

May 7, 2021

Transportation & Climate Initiative of the Northeast and Mid-Atlantic States  
Georgetown Climate Center  
600 New Jersey Avenue, NW Washington, DC 20001



**RE: TCI Draft Model Rule**

Dear TCI Leadership,

The Coalition for Renewable Natural Gas (RNG Coalition)<sup>1</sup> offers this letter in continued support of the Transportation and Climate Initiative (TCI). We appreciate the chance to provide input on the *TCI Program Draft Model Rule* (Draft Rule) released on March 1, 2021.

A TCI Cap-and-Invest (C&I) policy has the potential to achieve a large amount of the region’s greenhouse gas (GHG) reduction targets. In prior comments<sup>2</sup> we’ve called your attention to the importance of reinvesting C&I proceeds into proven GHG abatement strategies—such as Renewable Natural Gas (RNG)—and described the advantages of complementary policies in helping to achieve near-term caps in existing C&I programs.

In our comments on the Draft Rule today, we focus primarily on aligning the long-run CO<sub>2</sub> Cost Containment Reserve (CCR) Trigger Price with the social cost of carbon and planning for eventual inclusion of all sectors under carbon pricing, to avoid unlevel cross-sectoral incentives for use of RNG.

**About the RNG Coalition and the RNG Industry**

The RNG Coalition is the trade association for the RNG industry in the United States and Canada. Our diverse membership is comprised of leading companies<sup>3</sup> across the RNG supply chain. Together we advocate for the sustainable development, deployment and utilization of RNG, so that present and future generations have access to domestic, renewable, clean fuel and energy in the TCI region and across North America.

The RNG industry is nascent relative to other renewables industries but has shown extraordinary growth in recent years, driven by policies designed to promote environmental and economic goals—including but not limited to clean air, improved waste management, increased job development, energy independence, and resource diversity.

Between 1982 and 2011, 30 RNG projects were developed—most of which were incentivized by various state’s Renewable Portfolio Standard Programs (RPS) and underwritten by the monetization of Renewable Energy Credits (RECs) that RNG-sourced electricity generated under such programs.

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<sup>1</sup> <http://www.rngcoalition.com/>

<sup>2</sup> See our comments submitted November 5<sup>th</sup>, 2019 and February 28<sup>th</sup>, 2020.

<sup>3</sup> The RNG Coalition represents over 295+ member organizations.

Expanding rapidly throughout the last decade, there are now 157 operational RNG production facilities in North America with 155 under construction or in substantial development.<sup>4</sup>

Most of the RNG projects developed since 2011 have been incentivized by transportation decarbonization programs, including the United States Environmental Protection Agency's (EPA) Renewable Fuel Standard Program<sup>5</sup> and California, Oregon, and British Columbia's Clean Fuel/Low Carbon Fuel Standards (CFS/LCFS).<sup>6</sup> Given the success of these programs in promoting decarbonization through RNG in the transport sector, we look forward to the opportunity to explore how best to utilize RNG in pursuit of the TCI region's decarbonization goals.

### **The Draft Rule Continues to Follow Best Practices for Design of C&I Systems**

We support the majority of the policy design choices made in the Draft Rule. The Draft incorporates design features found in existing successful C&I programs,<sup>7</sup> including regional auctioning of allowances, price stability features, multi-year compliance periods, etc.

The first-best protection against uncertainties related to emission levels and allowance prices is having a clear understanding of what abatement actions the C&I price signal is intended to drive directly, and the supply of such abatement opportunities relative to the demand for abatement created by the declining annual allowance budgets.

Given the fact that some types of RNG projects<sup>8</sup> can be incented by offset-type crediting<sup>9</sup> we support the TCI jurisdictions undertaking a thorough review of the potential supply of such credit opportunities, the necessary allowance price to motivate such opportunities, and consideration of the benefits of allowing unlimited use of such abatement as the first line of protection against high allowance prices.

### **We Recommend a Quicker Escalation of the CCR Trigger Price, Alignment with the Social Cost of Carbon**

After maximizing offset use, we support the creation of credit-price-stability mechanisms in environmental credit markets—both generally and as outlined specifically by the Draft Rule. Such features can increase investor certainty in credit markets and provide consumer protection. Ideally,

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<sup>4</sup> Based on RNG Coalition's production facility data as of April 22, 2021: <https://www.rngcoalition.com/rng-production-facilities>

<sup>5</sup> RNG has grown substantially thanks to the RFS program, making up over 95% of the lowest-GHG-emission cellulosic biofuel production category and generation of D3 RINs (given for fuels that create at least a 60% reduction in lifecycle greenhouse gases). For more information, see EPA's program summary: <https://www.epa.gov/renewable-fuel-standard-program/renewable-fuel-annual-standards>

<sup>6</sup> RNG is increasingly being used to decarbonize natural gas end-use applications in stationary sectors, marked by the emergence of new utility procurement programs such as Oregon's nation leading RNG procurement requirement. See Oregon Public Utilities Commission's adoption of RNG procurement rules under [Oregon Senate Bill 98: https://apps.puc.state.or.us/orders/2020ords/20-227.pdf](https://apps.puc.state.or.us/orders/2020ords/20-227.pdf)

<sup>7</sup> Such as the Regional Greenhouse Gas Initiative and the Western Climate Initiative.

