



Regional Greenhouse Gas Initiative

An Initiative of the Northeast & Mid-Atlantic States of the United States

October 31, 2007

Members of Congress

Dear Member of Congress:

Many of the Northeast and Mid-Atlantic States are taking significant steps to tackle the threat of climate change by adopting aggressive strategies to reduce greenhouse gas emissions. Ten states in the region are participating in the Regional Greenhouse Gas Initiative (RGGI), the first ever cap-and-trade program addressing carbon dioxide emissions in the United States. Nine states in the region have adopted California's greenhouse gas reduction requirements for light duty vehicles, and several others have produced, or are in the process of developing, comprehensive climate action plans for reducing greenhouse gas emissions in their state.

Our states acknowledge the need to take aggressive actions to reduce greenhouse gas emissions in order to mitigate the serious impacts that unchecked climate change will have on the environment and economies of our states. We also acknowledge that reducing greenhouse gas emissions will jump-start a transition to a clean energy future, which will provide other environmental co-benefits, as well as create an engine for sustainable economic growth in the 21st Century.


As states that have been actively engaged in the design and implementation of RGGI, we offer the enclosed design principles that we believe should be incorporated into a cap-and-trade program adopted as part of a comprehensive set of federal greenhouse gas emissions reduction policies. These recommendations focus on maximizing the benefits of a cap-and-trade program as a mechanism for achieving significant greenhouse gas emissions reductions, and do not address broader policy issues that will need to be taken up by Congress in the context of comprehensive climate change legislation.

We encourage you to work with and learn from leadership states that are actively engaged in reducing greenhouse gas emissions. We have already taken steps to reach out to many of your staff through briefings about the design of state-led greenhouse gas emissions reduction programs. We are eager to continue and expand this dialog, and welcome you to contact our offices for more information (state staff engaged in RGGI may also be contacted directly through <http://www.rggi.org/contact.htm>) and to discuss opportunities for federal and state collaboration in addressing the pressing challenge of climate change.

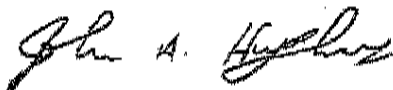
Respectfully,



Gina McCarthy, Commissioner
Connecticut Department of Environmental
Protection



Anne C. George, Commissioner
Connecticut Department of Public
Utility Control



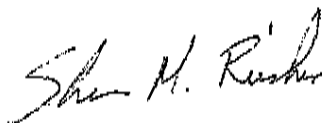
John A. Hughes, Secretary
Delaware Department of Natural Resources &
Environmental Control



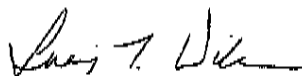
Arnetta McRae, Chair
Delaware Public Service Commission



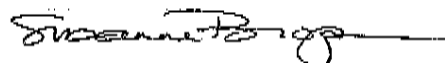
David Littell, Commissioner
Maine Department of Environmental Protection



Sharon M. Reishus, Commissioner
Maine Public Utilities Commission



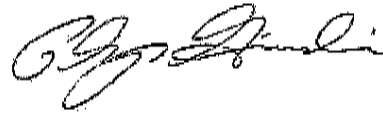
Shari T. Wilson, Secretary
Maryland Department of the Environment



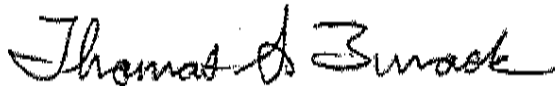
Susanne Brogan, Commissioner
Maryland Public Service Commission



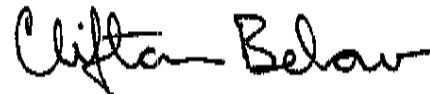
Laurie Burt, Commissioner
Massachusetts Department of Environmental
Protection



Philip Giudice, Commissioner
Massachusetts Division of Energy
Resources



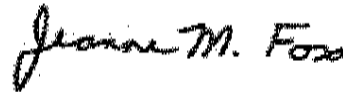
Thomas S. Burack, Commissioner
New Hampshire Department of Environmental
Services



Clifton Below, Commissioner
New Hampshire Public Utilities
Commission



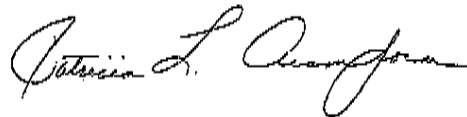
Lisa P. Jackson, Commissioner
New Jersey Department of Environmental
Protection



Jeanne M. Fox, President
New Jersey Board of Public Utilities



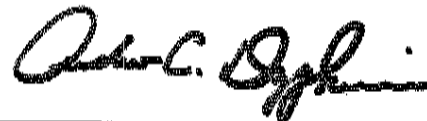
Alexander B. Grannis, Commissioner
New York Department of Environmental
Conservation



