



Good for the Economy.
Good for the Environment.

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VIA E-MAIL
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To RGGI 2016 Program Review:

On behalf of the New England Chapter of Environmental Entrepreneurs (E2), thank you for the opportunity to comment on the Regional Greenhouse Gas Initiative (RGGI) 2016 Program Review process. *With uncertainty about climate policy at the federal level, RGGI’s leadership in setting the climate agenda is more important than ever.*

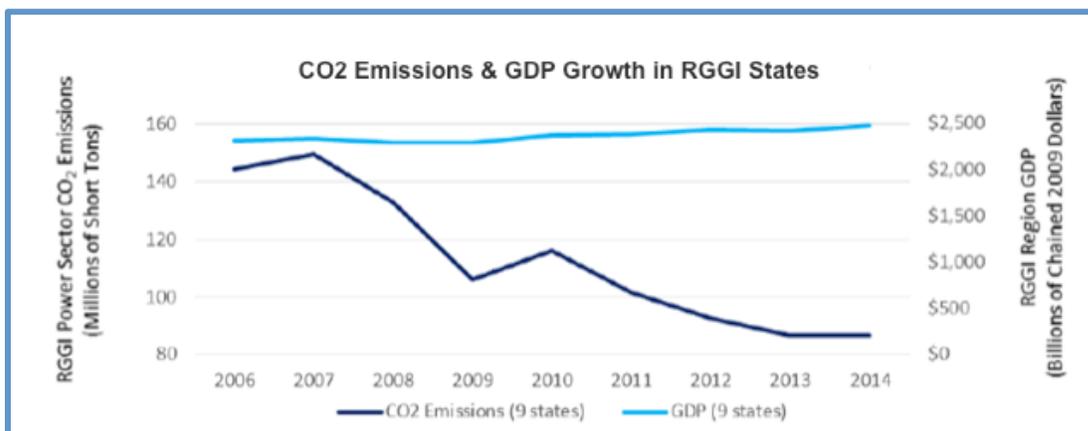
We write in support of strengthening RGGI to meet agreed upon state, federal and global climate change goals, which will also provide the necessary market signal for growth and investment in the clean energy economy. Specifically we urge you to:

1. **Set the cap reduction at 5% per year from 2020 – 2030**
 - *This level is necessary for states to meet their individual climate goals*
2. **Set a higher trigger price for the Cost Containment Reserve (CCR) and limit the size of the CCR**
 - *A low price and a CCR that is too big undermines the integrity of the RGGI program*
3. **Implement an Emissions Containment Reserve (ECR)**
 - *This can ensure a stronger market signal for clean energy investments*
4. **Adjust cap levels downward to account for the 2014 – 2020 surplus allowance bank**
 - *This is necessary to provide continued emissions progress in the region*

About E2

Environmental Entrepreneurs (E2) is a national, nonpartisan group of business leaders, investors, and professionals from every sector of the economy who advocate for smart policies that are good for the economy and good for the environment. Our members have founded or funded more than 2,500 companies, created more than 700,000 jobs, and manage more than \$100 billion in venture and private equity capital.

RGGI Leadership: Cutting carbon pollution while spurring economic growth





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Since the RGGI cap-and-invest program launched in 2009, it has been a stunning success. In addition to helping cut carbon pollution in the power sector much faster than anticipated—by a substantial 37 percent—RGGI has provided at least \$2.9 billion in regional economic growth¹, \$10 billion in health benefits², 30,000 new job years³ (a job-year equals one-year of full-time work), and \$618 million in energy bill savings for consumers (with \$4 billion more in savings expected in the coming years).⁴

The RGGI states have outperformed the rest of the country on average in both reducing emissions and achieving economic growth. Between 2009 and 2013, the RGGI states cut their overall carbon pollution economy-wide by 18 percent while their collective economies grew by 9.2 percent. Carbon pollution in the other 41 states fell by just 4 percent while their collective economies grew by 8.8 percent over the same time period.⁵

The emission reductions are not by chance or due to exogenous factors. According to an analysis in Energy Economics,⁶ the *“RGGI states’ GHG emissions would have been 24% higher without RGGI”* and *“controlling for all other factors... about half of the region’s reductions can be attributable directly to the RGGI program.”*

To build on this record of success we urge the RGGI states to take the following actions:

1. Set the cap reduction at 5% per year from 2020 – 2030

- *This level is necessary for states to meet their individual climate goals*

As the chart below shows, each of the RGGI states has either pledged or mandated steep reductions in their economy-wide greenhouse gas emissions by 2030 and 2050. The average for the nine states is a 40 percent economy-wide reduction by 2030.