<sup>8</sup> Such as agricultural waste digesters.

<sup>9</sup> Assuming allowance prices are sufficiently high and clear offset credit rules are established.

both low price (e.g., auction price floors) and high price (e.g., cost containment reserve) stability options are implemented to provide investors a clear understanding of the expected price band.

Any such stability mechanisms should be designed so that operating GHG abatement projects have ample opportunity to monetize their credits—which they have generated from proven emission reductions—prior to the availability of additional flexible compliance options, such as availability of additional allowances from the proposed CCR.

We recommend raising the long-run CCR Trigger Prices proposed in the Draft Rule.<sup>10</sup> Near-term CCR Trigger Prices may need to be set low at the outset of the TCI program, in order to gain initial political acceptance, but if a low long-term price ceiling is adopted<sup>11</sup> it can lead to a lack of action on critical GHG abatement strategies, such as RNG, that are cost effective when all costs and benefits are properly internalized.

In the long run, the CCR trigger price should be set near the full social benefit provided by avoiding or reducing greenhouse gases through GHG abatement activities. Recent estimates of the social cost of carbon—such as the New York Department of Environmental Conservation’s (DEC) value of the damages of carbon dioxide<sup>12</sup> (\$127/ton for 2021 at a 2% discount rate, \$421/ton for 2021 at a 1% discount rate)<sup>13</sup>—should be considered to promote investment in RNG projects.

### **TCI Jurisdictions Could Achieve Greater GHG Reductions by Expanding Program Scope to Cover Other End Uses of Distillate Fuel Oils and Natural Gas**

We reiterate our request for the TCI region to consider inclusion of other sectors in their carbon pricing systems the long run. One further way to reduce the risk of unexpectedly high allowance prices is to expand and diversify the scope of GHG abatement opportunities across a greater portion of the total emissions from the region.

We understand that the jurisdictions have primarily focused on reducing emissions from the transportation sector in these TCI discussions, but we believe this may be a missed opportunity to address GHG emissions associated with distillate use (and conventional geologic gas use) in non-transportation applications, such as building heating and industrial applications.<sup>14</sup>

Pricing carbon in one sector of the economy but not in others creates unlevel incentives for the use of RNG and other GHG abatement strategies. If done intentionally, through smart design of complementary policies by informed policymakers, this can be appropriate. If done unintentionally, it

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<sup>10</sup> The Draft Rule’s CCR Trigger Prices are \$12/ton in 2023 escalating to \$30.16/ton in 2032.

<sup>11</sup> Especially in the absence of strong complementary policies (inclusive of a wise reinvestment plan).

<sup>12</sup> New York Department of Environmental Conservation, *Establishing a Value of Carbon Guidelines for Use by State Agencies*, [https://www.dec.ny.gov/docs/administration\\_pdf/vocfguid.pdf](https://www.dec.ny.gov/docs/administration_pdf/vocfguid.pdf)

<sup>13</sup> [https://www.dec.ny.gov/docs/administration\\_pdf/vocfapp.pdf](https://www.dec.ny.gov/docs/administration_pdf/vocfapp.pdf)

<sup>14</sup> The markets for transportation and non-transportation use of distillates and natural gas are strongly interrelated in the TCI region. We note that the Western Climate Initiative (WCI) jurisdictions include these emissions in their economy-wide C&I programs, demonstrating that these emissions can be capped effectively.

creates an unlevel playing field that likely creates higher net economy wide compliance costs for achieving a given GHG target.

## **Conclusion**

RNG use, and its associated GHG reduction and waste cycle benefits, should be a key focus in TCI discussions—especially when states begin to consider possible reinvestment options for C&I revenues. Capping the emissions from transportation and heating fuels could provide a long-term signal to those making investments in this space. Given the strength of Low Carbon Fuel Standard<sup>15</sup> and RNG Procurement Standard<sup>16</sup> policies in promoting RNG use, we also continue to strongly support such complementary policies being developed, either jointly in the TCI region or by individual TCI member jurisdictions.

The RNG Coalition would like to thank the TCI for the opportunity to provide comment on the Draft MOU. We respectfully urge you to move swiftly toward finalization of the Model Rule and rule adoption by participating jurisdictions. Our members look forward to constructing RNG projects in the TCI region and contributing toward the success of the program's goals.

Sincerely,

/s/

### **Sam Wade**

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<sup>15</sup> For example, both New York ([Assembly Bill A862A, Woerner](#)) and Massachusetts ([S.2370, Pacheco](#)) have LCFS-legislation introduced.

<sup>16</sup> For example, see [Oregon Senate Bill 98](#) of 2019.