



February 28th, 2020

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

RE: TCI Draft MOU and Initial Projection of Economic and Public Health Benefits

Dear Secretary Theoharides,

The Coalition for Renewable Natural Gas (RNG) Coalition¹ offers this letter in continued strong support of the Transportation and Climate Initiative (TCI). We thank the TCI leadership for the information provided in the *Draft “Memorandum of Understanding” (Draft MOU)*² and initial evaluation of environmental and economic benefits³ published in December of 2019.

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 comments⁴ we’ve called your attention to the importance of reinvesting proceeds into proven GHG abatement strategies—such as RNG—and described the importance of complementary policies in helping achieve the cap in C&I programs.

In this round of comments, we request a broadening of scope be considered—as part of the TCI MOU negotiations—to reward RNG replacing conventional gas use outside of transportation. We also respond to specific issues raised in the Draft MOU and call your attention to a recent study that demonstrates additional potential benefits of RNG use to the TCI region.

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 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 Draft MOU Contains Many Smart Program Design Choices

We strongly support the majority of the policy design choices made in the Draft MOU. The Draft incorporates design features found in existing successful C&I programs,⁵ including regional auctioning of

¹ <http://www.rngcoalition.com/>

² https://www.transportationandclimate.org/sites/default/files/FINAL%20TCI_draft-MOU_20191217.pdf

³ https://www.transportationandclimate.org/sites/default/files/TCI%20Modeling-Results-Summary_12.17.2019.pdf

⁴ See our comments submitted November 5th, 2019.

⁵ Such as the Regional Greenhouse Gas Initiative and the Western Climate Initiative.

allowances, price stability features, multi-year compliance periods, etc. Below we provide responses to the specific questions raised in the Draft MOU related to these program design issues:

What factors should TCI jurisdictions consider when setting the starting level and the trajectory for a regional cap on carbon dioxide emissions from transportation fuels?

The series of annual budgets on GHG emissions—cumulatively the program “cap”—is a critical program design feature.⁶ The TCI jurisdictions should consider how to best set a reasonable trajectory for emissions to decline over time while erring on the side of an ambitious reduction schedule in-line with the emission reductions called for by climate science.⁷ Of the scenarios considered by TCI thus far, we believe the policy case targeting a 25% reduction from 2022 to 2032 is closest to that dictated by climate science.

Experience from other C&I programs suggests that setting the cap too loosely can lead to program allowance prices remaining lower than expected. Many programs have erred on the side of overestimating current emissions and/or underestimating business-as-usual near-term emission decline trends when setting caps. When coupled with unlimited banking of allowance this can lead to long-term oversupply of allowances and depressed allowance prices. We recommend that TCI avoid this outcome.

How should the compliance period be structured to provide needed flexibility, while ensuring environmental integrity?

In general, three-year compliance periods provide the needed flexibility to address economic cycles, weather effects and other factors that may drive unexpected changes in year-to-year emissions. We support the three-year proposal but also support some minimum amount of allowances being surrendered every year (interim obligations) to ensure compliance entities are actively participating in the program immediately and appropriately preparing for the full triennial surrender.

What factors should TCI jurisdictions consider when designing stability mechanisms for managing uncertainties regarding future emissions and allowance prices?

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 projects⁸ can be incented by offset-type crediting⁹ we support the TCI jurisdictions undertaking a thorough review of the potential supply of such credit opportunities,

⁶ For a discussion of how California evaluated cap-setting issues at the outset of their program see: <https://ww3.arb.ca.gov/regact/2010/capandtrade10/capv3appe.pdf>

⁷ Globally, GHG emissions must decline on the order of 45% below 2010 levels by 2030 (and reach net zero by 2050) to keep warming to less than 1.5 degrees Celsius above pre-industrial levels. See: https://www.ipcc.ch/site/assets/uploads/sites/2/2019/05/SR15_SPM_version_report_LR.pdf

⁸ Such as agricultural waste digesters.

⁹ Assuming allowance prices are sufficiently high and clear offset credit rules are established.

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.

After maximizing offset use, we support the creation of credit-price-stability mechanisms in tradeable environmental credit markets—both generally and as outlined specifically by the Draft MOU. Such features can increase investor certainty in credit markets and provide consumer protection. Ideally both low price (e.g., auction price floors) and high price (e.g., cost containment reserve) stability options would be 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 cost containment reserve.

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

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. The “Affected Fuel” portion of the Draft MOU only considers capping the emissions from “the fossil fuel components of motor gasoline and on-road diesel fuel.” 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.

The markets for transportation and non-transportation use of distillates (and natural gas) are strongly interrelated in the TCI region. We request that the TCI jurisdictions consider the potential benefits of bringing in at least the commercial and residential uses of these fuels in non-transportation applications into the program.¹⁰

Recent work by MJ Bradley¹¹ explores the potential benefits of using renewable biofuels in medium- and heavy-duty onroad vehicles, as well as residential and commercial heating, as a complementary strategy to electrification and other efficiency measures in the TCI region. This study found that the use of RNG and biomass-based diesel fuel across these sectors could reduce annual GHG emissions by as much as 52 million metric tons (MT) in 2030 (a 19 percent reduction from today’s emissions from these sectors), and by as much as 194 million MT in 2050 (a 47 percent reduction from today).

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

¹⁰ 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.

¹¹ <https://mjbradley.com/reports/role-renewable-biofuels-low-carbon-economy>

making investments in this space. Given the strength of Low Carbon Fuel Standard¹² and RNG Procurement Standard¹³ 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 full TCI model rule publication. Our members look forward to constructing RNG projects in the TCI region and contributing toward the success of the program's goals.

Sincerely,

A handwritten signature in blue ink that reads "Sam Wade". The signature is written in a cursive, flowing style.

Sam Wade
Director of State Regulatory Affairs
Coalition for Renewable Natural Gas
1017 L Street #513
Sacramento, CA 95814
530.219.3887
sam@rngcoalition.com

¹² For example, both New York ([Assembly Bill A5262A, Woerner](#)) and Massachusetts ([S.2130, Pacheco](#)) have LCFS-legislation introduced.

¹³ For example, see [Oregon Senate Bill 98](#) of 2019.