

RGGI Consumer Benefit Allocation



The Existing Commitment by the States

All of the states engaged in the Regional Greenhouse Gas Initiative (RGGI, www.rggi.org) have committed to regulate carbon dioxide emissions (CO₂) from power plants over 25 MW through the Governor's signature on a memorandum of understanding (MOU) in 2005. The MOU also says that states will not give all allowances away for free and that at a *minimum* 25% of a state's allowances, or permits to emit one ton of CO₂, will be allocated for consumer benefit or strategic energy purposes. These allowances are to be used to promote energy efficiency, reduce electricity rate impacts, and promote non-carbon emitting technologies such as renewables.

100% of Allowances should be Auctioned and Used to Reduce Consumer Costs

No persuasive reason has been presented for why allowances should be allocated to regulated entities for free. On the other hand, economic and fairness issues clearly support a complete or large and growing auction of allowances, with regulated entities having to purchase them and the proceeds used to reduce the cost of the program on ratepayers.

The arguments for an auction and against free allocation of allowances are strong:

- Air quality and the world's climate are a public good that polluters do not have a right to spoil – the purchase of allowances is consistent with the 'polluter pays' principle with pollution being a cost of production.
- Previous cap and trade programs, created prior to electricity restructuring, did not face the same issues, as cost of service regulations allowed excess profits to be returned to ratepayers; the electric markets are very different today than when the SO₂ and NO_x programs were created.
- Most generators, and all economists we are aware of, agree that an allowance, whether allocated for free or purchased, has an opportunity cost as it can be used for compliance, banked, or sold to others.
- Allowances are assigned the market value (opportunity cost) by generators and that cost is built into their marginal costs or O&M costs that determine their bid prices in the marketplace.
- Because costs are built into bid prices, whether generators get an allowance free or have to pay for it, these costs are passed on to consumers.
- Because electric consumers will bear the very modest cost of the RGGI program, we see no reason for generators to profit at their expense.
- As a part of utility restructuring, part of the deal with moving to competitive markets was that

generators took on regulatory risk in exchange for a significantly freer and less regulated market.

- This is consistent with the idea of competitive and free markets – let the markets work.

If the states do not start with 100% auction, they should move to that point quickly such as through a scheduled ramp-up from 60% auction in the first compliance period, 80% in the second and 100% in the third.

Some large industrial consumers and regional electric utilities are calling for 100% auction of RGGI allowances:

- A letter and white paper from National Grid supports 100% auction or allocation to consumers with the money used for rebates or expanded energy efficiency investments (http://www.rggi.org/docs/national_grid_whitepaper.pdf).
- Connecticut Industrial Energy Consumers say, *"Energy prices in Connecticut currently are significantly higher than the national average. And, consumers have experienced dramatic increases in the past several years. Consistent with Connecticut's goal of reducing the price of electricity, the State should mitigate the impact of RGGI on the price of electricity by auctioning all of the RGGI air emissions allowances, to the maximum extent possible, and utilizing all of the auction proceeds as a credit on retail electricity consumers' bills on a kilowatt-hour basis."* (http://www.rggi.org/docs/ciec_comments.pdf)
- Large industrial groups like New York's Multiple Intervenors are saying, *"All RGGI Emissions Allowances Should Be Auctioned And The Proceeds Should Be Applied As A Per-kWh Credit To Retail Electric Distribution Rates"* (<http://www.rggi.org/docs/mi.pdf>)

Setting Minimum Criteria for the Consumer Benefit Allocation

The states should ensure that the allowance value from this allocation is not squandered and is targeted to activities that reduce costs for the region's ratepayers, support RGGI program goals, and generally receive public support by limiting potential negative environmental and health impacts.

All activities and programs supported through the Consumer Benefit Allocation should:

- 1) Reduce the costs of the RGGI program to the state's electricity ratepayers
- 2) Provide additional benefits for activities or projects that would not have occurred anyway and not replace existing programs or investments; and
- 3) Support programs and activities that do not pose a significant risk to human health and the environment.

Estimates of the Value of the Consumer Benefit Allocation

The table below illustrates the potential size and value of the Consumer Benefit Allocation at RGGI allowance prices of \$2 and \$5 per ton CO₂. The states will be deciding how to distribute a new permit with a total value or market size in the hundreds of millions of dollars. The decision as to how much of this value should be given away for free is of critical importance.

The value of allowances, or permits to pollute, that Connecticut needs to decide how to allocate is somewhere in the range of 21 to 53 million dollars.

Estimates of the Value of the Consumer Benefit Allocation

State	RGGI Cap Level	Value of Allowances w/ a 25% Consumer Allocation			Value of Allowances w/ a 100% Consumer Allocation		
		Allowances (tons)	@ \$2/ton	@ \$5/ton	Allowances (tons)	@ \$2/ton	@ \$5/ton
CT	10,695,036	2,673,759	\$5,347,518	\$13,368,795	10,695,036	\$21,390,072	\$53,475,180
DE	7,559,787	1,889,947	\$3,779,894	\$9,449,734	7,559,787	\$15,119,574	\$37,798,935
ME	5,948,902	1,487,226	\$2,974,451	\$7,436,128	5,948,902	\$11,897,804	\$29,744,510
NH	8,620,460	2,155,115	\$4,310,230	\$10,775,575	8,620,460	\$17,240,920	\$43,102,300
NJ	22,892,730	5,723,183	\$11,446,365	\$28,615,913	22,892,730	\$45,785,460	\$114,463,650
NY	64,310,805	16,077,701	\$32,155,403	\$80,388,506	64,310,805	\$128,621,610	\$321,554,025
VT	1,225,830	306,458	\$612,915	\$1,532,288	1,225,830	\$2,451,660	\$6,129,150
Total	121,253,550	30,313,388	\$60,626,775	\$151,566,938	121,253,550	\$242,507,100	\$606,267,750



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