

**To: RGGI State Environmental and Energy Commissioners
and the Staff Working Group**

From:

Clean Power Now (Mass.)	New Hampshire Clean Water Action
Conn. Audubon Society	New Hampshire PIRG
Conn. Citizen Action Group	New Jersey PIRG
Conn. Clean Water Action	New York PIRG
Conn. League of Women Voters	Ocean State Action
Conn. PIRG	People's Action for Clean Energy (Conn.)
Conservation Law Foundation	Rhode Island Clean Water Action
Environmental Advocates of New York	Rhode Island PIRG
Environment Council of Rhode Island	Sustainable Energy Resource Group (Vermont)
Environment Maine	Union of Concerned Scientists
Interreligious Eco-Justice Network (Conn.)	Vermont Natural Resources Council
Mass. Clean Water Action	Vermont PIRG
Mass. Climate Action Network	Vermonters for a Fair Economy and Environmental Protection
Mass. PIRG	
Natural Resources Council of Maine	
New Hampshire Citizens Alliance	

Re: Comments on RGGI Staff Working Group Proposal of August 24

Date: September 13, 2005 (list of organizations updated subsequently)

The process of developing a proposal for structuring the Regional Greenhouse Gas Initiative has required significant effort on the part of the states involved. We appreciate the complexities involved in designing a mandatory program for greenhouse gas reduction on a regional level, and are grateful for all the hard work that has gone into reaching this point. We are in full support of implementing a cap-and-trade program in the northeast for fossil fueled power plants. However, in our view there are serious shortcomings to the proposed program. We are writing to explain these shortcomings and to describe the modifications necessary for us to support a specific plan for RGGI. The RGGI cap-and-trade program must:

- Yield real emissions reductions in the electricity sector that go well beyond those that would be accomplished anyway through existing programs,
- Put us on a path to the eventual reductions on the order of 80 percent across all carbon-emitting sectors which scientists say are necessary to stabilize the climate,
- Protect consumers, while providing positive incentives for the structural changes in energy use that are needed, and
- Be designed in a manner that sets a strong precedent for the rest of the country.

Below we offer recommendations for modifying the current proposal so that it meets the criteria above.

Summary

In our opinion, the August 24 “Revised Staff Working Group Package Proposal” fails to meet its stated goals. However, with modifications we are confident that the program can provide greater environmental benefits, with less uncertainty, and at lower costs to consumers. The stronger alternatives that we propose are easily within the region's grasp. We urge the states to write rules for RGGI that will make it truly environmentally and economically effective. Our specific concerns are summarized here, with detailed explanations in the following sections:

Baseline emissions – the percentage cap reduction must be based on actual current emissions, not on the inflated figure in the Proposal.

Reduction target – a well-designed program should achieve reductions before 2015, substantially more than a 10 percent reduction by 2020, and continued reductions after 2020, at the same or lower costs to consumers than the current Proposal.

Allowance allocations – generators should initially pay for at least 50 percent of their allowances, and eventually for all of them, with the benefits going to consumers -- rather than the 20 percent currently proposed.

Offsets – offsets must be limited to far less than the 50 percent of theoretical reductions currently proposed, and strict standards must be set for offset quality.

Leakage – growth of emissions outside the region due to RGGI must be prevented from the outset, not partially counteracted through purchasing yet more offsets.

Detailed Explanations

Baseline emissions

Future reductions must be counted against the best available figures on current emissions, not what appears to be an artificially inflated figure of 150 million tons contained in the Proposal. The data posted on the RGGI web site yields an average of 143.3 million tons for the three years 2000-2002, which is about 5 percent less than 150 million tons. Using the higher figure as the baseline would mean wiping out about **half** of the 10% reduction goal for 2020 contained in the proposal.

Reduction goal

We have argued for a 25 percent reduction target in 2020 rather than the 10 percent cap contained in the proposal, and that the Model Rule should call for continued reductions after 2020. The reductions should also begin before 2015.

Throughout the extended discussions about RGGI, the main objection given to more ambitious reduction goals has been that they would result in too large an increase in electricity prices. But the modeling (despite its uncertainties) indicates that the “Package” Proposal would yield a

miniscule price increase, and that the “Cap Only” case, which contains no offsets and no funding for efficiency programs, would yield only a few percent increase in prices by 2020 – changes that would be barely noticeable to consumers.

In addition, both these cases include no increase in efficiency spending above current levels, and no funding for consumer rebates. Were 50% or more of the value of emissions allowances to be used for these purposes (see below), the impacts of any price increases could be largely or entirely cancelled out.

Moreover, the ICF model runs released on September 8 show that a doubling of spending on efficiency would eliminate two-thirds of load growth in the region by the 2020’s, and funding all efficiency that is less expensive than purchasing new generating capacity would eliminate all load growth through 2024. Such results would greatly reduce the costs of implementing RGGI.