RGGI State	2030 Economy-Wide GHG Target	2050 Economy-Wide GHG Target
Connecticut	35-45% below 1990	80% below 2001
Delaware	30% below 2008	-
Maine	35-45% below 1990	75-85% below 2003
Maryland	40% below 2006	90% below 2006
Massachusetts	35-45% below 1990	80% below 1990
New Hampshire	35-45% below 1990	80% below 1990
New York	40% below 1990	80% below 1990
Rhode Island	35-45% below 1990	75-80% below 2002
Vermont	35-45% below 1990	75% below 1990

To reach these economy-wide goals, other sectors of the economy will need to rely on low and zero emission power generation. For example, the *2015 Update to the Massachusetts Clean Energy and Climate Plan for 2020* states: *“The only viable path to deep reductions in GHG emissions is through a combination of reduced energy consumption [and] expanded availability of clean electricity, and electrification of the transportation and heating sectors...The scope of the challenge can be summarized in three words: **reduce, electrify,***

¹ [Analysis Group](#).

² http://acadiacenter.org/wp-content/uploads/2015/07/Appendix_Monetized-Benefits-of-Avoided-Emissions.pdf

³ [Analysis Group](#).

http://www.analysisgroup.com/uploadedfiles/content/insights/publishing/analysis_group_rggi_report_july_2015.pdf

⁴ RGGI, Inc. September 2016; https://www.rggi.org/docs/ProceedsReport/RGGI_Proceeds_Report_2014.pdf

⁵ RGGI Inc. & <https://www.americanprogress.org/issues/green/reports/2015/05/27/113865/cutting-carbon-pollution-while-promoting-economic-growth/>

⁶ Why Have Greenhouse Emissions in RGGI States Declined? An Econometric Attribution to Economic, Energy Market, and Policy Factors; Brian C. Murray, Peter T. Maniloff, Evan M. Murray; Working Paper EE 14-01 <http://www.sciencedirect.com/science/article/pii/S0140988315002273>



and decarbonize⁷.” The technologies to meet these challenges are available today at cost effective prices while offering materially lower risk and price volatility than traditional fossil fuels.

A recent Synapse report⁸ shows that the most cost-effective way for the RGGI states to achieve their economy-wide emission targets is for electric sector emissions to fall from 78 million tons in 2020 under the current RGGI cap to 39 million tons in 2030. This reduction would cut the region's electric sector emissions in half over this time period -- a reduction of approximately 5 percent per year below the 2020 cap level.

A 5 percent per year reduction is ambitious but achievable

A 5 percent annual reduction in the cap relative to a fixed 2020 baseline is equivalent to the actual annual average carbon reductions in the region over the life of the program thus far (i.e., about 4 million tons a year).

Moreover, the current RGGI modeling scenarios do not fully represent the ability to meet this goal, since they do not include all new sources of clean energy scheduled to come online in the 2020-2030 timeframe. For example, the reference model does not include a recent Massachusetts energy law that calls for 1600 MW of offshore wind and large-scale clean energy procurements for hydro, wind, solar, or other renewables, plus the associated transmission.

A 5 percent cap has strong support in the business community

Over 90 companies and investors in the RGGI region – including many of the largest -- urged the states⁹ to “build on RGGI’s success by continuing to lower the emissions cap on the electricity sector, by 5 percent per year post-2020, because it is good for our economy.” Their key point was that continuing reductions beyond 2020 at the 5% level will provide certainty for companies to plan and invest for the future, make the region an attractive place to do business, and continue to lower electricity rates for consumers.

Setting a 5 percent per year decline in the cap relative to a fixed 2020 baseline is imperative since that is the level needed for the states to meet their individual 2030 climate goals cost-effectively.

