

December 6, 2012

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

Re: Comments on the proposed program design concepts for the new Regional Greenhouse Gas Initiative's (RGGI) Model Rule

Dear RGGI State Governors:

There is public and stakeholder support in this region for reducing pollution from fossil fuels, tackling global warming emissions, and shifting to clean energy. The political will to act is now stronger than ever. The devastation wrought by Superstorm Sandy has opened many eyes to the grim reality of climate pollution and has re-focused public attention to the need for bold action that can avoid the worst impacts of global warming.

The undersigned organizations welcome the opportunity to submit comments on program design concepts for the new Regional Greenhouse Gas Initiative (RGGI) Model Rule, and we look forward to continuing engagement as states consider and implement improvements to RGGI.

An Effective RGGI Program

In most respects, RGGI has been a tremendous success. It has achieved its goals of sparking investment in clean energy solutions in the region and it has demonstrated the workability of a program that caps emissions and requires polluters to pay for the right to emit carbon dioxide. It has helped reduce emissions in the region, successfully reducing climate pollution while providing states with resources to reinvest in green infrastructure development. Investments of auction allowances have already avoided 12 million tons of carbon dioxide pollution and generated \$1.3 billion in lifetime energy bill savings across the region.

For RGGI to achieve its true potential as a policy that reduces carbon pollution and accelerates the region's shift to clean energy, significant improvements must be made. Chief among these needed improvements is an emissions cap that will ensure emission reductions that will put us on track to lower greenhouse gas emissions by 80% below current levels by 2050, consistent with the consensus of the scientific community.

The investments supported by the RGGI program and new investments that would occur under a strengthened RGGI would reduce the pollution that causes storms like Sandy and make the states more resilient in the face of more frequent and severe storms spawned by climate change. Being more energy efficient, with increased insulation and having on-site residential generation capabilities with solar photovoltaic systems and wind will make homeowners less dependent on transmission lines downed in storms. Such distributed generation could provide homeowners with electricity more quickly than if those homeowners had to wait for power plants to come back online (as happened in New York and New Jersey).

Strengthening the RGGI program provides the means to turn words into action and require power plants to reduce emissions below current levels, which must be the result of the 2012 program review.

Last summer, more than 300 organizations and business across the region sent a letter to RGGI state leaders urging them to:

- Adjust the RGGI cap to ensure that it reduces emissions 20% below current levels by 2020 and is on track to reduce emissions by at least 80% by 2050

- Ensure that the revenues from the RGGI program are invested in energy efficiency and renewable energy programs that will save energy, lower costs, create local jobs and reduce pollution
- Prevent loopholes that will undermine the effectiveness of the program in achieving its emission reduction targets.

Our comments are intended to reinforce our continued commitment to a program that meets the objectives.

If RGGI is to reduce emissions in any meaningful way, it cannot merely maintain the climate pollution status quo, let alone authorize more pollution than will be emitted in 2012. Yet the recently modeled scenarios would do just that; they are woefully inadequate and fail to capture all of the potential economic and environmental benefits. The modeled scenarios proposed would impose an emissions cap that leaves open the possibility for greater pollution in the years ahead, and sells the right to pollute at unjustifiably low prices, well below that of California (\$10.09 per allowance) or the actual cost on society being imposed by power plant pollution.

These defects would be amplified by a gratuitous “above the cap” cost containment reserve, a loophole that would benefit polluters and further dilute the effectiveness of the program. If Governor Cuomo and his RGGI state colleagues are serious about fighting climate pollution, they must make changes that would strengthen RGGI beyond what has been proposed.

The Proposed Cap on Emissions is Illusory

The primary flaw with the modeled scenarios is that the region-wide caps on emissions are simply inadequate and will not create any meaningful reduction in emissions. The current regional cap is 165 million tons of carbon pollution; actual pollution is projected to be just 91 million tons in 2012. There is evidence suggesting actual emission levels are likely to remain on par with current levels through at least 2014—we have been on a current downward trend and most of the evidence suggests a continued downward trend. Accordingly, proposals to reduce the current regional cap to 97 or 91 million tons may seem aggressive on paper, but will not reduce pollution 20% below current levels by 2020, much less 80% of current levels by 2050. Under a 91 million cap, the most aggressive cap modeled by RGGI, emissions would only drop to approximately 87.5 million tons in 2020, an all but imperceptible reduction from current levels.

A more aggressive cap is needed still: 85 million tons beginning in 2014, in order to reduce pollution 20% below current levels by 2020, and 80% below current levels by 2050. The cap should reflect where pollution currently stands, and set an aggressive, multi-year plan for further reductions.

The Cost Containment Reserve

The proposed market protection circuit breakers, a.k.a. the cost containment reserve (CCR), would eviscerate the environmental integrity of the program. The CCR, as proposed, would release as much as an additional 10 million tons of allowances above the regional cap if the price of an allowance should go above a certain fixed price trigger. As a practical matter, this means the CCR would serve to circumvent any meaningful regional cap by flooding the market with additional allowances.

The proposed trigger price is \$5.00/ton in 2014, increasing to \$7.00/ton in 2015-2017 and \$10/ton in 2018-2020. The projections demonstrate that the trigger price would never be reached under the 106, 101, and 97 million caps because under those caps, the market would still be flooded with excess allowances, keeping the price of an allowance so low that it would have no real effect on reducing pollution. As stated above, even the 91 cap is not sufficient for reducing pollution 20% below current levels by 2020 and 80% by 2050. Even so, the trigger price would be reached twice under a 91 cap: once in 2014, and once in 2017.