Allowance allocation

We are particularly concerned with the proposal to charge generators for only 25 percent of their allowances (20 percent for public benefits and 5 percent for a “Strategic Carbon Fund”). While this is a substantial improvement over giving generators all their allowances for free, it remains far too low a percentage. There is no supportable reason for indefinitely allowing polluters to do so for free, especially when every available study indicates that generators will end up with greatly increased profits as a result, due to electricity price increases. All research shows that generators can be fully compensated for their compliance costs by receiving only 10 to 20 percent of allowances for free.¹

At least 50 percent of the allowances should be auctioned to generators initially, with the percentage growing over time. The funds should be used exclusively for the benefit of consumers, primarily to fund energy efficiency programs (including incentives for efficient self-generation), develop renewable energy, and provide consumer rebates, particularly for low-income households. By doing so, the impacts of RGGI on consumers can be largely mitigated, and the reduction goals can be made more ambitious. To instead allow generators to receive 75 percent of their allowances for free, as proposed, is to sabotage the deeper emissions reductions that must eventually happen.

In addition, the auction proceeds must be reserved for programs that directly benefit consumers. The language in the proposal appears to leave the door open to subsidizing companies for broader purposes, and this should not be allowed.

Offsets

We object strongly to allowing offsets to account for up to 50 percent of the difference between the Reference Case emissions projection and the cap level. For several reasons, offsets must be limited to a far smaller percentage of planned reductions. In addition, there must be strict standards for the quality of the offsets, which are absent from the August 24 Proposal.

First, the quantitative proposal is based on a theoretical Reference Case emissions estimate. This estimate could prove far too high should, for example, expanded funding for energy efficiency programs and renewable energy development be used to counteract demand growth and fossil fuel generation. Were this to occur, offsets could account for all the emissions reductions, with no reductions coming from the power plants themselves.

Second, the electricity power sector is responsible for only about one-third of carbon dioxide emissions in the RGGI region, and less than one-third of GHG emissions if other gases are included. To accomplish our regional emissions reduction goals, eventually we must institute policies to obtain large-scale cuts in emissions from these other sectors – including transportation, use of natural gas and oil for space and water heating, and capturing of methane from landfills and other sources. If a large fraction of RGGI’s reductions come not from the power sector, but by “cream-skimming” the easiest cuts to obtain in other emitting sectors, then it will not be possible to obtain the needed reductions in these sectors later. In other words, offsets allowed under RGGI should not include those which might be regulated through other policies in the foreseeable future, or that might happen because they become cost effective on their own.

Third, there must be standards that guarantee the environmental integrity of offsets; such that a ton of emissions being “avoided” via offsets is actually equal to a ton being reduced from the stack of a power plant. These standards should be at least as stringent as the five point test contained in Massachusetts’ 310 CMR 7.29 regulations, which say that offsets must be “real, surplus, permanent, verifiable and enforceable.”

We have been told repeatedly that the 50 percent is a maximum, but that given limitations on the types and quality of offsets that will be acceptable, actual offset use will be below 50 percent. The ICF modeling results released on August 30 and September 8 show such a result. However, we are greatly concerned that setting a 50 percent maximum will create an expectation among the RGGI states and electricity generators that will tend to make the 50 percent a reality. State regulators will be under a great deal of pressure to set criteria for offsets, and to add “additional offset types” over time (as the August 24 proposal says will be done), that allow offsets to rise to the 50 percent maximum.

Given current assessments of offset availability, it seems likely that the 50 percent figure could only be reached if standards such as those in the Mass. five point test were loosely applied or ignored altogether. Thus, it is critical that standards at least as strict as 310 CMR 7.29 be explicitly included in the RGGI model rule.

Leakage

Increases in power imported from outside the RGGI region as a result of RGGI, termed leakage, are the responsibility of this region. To the degree that CO₂ emissions rise as a result of leakage, these emissions should be counted as part of the RGGI cap. To not do so is to undermine the intent of RGGI. The ICF modeling appears to show that leakage will counteract a large proportion of the emissions reductions achieved in the region, perhaps more than 40 percent, according to the “Package” scenario results.

This outcome is not acceptable. The RGGI states must find and institute legal means of controlling leakage, preferably by requiring electricity importers to hold emissions allowances equivalent to the carbon produced by out-of-region plants.

Using allowance values to fund greatly expanded energy efficiency programs, as we have called for above, will also mitigate leakage, as demand growth and increases in wholesale electricity prices are minimized.

