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PUBLIC ADVOCATE OFFICE
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STEPHEN G. WARD
PUBLIC ADVOCATE

April 19, 2005

Dear State Working Group Members:

We are utility consumer advocates in our respective States who represent the interests of utility ratepayers in proceedings affecting them. We are aware of, and concerned by, the emerging possibility that the RGGI "cap-and-trade" program for greenhouse gas emissions could adopt structural features that are inconsistent with the best interests of ratepayers. Our concerns focus on two features of the RGGI program design, as noted below. We urge your consideration of this letter prior to the April 27 meeting at which fundamental design decisions for the allocation of allowances in the RGGI region may well be made. If the RGGI model is to be adopted nationally, it is critical that initially we get the fundamental design right.

We are concerned first that the State Working Group appears poised to allocate for free all or most emissions allowances to private sector, unregulated generators. The need for generators to obtain allowances under the proposed program is an essential program element. It is the "cap" of "cap and trade". If generators are required to purchase allowances, this allowance requirement imposes costs on some generators but it will drastically raise prices for all consumers. An allocation of "free" allowances (or of the economic value of these allowances) to existing generators will not eliminate or mitigate the impacts these costs will have on the prices that consumers will pay. In practice, a cost-free allocation of allowances to generators will be a windfall to them with no price mitigation benefit at all for consumers.

In our view, the allocation of allowances (or of the economic value of allowances) should be used in ways that actually mitigate the impacts of the RGGI program on consumers. Using the proceeds from an auction conducted by a state entity on behalf of consumers, programs could be funded in each state in conformity with each state's preference that likely would include energy efficiency and other demand reduction programs. In addition, states may also look at the use of these resources for general rate mitigation or, at the discretion of individual states, ratepayer assistance programs for low-income households.

Secondly, we are concerned that a meaningful program for greenhouse gas reductions over the next 15 years necessarily will impose some upward pressure on electric rates. Such a program could be costly. At \$10 per ton of carbon for example, a 120 million ton annual emission cap for carbon translates into a program that could affect rates by \$1.2 billion per year. Such effects are not inconsiderable and certainly will be noticed in customer bills.

These bill increases are, however, not per se unacceptable. Their acceptability depends entirely on the extent to which they actually drive greenhouse gas emissions below current



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annual levels. Consumers cannot expect to avoid the costs of system-wide improvements in purity and reliability of a regulated product, if these improvements actually will occur. An example is the improvement in drinking water resulting from the Safe Drinking Water Act and associated EPA regulations which has greatly increased the cost of drinking water throughout the U.S. Unfortunately, the current discussions between and among the State Working Group and the RGGI Stakeholder Group suggest that a trading system may well be put into place that calls for large windfalls to generators and no serious reductions in greenhouse gases from today's levels. If these elements of program design cannot be corrected, consumers will necessarily question the imposition of these program costs in the monthly bills they pay.

Tolerating a transfer to power generators of 100% of the value of emissions allowances is, in our opinion, a fundamental policy mistake and one that is likely to jeopardize the acceptability of the RGGI proposals. We therefore urge your adoption, in conjunction with a meaningful cap on emissions in the region, of a requirement that the allocation of allowances be directed to states for public sector demand reduction programs and other programs to mitigate directly the ratepayer impacts which follow from the imposition of "cap and trade" requirements.

Thank you for your consideration of these comments.

Very truly yours,



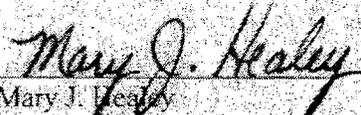
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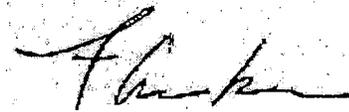
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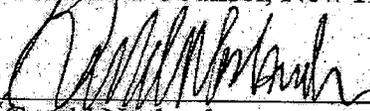
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