A CCR would operate to add 10 million tons of allowances to the 91 cap in 2014 and then 7 million tons in 2017, artificially deflating the value of an allowance at the expense of public health, energy efficiency, and the resulting economic activity. If a CCR can have this diluting effect on the less-aggressive 91 cap, its diluting effect on an 85 cap would also be severe. The 85 cap would send the proper price signals to reduce pollution; an above-the-cap CCR would negate those price signals.

It should be noted here that a CCR can provide benefits if properly structured; it won't however, if populated with allowances created in addition to the cap. A CCR populated with allowances from beneath the cap would help to minimize price volatility without diluting the value of standard allowances.

REMI Modeling: A Lower Cap Brings Increased Economic Benefits

A lower cap would also increase regional economic benefits. REMI modeling shows marked increases in economic benefits under the 97 cap, as compared to the 106 cap. Under the 106 cap, gross state product from 2012 to 2040 would be 977 million dollars; under the 97 cap, gross state product for the same time period would be 4.976 billion dollars. 11,809 job-years would be created under the 106 cap; 60,849 job-years would be created under the 97 cap. Finally, under the 106 cap, real personal (disposable) income is projected to be 654 million dollars from 2012-2040, while for the 97 cap, it is projected to be 3.033 billion dollars. These stark differences in the numbers illustrate the real benefits of a lower cap—benefits that would be even greater were there to be a cap lower than the 97 cap.

A Note on IPM Modeling

Policymakers should not let modeling results overshadow what we have seen in reality. The models are not perfect; indeed, models are only as good as the assumptions used in building them. This is true for the ICF model being used here. There are problems both in the assumptions that were used in running the model and the assumptions that were not used. We do not point this out to say that the model needs to be reworked—rather, we posit that events like Sandy tell us that it is time to stop modeling and simply lower the cap as outlined in detail above. We have highlighted the flaws in the assumptions because policymakers must have a full understanding of the information they are using for their decisions on policy changes to the program.

First, policymakers should understand that real outcomes are likely to be lower than modeling results. Throughout the public process, experts and other have provided information showing that market-based trading programs have reduced emissions more efficiently than projected, at lower cost than projected. This is borne out by a comparison of the model results from the program design phase and actual RGGI outcomes.

The actual outcomes show a significant decrease in carbon dioxide, lower retail electricity rates, 1.3 billion in lifetime energy bill savings for utility customers, over \$617 million invested in the region's clean energy economy, and an anticipated 4,600 jobs in the region. It should be noted that these positive economic results occurred at a difficult time in the economy, which may mean they are lower than outcomes that would have occurred had the economy been stronger.

Second, RGGI should have modeled the effects of energy efficiency investments, incorporating results into program cost estimates for each proposed cap. With those results incorporated, the costs of a reduced cap would be lower. Without that data a weaker cap will appear more expensive than it would be in reality.

Third, the assumptions used to determine future load and the market adoption of energy efficiency is necessarily over-conservative and this results in the model putting out higher allowance prices. The states have chosen to use data from the state transmission system operators (TSOs). The TSOs focus on operating wholesale electricity markets and "keeping the lights on," and so traditionally tend to make conservative assumptions regarding energy efficiency and future load projections. For example, the market monitor report

in New York shows that NYISO has been 5-10% too high because it is inherently conservative. Again, here, reality differs from the conservative assumption used.

Fourth, leakage may be overstated. The amount of leakage shown in 2012 Proposed IPM Potential Scenarios at slide 23 may be lower than projected. The model did not factor in energy efficiency investments of future RGGI proceeds. As a result, the model output for leakage is overstated.

A Credible and Replicable Program

Ultimately, the cap must be set at a level that will send a strong price signal to polluters, and the new Model Rule should not contain loopholes (such as the CCR) artificially weakening those signals. Moreover, the refined RGGI program must reduce emissions to function as a basis for expanding the program and as a potential compliance mechanism with federal standards.

While RGGI has succeeded in reducing emissions at lower cost than initially projected and stimulating new jobs through energy efficiency and clean energy investment, the credibility of the program and its contribution to the economic vitality of the region in the future depend on the outcome of the program review. RGGI has been a critical element of the RGGI states' strategies to reduce pollution from fossil fuels and shift to clean energy. We urge the RGGI states to build on their history of adopting effective clean energy and climate policies by adopting a cap of 85 million tons as necessary to achieve a 20% reduction in emissions by 2020.

Thank you for the opportunity to provide input to the development of a new RGGI Model Rule, and we look forward to continuing engagement in the RGGI Program Review. If you have any questions on these comments please contact N. Jonathan Peress (Conservation Law Foundation) at 603-225-3060, Rob Sargent (Environment America) at 617-747-4317, Ross Gould (Environmental Advocates of New York) at 512-462-5526 x 240, or Carol Murphy (Alliance for Clean Energy New York) at 518-432-1405.

Sincerely,

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The Adirondack Council
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Chesapeake Climate Action Network
Citizens Campaign for the Environment
Conservation Law Foundation
Environmental Advocates of New York
Environment America
Environment Connecticut
Environment Maine
Environment Maryland
Environment Massachusetts
Environment New Hampshire
Environment New Jersey
Environment New York
Environment Rhode Island
New York Public Interest Research Group
Northeastern Energy Efficiency Partnerships
Renewable Energy Long Island (reLI)
The Vote Solar Initiative