

Emissions Cap and Trade Issues: Taking Initiative

“CHP in New York State – Two Years Later”
*New York State Energy Research and Development
Authority*

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Outline

- CHP related steps that NY has taken towards GHG trading...
- How those actions fit into the regional GHG efforts?
- How CHP might play a role in a future trading scheme/s?
- Why does that matter to CHP?
- What you can do going forward...

CHP Leadership in NY

NY State Energy Plan (June 2002)

“The State supports the development and use of distributed generation (DG) and combined heat and power (CHP) technologies at customer sites, with the goal of becoming a national leader in the deployment of clean DG technology. Primary focus should be on applications where such technologies can be shown to reduce energy costs, improve electricity system reliability, and reduce harmful pollutant emissions.”

Leading To....

- “Recommendations To Governor Pataki For Reducing New York State Greenhouse Gas Emissions” (April 2003)
 - Presents Governor with recommendations to reduce GHG emissions in the State
 - Presents goal for carbon reduction: 5% below 1990 in 2010; 10% below 1990 in 2020
 - CHP is a significant recommendation in all sectors inc. utility, industrial, commercial, buildings, etc. (CHP mentioned 72 times in a 183 page report.)

Coming Soon: Trading in GHGs

- **New England Governors & Eastern Canadian Premiers (2001)**
 - Explicitly includes GHG registry & trading
 - Reaffirmed 2003
- **Regional GHG Initiative (RGGI) (2003)**
 - 9-state power sector cap & trade, + “observers”
 - Target design completion: April 2005
 - Start with EGUs & CO₂, expand to other sectors and gases; sequestration & offsets
- **Interest from EU, UK, Australia**

Trading: Where Appropriate, Far Better

- **If:**
 - Cost matters & location doesn't
 - (i.e., local impacts unlikely)
 - Costs differ between facilities
- **Then trading:**
 - Offers more benefits for same negotiated cost
 - Spurs technology development and innovation
 - Rationalizes over compliance
 - Enables shorter compliance schedules
 - Provides superior compliance
 - Banked reductions = environmental benefit
 - Can be a “way out” in difficult circumstances

Trading: Key Decisions & Issues

- Applicability
- Baselines
- Allocation of Allowances
- Set Asides
- Measurement & Verification
- Banking, Borrowing, and Flow Control
- Early Reductions
- Local Impacts and Trading Ratios

Policy Implications: Climate Change and Political Will Not Going Away...

- National program preferable
- Although efforts exist (e.g. McCain-Lieberman), without concerted federal action, states and regions left to act.
 - Western states collaborative
 - Northeast climate activities
 - Other scattered states (Wisconsin, West Virginia legislation to create registry, etc.)

States Grasp the New Economics of Environment & Energy

And are acting on it...

- **New England** (NEG/ECP)
- **NH** (4-P Legislation; Registry)
- **MA** (4-P regulation)
- **CA** (Pavley, Renewables, CCAR)
- **WI** (Registry)
- **ME, WV** (Mandatory Reporting)
- **NJ** (Voluntary Climate Effort; 4-P Settlement; 20% plan; reporting)
- **NY, CT, MA** (State Action Plans)
- **RGGI, RGGR**

On a national basis, these states represent:

17% of CO₂

29% of population

31% of Business
Tax Base

38% of GDP

Can CHP/Clean DG Play?

Yes, absolutely! The question is more
“how” than “if”...

CHP and GHG Trading

- Go output-based: Allocate emission credits to recognize the heat recapture from CHP systems in any state or regional trading scheme. Trading to allocate to thermal output as well as to the electrical.
- Credible heat recovery calculation methodology needed and trading allocations need to reflect this determination. There are currently several ways to calculate the heat values.

CHP and GHG Trading

- Consistency of trading rules needed among parties where thermal is included. Need to insure that a pound equals a pound for trading purposes.
- Size considerations in early design of RGGI, i.e., > 25 MWs in the power generation sector.
- Future design phases of RGGI expected to include other CHP related sectors like industrial, commercial, institutional and even residential.

Why Does Trading Matter to CHP?

- Additional economic driver to justify cost of projects.
- Highlights barriers to increased use of CHP such as interconnection, tax treatment, business practices by utilities, standby rates, and environmental permitting.
- Vehicle for recognition of CHP as regards its environmental and health co-benefits.

Challenges...

- Get involved with climate...
- Marshall the talent to create a single calculation methodology for the heat recovery and then use it.
- Join regional CHP activities: NE CHP Initiative and the new NE CHP Application Center. www.northeastchp.org

Resources

- Web sites:
 - www.rggi.org for the Regional GHG Initiative
 - www.rggr.us for the Regional GHG Registry
 - www.nescaum.org for a recently released report on GHG emissions in the New England States and Eastern Canadian Provinces.
 - www.northeastchp.org for CHP NE regional activities
 - www.eea-inc.com for Enviro/Energy Analysis

*Thank you for your time
and attention...*

