

Clean Water Action
Connecticut Public Interest Research Group
Environment Maine
Environmental Advocates of New York
Hudson River Sloop Clearwater
Massachusetts Climate Action Network
Massachusetts Public Interest Research Group
National Association of State PIRGS
Natural Resources Council of Maine
New Hampshire Public Interest Research Group
New Jersey Public Interest Research Group
New York Public Interest Research Group
Rhode Island Public Interest Research Group
Vermont Public Interest Research Group

February 2, 2005

Dear Members of the State Working Group for the Regional Greenhouse Gas Initiative:

We are writing to express strong support for your efforts to establish a regional cap on power sector greenhouse gas emissions and to offer observations on the model rule developed by Environment Northeast (ENE) and Pace Energy Project (Pace). By establishing a regional cap-and-trade program to reduce emissions of carbon dioxide from electricity generators, the participating states will take responsibility for their share of this global problem and create a model for the nation's response. With this in mind, we offer the following observations on the outline circulated for discussion by ENE and Pace.

Cap levels

To stabilize global climate, emissions of carbon dioxide and other greenhouse gases must be reduced to a fraction of current levels, and this must be achieved by mid-century. The RGGI should put the region on the path to meeting this challenge. The RGGI states should initially reduce emissions of carbon dioxide from the region's power plants 10% below current levels by 2010. We agree with ENE and Pace that by 2020 the region's emissions should be reduced 25% below current levels. We support the continually diminishing cap proposed by ENE and Pace.

The caps we advocate are achievable and will start the region on the path to reaching the deeper cuts required by mid-century. By setting these caps, the states will encourage electricity generators to adopt cost-effective strategies to control emissions from their plants. The states' renewable portfolio standards and other policies to support the development of renewable resources will add thousands of megawatts of clean generation to the region in this timeframe. Increased emphasis on energy efficiency to reduce demand for electricity will also help the region meet these targets while maintaining reliability for consumers.

By adopting caps that require more than a small percentage reduction from current levels, and by implementing caps as far into the future as 2020, the states will be developing an effective model for the nation. These caps will help the New England States fulfill their commitment to reduce

greenhouse gas emissions 80%, as agreed in the Climate Action Plan, and help New York meet its commitment to reduce economy-wide emissions of greenhouse gases 5% below 1990 levels by 2010 and 10% below 1990 levels by 2020.

Declining cap

We support the automatically declining cap as proposed by ENE and Pace. We have strong reservations about a circuit breaker or any mechanism that would suspend the continued reduction of carbon dioxide emissions. It is unwise to make the cap level, which guarantees the environmental benefit of the program, in any way dependent on the price of allowances. The potential for manipulating the allowance market makes the circuit breaker too risky.

Annual compliance

Compliance with the cap should be assessed annually. This corresponds with other federal, regional and state emission trading programs and lends transparency to the program. Multi-year compliance periods make it possible for generators build up a greater amount of allowance debt, which they could use to apply for an easing of the cap. Allowing banking of allowances is a preferable approach to creating temporal flexibility.

State caps / Apportioning the regional cap

We advocate that each state adopt a cap that requires a reduction in emissions below current levels, under the regional caps outlined above. The state caps are legally enforceable, whereas the regional cap is not. Every state's cap should serve as an incentive to reduce emissions. When allowances are traded across state boundaries, there is the potential for emissions in some states to rise above current levels. Setting a hard cap in each state would not restrict the flow of allowances. Such caps are necessary for the participating states to meet the emission reduction goals they have adopted through various means (e.g. the New England Climate Action Plan and New York's State Energy Plan).

The ENE - Pace rule proposes that the state caps be determined by dividing the regional cap according to two parameters: population and the amount of electricity produced by fossil generators. Theoretically, this is attractive as an equitable way of distributing allowances. If it is combined with a regional cap stringent enough that the state caps individually required emission reductions, too, we could support it. Applying this formula to the regional cap suggested by ENE and Pace, however, produces caps for some states that are greater than current emissions in the early years of the program. This would be out of line with the states' individual emission reduction goals. Also, it is important to consider the possibility that at the eleventh hour some states may delay implementing the program. If states that are allocated more allowances than their current emissions move ahead, and other states delay or drop out, then the environmental effectiveness of program is doubtful, unless the state caps are renegotiated. The program should allow for states to join sequentially rather than depend on all states moving ahead at once. It also must yield environmental benefit regardless of the number of states that implement the program at the outset. The states should set caps that both ensure the environmental integrity of the program while equitably distributing allowances among states.

