Carbon Tax and Cap-and-Invest
- Defer consideration of Clean Energy Supply Standard to sectoral deliberations

> Next steps: CAC to get CJWG’s feedback on recommendation

Discussion

> Based on the discussions, public comment, and the rationale, should an economy-wide policy be recommended to the CAC?

> If so, which approach would you recommend to the CAC?

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Key Takeaways

Next Steps

> Recommendation slides will be circulated at least a week prior to the CAC meeting

> Presentation to the CAC on September 29

Thank You!

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Appendix

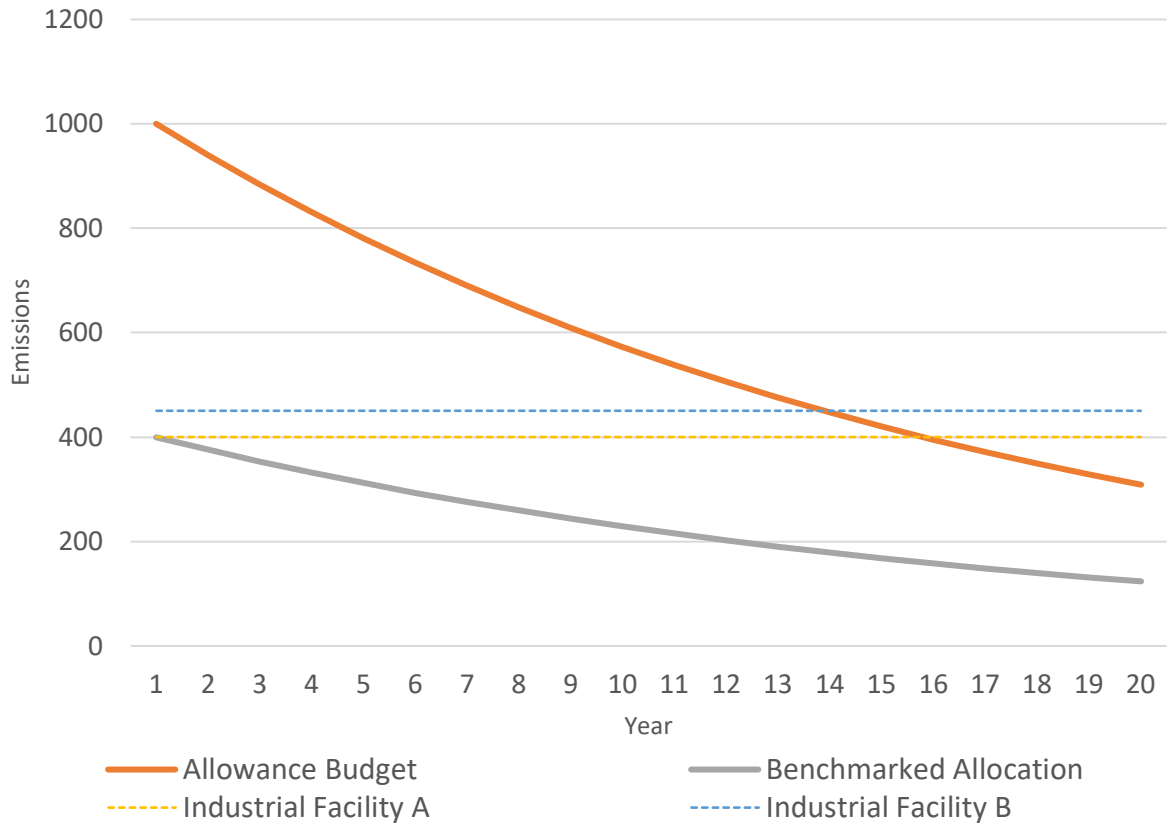
Mitigating leakage in Cap-and-Invest

Plant 1 – lower emission rate

Plant 2 – higher emission rate

Mitigating Leakage Option: Stronger Cap Certainty

- Example:
  - System cap is 1000 tons that declines by 6%/year
  - Best-in-class Industrial Facility A emits 400 tons at a fixed production level
  - Average Industrial Facility B emits 450 tons at same production level
- Both facilities receive 400 no-cost allowances in year 1, reducing by 6%/year, adjusted by production volumes
- Benchmark occasionally reevaluated to reflect state of technology development
- Both Industrial Facility A and B must reduce or bear allowance costs; because B is an underperformer, it must reduce more.
- As the overall cap declines, availability of allowances goes down and these facilities would must reduce to stay under the cap (around years 14-16, though economic pressure to reduce starts much earlier) unless they have previously banked allowances.



Mitigating Leakage Option: Stronger Leakage Protection

- Example:
  - System cap is 1000 tons that declines by 6%/year
  - Best-in-class Industrial Facility A emits 400 tons at a fixed production level
  - Average Industrial Facility B emits 450 tons at same production level

- Both facilities receive 400 no-cost allowances every year, adjusted for production volumes
- Benchmark occasionally reevaluated to reflect state of technology development
- Industrial Facility B must reduce or bear allowance costs; Industrial Facility A may not worsen performance without incurring costs.
- In out-years, risk of conflict exists between EITE allocation and other sectors if benchmark improvements don't keep pace with overall cap