



CLEAN WATER ACTION

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Comments on the CT Regional Greenhouse Gas Initiative pre-proposal regulation

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The following comments are in response to the release of the Connecticut pre-proposal regulation on the Regional Greenhouse Gas Initiative and are submitted on behalf of Clean Water Action's 11,000 Connecticut members.

Strengthen rule to 100% auction of allowances and use revenue for consumer benefit

Connecticut should not set a precedent of giving any allowances to generators for free. Allowance *revenue*, rather than the allowances themselves, should be reinvested in programs to maximize RGGI's ability to reduce CO₂ at the lowest cost to consumers, and this effectiveness test should be applied to energy efficiency, clean combined heat and power generation and new Class I renewable energy generation. RGGI will help establish a price for carbon dioxide, and exempting *any* fossil fuel-burning generators from paying sends the wrong financial message. The lower the carbon intensity of the facility, the less the carbon liability under RGGI.

The RGGI program can achieve an important environmental goal, regionally capping CO₂ emissions from power plants, while reducing electricity demand and returning revenue to ratepayers through efficiency programs. Giving any allowances to generators for free, or diverting allowance revenue to other efforts, even if they are otherwise benign (like wetlands restoration in the name of adaptation), dilutes and undermines this important principle. It is critical that RGGI set a solid precedent here and prove that CO₂ control can be achieved at a reasonable cost to consumers if properly administered.

Reject "Wait and See" auction approach

Connecticut and all of its neighboring states will be auctioning a significant fraction of permits to generators, with NY, MA, VT and others planning to start at 100% auction. If there are issues with the auction process Connecticut will be affected whether it's a 25% auction or 100% auction and the fact that the auction has a regional component means that Connecticut needs the system to work as a whole. Taking a "wait and see" approach of ramping up to 100% buys Connecticut no more stability or certainty than we would have anyway and only guarantees years of extra profits to generators at the expense of consumers. The best approach is to work as a region to ensure the auction is properly designed and vetted before the program begins.

Consumers hurt by delay under “wait and see” approach

If CO₂ costs \$5 per ton, Connecticut will have approximately \$50 million in auction revenue to invest each year to benefit ratepayers, for a total of \$300 million between 2009 and 2015. If efficiency investments yield a 4 to 1 payback, consumers would save \$1.2 billion in electricity costs while improving system reliability over this period. The alternative is giving this money to generating companies as a windfall and delaying emissions reductions and reliability benefits flowing from efficiency investments. Each year we delay moving to 100% auction cuts into these savings and makes it more difficult to achieve deeper CO₂ cuts than RGGI modestly envisions.

Remove Loopholes Preventing CT from Reaching 100% auction

We are very concerned that the section allowing the Commissioner to divert allowances for “strategic energy purposes” is a major loophole undermining the goal of reaching 100% auction of allowances. “Strategic energy purpose” is ill-defined and has no cost-effectiveness test for maximizing CO₂ reductions at the lowest cost to consumers. This loophole is an invitation for generators to argue why their facility is strategic or faces hardship so that they need to obtain RGGI allowances (or auction revenue). We are already seeing requests for subsidies to cover the costs of long-term contracts, and to meet existing regulatory requirements including Federal standards for water cooling.

This loophole would disadvantage generators who have less political power or connections to win exemptions from the auction. A 100% auction sends a signal that higher CO₂ emissions rates is a financial liability and aligns generators’ financial interests with the goals of RGGI. Carving out exemptions to coal plants and others undermines this important aspect of the program.

In April, the Congressional Budget Office analyzed this issue of free allocation versus auction and concluded:

An alternative approach of giving away allowances (or the proceeds from selling allowances) to certain parties would lower their costs, but at the expense of missing the opportunity to greatly reduce the total cost to the economy... As a result, that allocation strategy would increase producers profits without lessening consumers costs. In essence, such a strategy would transfer income from energy consumers among whom lower income households would bear disproportionately large burdens to shareholders of energy companies, who are disproportionately higher-income households.

Trade-Offs in Allocating Allowances for CO₂ Emissions, April 25, 2007

<http://www.cbo.gov/ftpdoc.cfm?index=8027&type=1>

Pre-existing long-term contracts do not deserve exemptions

While some generators have suggested that long-term contracts prevent them from passing on the cost of the allowances, it would be a mistake to distort RGGI to specifically reward these generating units because:

1. As New York State DEC concluded in the 11/26/06 document “RESPONSE TO IPPNY’S CONCERNS ABOUT A 100% AUCTION,” “Long-term contracts do not warrant special regulatory treatment,” as many generators can and will re-open or change their contracts to pass on unforeseen costs.
2. If such re-opener language isn’t in the contract, the company should have already made arrangements to address regulatory risk. The purpose of a long-term contract is to provide stability to the power user with the generator accounting for risks and profit.
3. The possibility of global warming regulations is not new. The New England Governors pledged action to reduce CO₂ in 2001. RGGI has been part of the CT Climate Change Action Plan since 2003. The Kyoto Protocol was negotiated in 1997 based on the 1992 UN Framework Convention on Climate Change.
4. AES Thames, a coal plant in Montville has pre-existing contracts, but has also been long aware of its carbon liabilities and should have incorporated such a risk premium into their contracts.

On October 12, 1988 Philip Shabecoff of the New York Times wrote an article, *U.S. Utility Planting 52 Million Trees*, about offsets to cover emissions from the AES Thames plant:

Concerned that its new coal-burning power plant in Connecticut will add to the trend toward a warming of the atmosphere around the globe, an electric utility has come up with an unusual response: it will pay to have trees planted in Guatemala

With decades of experience accounting for CO₂, and extensive offsets experience, AES should be well-positioned to minimize the costs of RGGI and possibly even have an advantage over other generators. If AES is concerned about profitability it should redirect spending for offsets in Guatemala for offsets applicable under RGGI. In any case, AES should not be subsidized for its pollution with free allowances.

Thank you for your consideration,

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