

## Conclusions on RGGI Allowance Allocations

- 1) The value of allowances will be included in generator bid prices—and the resulting market price—**whether the allowances are bought or are given free of charge.**
- 2) Most of the time the “allowance adder” to the market price will be set by the least efficient gas generator whose bid is accepted.
- 3) Therefore, all plants whose bids are accepted and who emit less CO<sub>2</sub> per MWH than the marginal plant, will **profit** from the RGGI cap and trade program **even if they have to buy allowances.** This category includes all nuclear and hydro units, and virtually, if not literally, all gas generators.
- 4) The only generating units that lose margin if they have to buy allowances are coal and oil ones—because coal emits about twice as much CO<sub>2</sub> per MWH and oil about 50% more than gas units
- 5) Coal units have substantial operating margins due to their far less expensive fuel source compared to gas. It is reasonable and equitable that shareholders of coal and oil plants give up some of their margin through a program that properly “internalizes” some of the “external costs” caused by burning coal and oil.

**Conclusion #1:** There is no “economic efficiency” reason or “equity” reason to give any allowances to generators. Consumers, who pay the price increases, should receive the proceeds of allowance sales. Generators, as a class, should not financially benefit from this program at the direct additional expense of consumers. In keeping with the new competitive markets for wholesale electricity, allowances should be sold through an efficient, transparent market for buying and selling allowances.

**Conclusion #2:** There are two ways to reduce the cost of a CO2 cap and trade program apart from the CO2 emission reduction efficiencies inherent in the program.

- 1) Rebate proceeds of allowance sales back to the consumers that are paying the increased prices created by the program, thus reducing significantly consumers’ cost for any level of CO2.
- 2) Invest a significant portion of the proceeds of allowance sales in strategies that will reduce the long-term impact of CO2 reduction programs on energy prices, such as energy efficiency and clean energy programs.