Tuesday, November 29, 2005

Governor George E. Pataki
State Capitol
Albany, NY 12224

RE: Regional Greenhouse Gas Initiative Model Rule

Dear Governor Pataki:

You have brought us a long way in your leadership and support of the Regional Greenhouse Gas Initiative.

Many of us who have come to believe that New York and its Governor will lead the way to a fair, practicable plan to reduce emissions and stimulate productivity and efficiency in the utility sector are worried that you may be on the verge of abandoning that plan in a vain effort to seek the seductive mirage of cost certainty.

By sticking to the principle of a functioning market enunciated in the public proposal in August 2005, you will allow the market to create incentives in the northeast for innovation, and the development and deployment of new technologies, at precisely the moment when demand for these is growing world-wide. For competitiveness reasons, we should be moving with dispatch to create a carbon cap and trade system in the northeast, so that our businesses can take their place on an even footing with multinationals and others around the world that have begun to move toward carbon limits.

Markets for environmental protection allow private sector entities to guide their own destiny by providing them with the predictability and incentives they need to make long-term investment decisions. Markets fail when they try to second guess the risk-management process within a company, cast doubts on the operating rules of the market-place, or provide unequal opportunities for gaming the market. Price caps will lead to such market failure more surely than just about any other factor. We don’t have much experience with price caps, in part, because most free-market advocates are so strongly opposed to them. Where we do have experience, especially in the energy markets, price caps have undermined the basic concepts of supply and demand which would otherwise create the incentives for efficiency, innovation, investment and end-user response. Put simply, price caps would convert a market system into a tax.

Price caps may seem like an easy way to assuage the fears of the business community about the risk of policy exposure. Ironically, it is more harmful than the "ill" it aims to cure. It favors the lowest common denominator approach and rewards the most inefficient and those who are slowest to innovate. By the same token, it penalizes those who innovate and those who invest in the future of their physical plants by upgrading and modernizing their equipment.

We urge you to complete the RGGI agreement and to abandon consideration of price caps.
Sincerely yours,

Thomas H. Kean
Former Governor Kean

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