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MEMORANDUM

January 17, 2013

To: RGGI State Commissioners and Staff (electronic submission – info@rggi.org)

From: Peter Shattuck, Carbon Markets Policy Analyst

RE: 1/17/13 RGGI Stakeholder Comments

As the conclusion of the 2012 Program Review approaches we applaud the effort that states have dedicated to building on RGGI's successful track record to strengthen the program as an effective mechanism to reduce emissions responsible for climate change. We encourage states to conclude the Program Review expeditiously and transition to implementing reforms through state-specific processes. In addition to materials presented at the January 8th stakeholder webinar, our comments below discuss outstanding decisions that states face relating to the cap level and cost containment reserve.

The Cap

The most important element of the Program Review is to reset the cap at a level that locks in emissions reduction progress to-date and continues delivering reductions. The decline in emissions from RGGI units has been rapid and significant, and demonstrates once again that market-based programs and the flexibility they provide reduces the costs of meeting environmental objectives. Fuel-switching to natural gas played an important role in reducing emissions, but this is consistent with RGGI's design, which is intended to capitalize on market behavior by meeting targets through carbon pollution reductions wherever they are cheapest.

Now in order to maintain RGGI's effectiveness the states need to significantly reduce the cap. Of the options presented by states the 91 million ton cap is the only cap that causes emissions to continue declining through 2020, and we encourage states to adopt a cap no higher than the current emissions level of 91 million tons, a position we took in prior joint comments with energy companies.[1]

Cost Containment Reserve

The cost-containment reserve can play an important role in assuring policymakers and market participants that allowance price volatility will be contained, but the CCR must be designed to preserve the environmental integrity of the program. ENE and other stakeholders have long stated a preference that the CCR be populated with allowances from under the cap, thus keeping the overall quantity of allowances fixed and preserving the integrity of the emissions reduction targets. States are instead proposing to add 10m allowance above the cap, undermining the legitimacy of the cap as a fixed emissions reduction target, and potentially complicating a demonstration of RGGI's viability as a compliance pathway for forthcoming EPA regulations of GHG emissions from existing power plants.

[1] See: http://rggi.org/docs/ProgramReview/StakeholderComments/November/Pace%20RGGI%20Dialogue.pdf

The currently proposed price triggers for the CCR are also troublesome. CCR price thresholds should be considered maximum tolerable prices, yet states propose to set the initial threshold at $4/ton, only double to proposed floor price and far below estimates of the true social cost of ton of carbon emissions. This inappropriately low trigger price is clearly evidenced in the fact that the CCR is triggered in the first year under a number of emissions modeling scenarios. Triggering the CCR in the first year would cast doubt over the parameters established by states if, in essence the first year of the new program were deemed to have led to unacceptable outcomes. It would be far more appropriate to set the CCR threshold at a higher price, reducing the likelihood of exceeding emissions limits and more accurately valuing the true cost for private entities to dispose of carbon pollution in the common atmosphere. California has set a price floor of $10/ton, and setting RGGI's upper price boundary at this level would mark a helpful step toward eventual linkage of CA and RGGI. States' latest proposal to *reduce* the CCR trigger price to $4 in 2014 would be backsliding from the existing offset-based price triggers starting at $5/ton. If CCR prices replace the offset trigger the prices should come up, as the CCR provides more certainty than the offset triggers, and that benefit should carry a premium.

Bill Impact Analysis

The bill impacts calculated by the Analysis Group on behalf of the states do not capture the full benefits of RGGI, but even this partial accounting shows that resetting the cap at current emissions levels – 91 million tons – would have very modest impacts on electric bills.

Significant shares of RGGI revenue are dedicated to fossil fuel efficiency (27%) and renewable energy (4%) programs, yet the energy bill savings and price suppression effects of these investments are not captured in the narrow bill impact analysis. Fossil efficiency programs reduce consumers' overall energy bills, in all likelihood creating benefits that outweigh electric price impacts due to the high prices for fuel oil, propane and other heating fuels. Renewable energy investments lead to generation of cheap power that would reduce wholesale electric prices; benefits which are not reflected in the bill impact analysis. RGGI states should acknowledge these limitations clearly, perhaps by reframing as "Electric Bill Impacts not Including Renewable Energy Benefits." It is also worth noting that benefits from investment of RGGI revenue that accrue after 2020 (for example energy bill savings from replacing outdated equipment) are not captured in the bill impact analysis. Given the central role that energy efficiency plays in reducing consumer costs and bringing down emissions, states should consider extending the time horizon of the calculation of impacts to take account of savings related to investments made by 2020.

Finally, none of the analysis to-date has incorporated the high and rising costs of climate change, which must be included in a full accounting of impacts of RGGI reforms. The cost of climate change has become painfully clear in the RGGI region in recent years. Superstorm Sandy alone – the latest of a number of storms in the region made stronger by climate change – is projected to cost upwards of $50 billion, [2] and North America is increasingly suffering the impacts of a more violent climate.[3] While the RGGI states cannot solve the climate crisis alone, the impacts of RGGI reforms will reduce the region's contribution to climate change.

RGGI reforms also carry broad significance beyond the region. The Environmental Protection Agency is required to regulate GHG emissions from electric power plants, and RGGI's design could serve as a

[2] See, e.g., *Damage from Sandy could cost as much as $50B, says forecasting firm*, http://www.cbsnews.com/8301-201_162-57543923/damage-from-sandy-could-cost-as-much-as-$50b-says-forecasting-firm/;

[3] *U.S. hit with 90% of the world's disaster costs in 2012,* Evan Lehmann, E&E reporter ClimateWire: Friday, January 4, 2013 http://www.eenews.net/public/climatewire/2013/01/04/1

template for other states seeking to comply with federal requirements by using the most flexible, low-cost approaches available. California's recently launched cap and trade program is more ambitious than RGGI – setting higher prices and covering the entire economy – so RGGI will effectively set the minimum level of effort. The impact of a weak RGGI program would thus be compounded nationwide, potentially leaving millions of tons of pollution reductions unrealized and undervaluing the cost of emitting a ton of carbon, which states propose to keep between $2 and $4, far below California's $10-$40 range and even below the $9.57/ton price in a provincial pilot program in China.[4] Additional international efforts will likely be indexed to America's level of ambition, giving RGGI reforms truly global significance.

Respectfully submitted,

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Environment Northeast is a nonprofit research and advocacy organization focusing on the Northeastern United States and Eastern Canada. Our mission is to address large-scale environmental challenges that threaten regional ecosystems, human health, or the management of significant natural resources. We use policy analysis, collaborative problem solving, and advocacy to advance the environmental and economic sustainability of the region.

[4] http://www.eenews.net/climatewire/2012/10/15/archive/9?terms=china+cap+and+trade+pilot+%248