3. Set a higher trigger price for the Cost Containment Reserve (CCR) and limit the size of the CCR

- *A low price and a CCR that is too big undermines the integrity of the RGGI program*

An important benefit that RGGI provides to the business and investment community is regulatory certainty that emissions will continue to decline over a long enough period to justify investments in new, cleaner energy alternatives. As the CCR is currently constituted, it has the opposite effect. It creates uncertainty about the level of the cap and the future of emissions reductions.

⁷ 2015 Update to the Massachusetts Clean Energy and Climate Plan for 2020, Page 50, <http://www.mass.gov/eea/docs/eea/energy/cecp-for-2020.pdf>

⁸ The RGGI Opportunity 2.0: RGGI as the Electric Sector Compliance Tool to Achieve 2030 State Climate Targets, March 2016, at http://www.synapse-energy.com/sites/default/files/RGGI_Opportunity_2.0.pdf

⁹ Letter to RGGI Governors, August 2, 2016; https://www.ceres.org/files/rggicompany-letter/at_download/file



The CCR was created to mitigate allowance price volatility by allowing new allowances to be created, over and above the cap level, when certain allowance price levels are met in times of unexpected and exceptional circumstances. The CCR should not be triggered under normal market conditions as it was in 2014 and 2015, resulting in the release of 15 million tons of additional allowances above the RGGI cap.

Raising the CCR price triggers will dissuade market participants from offering bids intended to trigger the CCR under business-as-usual circumstances. Additionally, the total number of allowances potentially available through the CCR should be limited to ensure that, even if the CCR is triggered, the RGGI region will continue to achieve meaningful emissions reductions in future years.

If the CCR remains in place as currently structured with current price levels, up to 50 million additional tons of CO₂ could be allowed in from 2016-2020. Since the entire cap for 2020 is only 78 million tons, this would clearly destroy the integrity of the program.

To prevent this problem, we urge the RGGI states to either (1) eliminate the CCR completely; (2) raise the trigger price significantly while also reducing the size of the CCR to ensure meaningful emissions reductions in future years, or (3) bring the CCR under the cap by populating it with allowances from future years, as is done in the California Cap-and-Trade Program.

3. Implement an Emissions Containment Reserve (ECR)

- *This can ensure a stronger market signal for clean energy investments*

We support the concept of an Emissions Containment Reserve (ECR), as presented by the states, to lower the RGGI cap if allowance prices are lower than anticipated. If properly implemented, the ECR could strengthen RGGI and further contribute to achieving state climate goals by capturing additional emissions reductions at reasonable cost. Lowering the cap level when prices are low could also help preserve allowance value, ensuring a stronger market signal for clean energy investments. As the states have noted, an ECR could potentially also reduce the need for future banking adjustments, beyond the 2014 – 2020 adjustment that we recommend below.

4. Adjust cap levels downward to account for the 2014 – 2020 surplus allowance bank

- *This is necessary to ensure continued emissions progress in the region*

In 2013, the RGGI states agreed to lower the regional cap by 45 percent in 2014, and committed to additional emissions reductions through 2020. The states further adjusted the 2014 – 2020 cap levels downward to account for a private bank of surplus allowances that had built up in RGGI's early years when the cap level was set too high.

Since 2014, emissions have continued to fall faster in RGGI than anticipated, leading to additional growth in banked allowances, despite the previous correction. This was further exacerbated by the release of 15 million tons of allowances under the CCR in 2014 and 2015. According to analysis by Acadia Center, a bank of 25.3 million tons of surplus allowances accrued in 2014 and 2015. By 2020, Acadia Center projects that there could be a surplus allowance bank of nearly 100 million tons in the region due to a cap that continues to be too high and potential further releases of additional allowances under the CCR.¹⁰

¹⁰ http://acadiacenter.org/wp-content/uploads/2016/08/Acadia-Center_RGGI-Report-2016_Part-II.pdf



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A large surplus bank in 2020 would undermine further emissions reductions in RGGI as well as the economic signal needed for continued clean energy investment in the region.

To address this problem, once the RGGI states agree on a post-2020 cap trajectory, they should further adjust the post-2020 cap levels downward to account for the surplus allowance bank built up in 2014 – 2020, in the same way that the states previously adjusted the current cap to account for the pre-2014 bank.

Thank you for consideration of the E2 business perspective on these issues. Please contact Berl Hartman at 617 497-0393 or at berl@berlhartman.com if you have any questions.

Sincerely,

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