Allowance allocation

We support the auctioning of allowances and the use of the revenue to support investment in energy efficiency, clean energy technologies, and to provide rebates to consumers, particularly low-income customers. Giving allowances to the electricity generators, when they will recoup the costs of the allowances from ratepayers regardless, is indefensible. Short of auctioning all the allowances, we support dedicating the majority of allowances to a Consumer Allocation, as described in the ENE – Pace rule. This is an innovation relative to other cap-and-trade programs underway, and it deserves close evaluation. The states should examine the benefits of the Consumer Allocation approach in mitigating the costs of the program and strengthening its environmental benefit.

The ENE – Pace rule suggests an even split in the allowances, however, we advocate that 80% of the allowances should be directed to the programs outlined in the Consumer Allocation. In doing so, the states will break new ground in cap-and-trade programs, by harnessing the value of the allowances to deliver public benefits beyond directly controlling carbon pollution: reducing electricity demand, delivering consumer rebates, and enhancing electric reliability. We encourage the states to analyze the benefits of this allowance allocation approach.

If any allowances are given to generators, it should be on a fuel-neutral, output basis, and updated as outlined by ENE and Pace.

Offsets and flexibility mechanisms

The goal of the RGGI is to reduce emissions of carbon dioxide from the electricity sector. Offsets or other flexibility mechanisms should only be considered if the carbon dioxide cap adopted through the RGGI process is strong – requiring emission reductions of **at least** 10 percent below current levels by 2010 and 25 percent below current levels by 2020. The caps in the early years of the ENE- Pace proposal are too weak to warrant the use of offsets or other extra flexibility mechanisms.

The ENE - Pace rule includes offsets projects in the second compliance period, when the cap begins to decline. We agree that the program should start without offsets, and, if offsets are included in this program, they should be added in a subsequent phase and paired with a contraction of the cap. However, we oppose the creation of an ever-growing pool of offset allowances as outlined in the ENE - Pace rule.

Should offsets eventually be included in a later phase of the program, the Northeast should take a conservative approach, requiring that:

- Offsets be generated only within states participating in the cap-and-trade program. Offsets from outside RGGI will be difficult to enforce and crediting them will reduce the incentive that other states have to join the program. In addition, dollars paid by consumers in the RGGI states should be invested in emissions reductions here.
- Strong provisions are established to assure that offsets represent real, surplus emission reductions.
- Nuclear power projects and other environmentally damaging technologies not be eligible for offsets or otherwise obtain a market advantage for being zero emitting in any cap-and-trade system.

- Offsets should be limited to no more than 5 percent of the total number of emission allowances issued. This would allow for demonstration of the viability of an offsets program while limiting the potential damage that a poorly designed program could inflict.
- The benefits of offsets are shared equally between those covered by the cap and the environment. For example, a decision to allow 10,000 tons of offsets should be paired with a reduction in the cap of 5,000 tons.

We support the use of banking. We agree with ENE and Pace that borrowing is unnecessary and problematic and should not be allowed.

We look forward to discussing these observations with you in the coming weeks as the April deadline for a model rule approaches. We would be happy to discuss our thoughts on the model rule at your convenience. Please contact Christine Vanderlan at Environmental Advocates of New York (518-462-5526, ext. 234) or Rob Sargent at the Association of State PIRGs (617) 747-4317.

Sincerely,

Cindy Luppi,
Organizing Director
Clean Water Action

Rob Sargent,
Senior Energy Policy Analyst
National Association of State PIRGS

Christopher Phelps,
Advocate
Connecticut Public Interest Research Group

Sue Jones,
Energy Project Director
Natural Resources Council of Maine

Matthew Davis,
Advocate
Environment Maine

Erika Staaf,
Environmental Associate
New Hampshire Public Interest Research Group

Christine Vanderlan,
Global Warming Program Director
Environmental Advocates of New York

Emily Rusch,
Energy Advocate
New Jersey Public Interest Research Group

Ryan Palmer,
Environmental Associate
Hudson River Sloop Clearwater

Jason K. Babbie,
Environmental Policy Analyst
New York Public Interest Research Group

Marc Breslow,
Director
Massachusetts Climate Action Network

Matt Auten,
Advocate
Rhode Island Public Interest Research Group

Frank Gorke,
Energy Advocate
Massachusetts Public Interest Research Group

Azur Moulart,
Environmental Advocate
Vermont Public Interest Research Group