Patricia L. Acampora, Chair
New York Public Service Commission



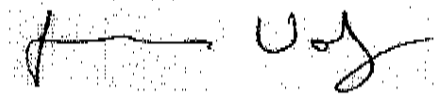
W. Michael Sullivan, Director
Rhode Island Department of Environmental
Management



Andrew C. Dzykewicz, Commissioner
Rhode Island Office of Energy
Resources



George Crombie, Secretary
Vermont Agency of Natural Resources



James Volz, Chair
Vermont Public Service Board

Enclosure

Guiding & Design Principles for a Federal Greenhouse Gas Cap-and-Trade Program

Early and aggressive climate protection actions by state and local government have prompted a national discussion on the creation of a federal policy framework. The Regional Greenhouse Gas Initiative (RGGI) is a landmark effort in the United States to articulate the detailed design elements of a carbon cap-and-trade program. The RGGI design process involved unprecedented collaboration between environmental and energy regulatory agencies, significant public input, extensive modeling and analysis of projected impacts, policy research, and data assembly and analysis. Through this process, the Northeast and Mid-Atlantic States have gained experience in carbon cap-and-trade program design, and have incorporated lessons learned through other programs, such as the European Union's Emissions Trading Scheme. As part of a national discussion, the lessons learned from states and local governments are critical to establishing an effective national framework. We offer the following list of principles that we believe are critical to the development of an effective federal cap-and-trade program for greenhouse gases:

Guiding Principles:

- Take action now to establish strong, science-based emissions reduction requirements. A federal program should embody mid-term as well as long-term greenhouse gas emissions reduction requirements, with appropriate monitoring and a built-in mid-course review to ensure that necessary emissions reductions are achieved.
- Periodically review climate science and adjust emissions reduction limits as needed.
- Pursue a portfolio of cost-effective policies and programs to reduce greenhouse gas emissions. A cap-and-trade program is an important tool for reducing emissions in some sectors (e.g., electric generating facilities and other large stationary sources), but may not be appropriate for all sectors.
- Respect state authority to implement state programs that are in addition to federal requirements. States that have undertaken early action have made considerable political and economic investments to achieve success in reducing greenhouse gas emissions. These efforts should be encouraged and rewarded. Federal programs should not punish early action by states, and should not reward states for failing to take early action.
- Investment in energy efficiency, clean energy technologies, and renewable energy should be a cornerstone of our national greenhouse gas emissions reduction and energy policies, as greater societal benefit is achieved when environmental and

energy policies are aligned. These investments would reduce greenhouse gas emissions, promote energy independence and, in the case of energy efficiency, reduce costs to consumers. Sale of allowances could provide revenues to support, in part, such policies and investments.

Design Principles:

- In the electric power sector, allowances should be sold, in recognition that the majority of national electricity load is served in regions that have instituted competitive wholesale electricity markets. Resulting sales revenue should be used for cost-effective measures that both reduce our carbon footprint and enhance our economic competitiveness, such as end-use energy efficiency.
- Allow states to distribute sales revenue. States have a unique capacity to implement a portfolio of policies and measures that improve electric end-use energy efficiency and reduce electricity demand.
- New conventional coal-fired power plants constructed from this day forward should not be grandfathered under a federal cap-and-trade system, and should be required to purchase their allowances on the open market.
- Incorporate the use of emissions offsets as a flexibility mechanism that is designed to be supplemental to emissions reductions achieved within the capped sector or sectors.
- Design program provisions to ensure that emissions offsets are of high quality. Offset provisions should incorporate robust additionality criteria to ensure that eligible offsets represent incremental emissions reductions beyond those that would have otherwise occurred. Quantification and verification protocols should be rigorous and detailed, and apply conservative assumptions where appropriate. The process for accrediting the independent verifiers of offset projects should incorporate rigorous standards.
- Ensure that flexibility mechanisms that are incorporated into program design maintain the integrity of the cap and do not cause price distortions. Avoid the use of safety valves or price caps that functionally undermine the cap by allowing regulated facilities to submit an alternative compliance payment at a set price in lieu of the submission of allowances. Flexibility mechanisms employed should not distort long-term carbon price signals that are required to ensure that capital investments under consideration today are properly evaluated based on their long-term emissions potential. Price distortions could actually increase the long-term costs to society of achieving significant greenhouse gas emissions reductions.
- Establish sound greenhouse gas reporting protocols to ensure that “a ton equals a ton,” and to the extent practicable, utilize already existing reporting platforms such as The Climate Registry to avoid unnecessary duplication.