January 17, 2013

Regional Greenhouse Gas Initiative
90 Church Street, 4th Floor
New York NY 10007

Re: Comments on the January 8, 2013 Program Review Webinar Materials

Dear RGGI, Inc.:

Our organizations welcome the opportunity to submit comments on the modeling and economic analysis presented during the January 8, 2013 webinar and on the options that have been presented for improving the program. The imperative to reduce emissions that contribute to global warming argues strongly for completing the program review and moving forward with the next phase of RGGI with improvements and key program elements that ensure the program can meet its goal of substantially reducing power plant emissions. The states in the RGGI region have a strong record of leadership on climate and clean energy that has positioned the region to compete in a low carbon economy of the future. At the same time, the region must continue to lead, not just for the sake of improving the quality of life in the region but to show the nation and world that programs which limit carbon pollution and shift the economy to clean energy can work. In the near term, public welfare and economic vitality depend on real actions like RGGI which are proven to reduce emissions and enhance the region's economy.

A Credible Program Requires a Region-wide Cap Which Significantly Reduces Emissions

Carbon dioxide emissions impose societal costs far in excess of the allowance prices modeled as part of the program review. As many of us indicated in earlier comments, we believe most of the cap scenarios being considered would not yield reductions sufficient to uphold the promise of the RGGI program or to put the region on track to achieve its share of the emission reductions that will be necessary to mitigate climate change. We appreciate that the states, through the recent modeling results, are more seriously assessing the lowest cap (91MT) under consideration. But we reiterate our call for a cap that ensures a meaningful reduction of 20% below current emissions levels by 2020, and 80% below current levels by 2050. We believe that an 85 million ton cap would be more likely to achieve that result.

An Above-the-Cap Cost Containment Reserve Would Undercut the Efficacy of RGGI

The current inflated cap provides us with a reminder of what happens when a cap is set too high based on unduly high projections of future emissions. In the past, a confluence of factors has led to actual emissions being lower than projected. Also, there are a number of important factors not considered in the modeling. Indeed, we know that IPM models have not integrated reductions from energy efficiency deployment, notwithstanding the fact that such deployment is dramatically curtailing demand and thus emissions. It is likely that the IPM modeling will, once again, predict unduly high emissions; which will affect allowance prices.

Notably, the modeling demonstrates that a 91 million ton cap can modestly reduce emissions and with low allowance prices (in fact too low) but the extent to which such reductions would be meaningful depends in large measure, on the structure of the cost containment reserve and the behavior of compliance entities with respect to the massive bank of unused emissions. The projected allowance prices are miniscule given the harm caused by carbon emissions and the demonstrable benefits which accrue from investing auction proceeds. The projected allowance prices are also extraordinarily low in comparison to the California program reserve price of just over $10.

There does not appear to be a sound policy basis for unacceptably low cost containment reserve (CCR) trigger prices. All of the scenarios modeled and presented during the webinar would provide a CCR triggered at very low prices: 2014: $4; 2015: $6; 2016: $8 2017-2020: $10. We know from macroeconomic modeling conducted by the states that the efficacy of the program is dramatically enhanced by energy efficiency and clean energy investment such that the greater the invested allowance revenue, the greater the region-wide macroeconomic benefits. Investments of allowance proceeds to date have created economic benefits of a value far greater than the auction proceeds. We recommend that the states consider CCR allowances that would be accumulated below the cap, as well as trigger prices that are tied to the reserve price in the California program. This will make cap inflation less likely. It is also consistent with another goal of the program, which is to maximize the potential for the RGGI program to link with other programs.

The Draft Economic Analysis of the IPM Modeling

We appreciate the efforts of the states to model electric bill impacts, and the conclusion that under the 91 MT cap, they are miniscule to the point of being barely detectible (i.e., far less than 1% per month through 2020 for residential customers). The analysis, however, lacks context and does not consider numerous benefits from the program which contribute to its proven substantial macroeconomic benefits, and completely omits the avoided carbon emissions and the cost they would otherwise impose. According to the modeling "assumptions", the analysis does not consider lifetime—or for that matter any future—benefits beyond 2020. By so doing, the results substantially understate the reductions in demand and the value of energy efficiency investment. Likewise, the analysis does not consider the benefits of fossil fuel thermal efficiency investment facilitated by RGGI, which throughout the region are dramatically reducing energy costs, including for large industrial, commercial and municipal customers. Prior analysis by RGGI, Inc., the Analysis Group, and others have concluded that overall, the program is additive to personal income and economic activity throughout the region, and more so as the cap is lowered. In effect, the draft analysis is somewhat too narrow notwithstanding its generally positive conclusions. Additionally, the draft tends to understate the factors that are far more significant to rates, such as transmission investment and fuel price volatility, both of which are mitigated by energy efficiency investment. In sum, the draft analysis is helpful by demonstrating that program refinements will not materially raise customer bills, but could go much further in quantifying the far greater benefits provided by the program.

The undersigned appreciate and strongly support the laudable efforts of the RGGI states to continue to lead in the dire fight to mitigate climate change and move the region further towards a low carbon, clean energy system. The modeling and assessments conducted as part of the program review validate the programmatic methodology, the critical emissions reductions that have been and can be achieved, and the substantial contribution to the region's economy that result from meaningful reductions in carbon emissions from power plants. We strongly encourage the states to continue their individual and collective leadership by finalizing program refinements which meaningfully reduce the cap without unnecessary dilution. We look forward to working with the states in the implementation of such changes and thank you for the opportunity to provide our input.

Sincerely,

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On behalf of:

The Adirondack Council
Chesapeake Climate Action Network
Clean Water Action
Connecticut Fund for the Environment
Conservation Law Foundation
Environment America
Environment Connecticut
Environment Maine
Environment Maryland
Environment Massachusetts
Environment New Hampshire
Environment New Jersey
Environment New York
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