The “Strategic Carbon Fund,” while a creative idea for trying to deal with the consequences of leakage, is not an adequate mechanism. Purchasing additional offsets would have environmental benefits, but there are several problems. First, it would further increase the percentage of emissions reductions that come from offsets to more than 50 percent of the total, exacerbating our concerns about offsets stated above. Second, the ICF modeling appears to show that this Fund would compensate for only a fraction of the projected leakage. Third, the Fund does not actually prevent leakage, and such prevention is what must be done. Finally, it maintains the perverse incentive for each state to meet its reduction obligations by leakage, which will then be partially paid for not by the individual state but rather through the regional fund.

Thank you for considering our comments. We look forward to participating with you in the continued development of the system for RGGI. Please do not hesitate to contact us to discuss these matters.

Yours truly,

Matthew A. Palmer, Executive Director, Clean Power Now, 508-775-7796,
mpalmer@cleanpowernow.org

Betty McLaughlin, Environmental Affairs Director, Connecticut Audubon Society, 860-527-6750, bmclaughlin@ctaudubon.org

Tom Swan, Exec. Dir., Connecticut Citizen Action Group, 860-947-2200, tswan@igc.org

Roger Smith, Campaign Dir., Conn. Clean Water Action, 860-232-6232, rsmith@cleanwater.org

Christopher Phelps, Advocate, Connecticut PIRG, 860-233-7554, cphelps@connpirg.org

Seth Kaplan, Senior Attorney, Conservation Law Foundation, 617-850-1721, skaplan@clf.org

Christine Vanderlan, Global Warming Program Director, Envir. Advocates of New York, 518-462-5526, cvanderlan@eany.org

Steven Hinchman, Maine Staff Attorney, Conservation Law Foundation, 207-729-7733

Matthew Davis, Advocate, Environment Maine, 207-253-1965, mdavis@environmentmaine.org

Cynthia Luppi, Organizing Director, Mass. Clean Water Action, 617-338-8131,
cluppi@cleanwater.org

Marc Breslow, Director, Mass. Climate Action Network, 781-643-5911, marc@mbreslow.org

Frank Gorke, Energy Advocate, Mass. PIRG, 617-292-4800, frank@masspirg.org

Pete Didisheim, Advocacy Director, Natural Resources Council of Maine, 207-622-3101

Sam Mekrut, Executive Director , New Hampshire Citizens Alliance, 603-225-2097, smekrut@nhcitizensalliance.org

Doug Bogen, Director, New Hampshire Clean Water Action, dbogen@cleanwater.org

Nancy Girard, New Hampshire Advocacy Center Dir., Conserv. Law Foundation, 603-225-3060

Erika Staaf, Envir. Associate, NH PIRG, 603-229-3222, estaaf@nhpirg.org

Dena Mottola, Executive Director, New Jersey PIRG, 609-394-8155, dmottola@njpirg.org

Jason Babbie, Senior Envir. Policy Analyst, New York PIRG, 212-349-6460, jkb@nypirg.org

Karen Malcolm, Associate Director, Ocean State Action, 401-463-5368

Chris Wilhite, Rhode Island Clean Water Action, 401-331-6972, cwilhite@cleanwater.org

Cynthia Giles, Rhode Island Advocacy Center Dir., Conserv. Law Foundation, 401-351-1102

Matt Auten, Advocate, Rhode Island PIRG, (401) 421-6578, mauten@ripirg.org

Robert Walker, Director, Sustainable Energy Resource Group (Vermont), 802-785-4126, Robert.J.Walker@valley.net

Deborah Donovan, Senior Energy Analyst, Union of Concerned Scientists, 617-547-5552, ddonovan@ucsusa.org

Chris Kilian, Vermont Advocacy Center Director, Conservation Law Foundation, 802-223-5992

Elizabeth Courtney, Executive Director, Vermont Natural Resources Council, 802-223-2328, ecourtney@vnrc.org

James Moore, Clean Energy Advocate, Vermont PIRG, 802-223-5221, jmoore@vpirg.org

John Berkowitz Director, Vermonters for a Fair Economy and Environmental Protection

¹ "Evaluation of CO2 Emission Allocations as Part of the Regional Greenhouse Gas Initiative: Final Report," June 30, 2005, Center for Energy, Economic & Environmental Policy, Edward J. Bloustein School of Planning and Public Policy, Rutgers University; "Allocation of CO2 Emission Allowances in the Regional Greenhouse Gas Cap-and-Trade Program," Dallas Burtraw, Resources for the Future, Feb. 2005; "Shifting the Cost Burden of a Carbon Cap-and-Trade Program," Terry Dinan, Congressional Budget Office, July 2003; "Implications of Trading Implementation Design for Equity-Efficiency Trade-offs in Carbon Permit Allocations," Charles River Associates, Dec. 2002; "Neutralizing the Adverse Industry Impacts of CO2 Abatement Policies: What Does it Cost?," A. Lans Bovenberg and Lawrence Goulder, in *Behavioral and Distributional Effects of Environmental Policy*, C. Carraro and G. Metcalf, editors, University of Chicago Press, 2001.