

Northeast Energy Efficiency Partnerships, Inc.



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To the Connecticut Department of Environmental Protection on the Department's Rule for the Regional Greenhouse Gas Initiative (RGGI)

March 8, 2007

On behalf of Northeast Energy Efficiency Partnerships, Inc. (NEEP)¹, thank you for the opportunity to provide comments to the Connecticut Department of Environmental Protection as part of its series of public forums intended to inform the development of the rule for the implementation of the Regional Greenhouse Gas Initiative (RGGI) in the state.

Based in Lexington, Mass., NEEP is a nonprofit organization founded in 1996 whose mission is to promote energy efficiency in homes, buildings and industry in New England, New York and the Mid-Atlantic states through regionally coordinated programs and policies that increase the use of energy efficient products, services and practices, and that help achieve a cleaner environment and a more reliable and affordable energy system. NEEP supports government policies and coordinates regional initiatives that promote and build market adoption of quality, energy efficient products and services. Working in partnership with environmental and consumer groups, state and federal agencies, businesses, utilities and other non-profits, NEEP serves as a strategist, planner, facilitator, information and training resource, and project manager to help develop and implement regional programs for energy efficiency.

Introduction

As part of the Department of Environmental Protection's process of developing regulations governing the state's participation in the Regional Greenhouse Gas Initiative (RGGI), a series of stakeholder meetings have been held to solicit input. DEP, in supplementing these meetings, has requested that interested parties submit their recommendations on the implementation of RGGI, and, in particular, three key issues left for state to determine:

- The size of the consumer benefit set-aside;
- Uses for the revenues derived from the consumer benefit set-aside (e.g., what types of projects might be supported);

¹ These comments are offered by NEEP staff and do not necessarily represent the view of the NEEP Board of Directors, sponsors or partners.

- Allowance allocation methodologies.

How its carbon credits should be allocated in RGGI is of significant consequence to Connecticut and its citizens, as well as to the ultimate effectiveness of RGGI.

We commend Connecticut for its role in the development of RGGI, which is truly a landmark undertaking in the effort to mitigate climate change. In order to maximize the effectiveness of RGGI, and to implement the program at the least cost to Connecticut electricity ratepayers, NEEP strongly recommends that 100 percent of the carbon credits be allocated to consumers and auctioned off, and that the proceeds of those auctions be dedicated to as great an extent as practicable to expanding the state's energy efficiency programs.

Recommendations

As a way of framing the issue, NEEP asks that the Department consider the purpose of the Regional Greenhouse Gas Initiative. According to information from its Web site², the goal of RGGI is “developing a program to reduce carbon dioxide emissions from power plants, while maintaining energy affordability and reliability.” Furthermore, the Memorandum of Understanding³, signed by each of the participating RGGI participants, states that “each state will maintain and, where feasible, expand energy policies to decrease the use of less efficient or relatively high polluting generation while maintaining economic growth.” In order to achieve this overarching goal and the energy policy objectives that will drive it, Connecticut should require 100 percent of the carbon credits or allowances be allocated for consumer benefit, and, furthermore, that this allocation be utilized for enhanced energy efficiency programs and projects.

Energy efficiency can assist the state in reaching its RGGI goals by reducing demand for energy, and, thus, energy requirements for new generation. But this reduction in energy demand will also result in cost reductions for consumers who avail themselves of energy efficiency opportunities, as well as for all of Connecticut's energy consumers who will benefit from the decrease in wholesale market clearing prices for electricity brought about by lower demand.

A simple estimate of the new revenue available for energy efficiency programs can be made by assuming a base case of \$2 per ton of CO₂ eligible for auction. If the state were to allocate 100 percent of the carbon credits for consumers, and the proceeds of the carbon auction were directed to enhanced energy efficiency programs and projects, the result would be to effectively increase Connecticut's current budget for energy efficiency by almost 30 percent. Thus, 10,695,036 short tons of CO₂ bringing \$2 per ton would produce \$21,390,072 for increased energy efficiency to benefit consumers and control costs of the program.

In the 2004 Independent Assessment of Conservation and Energy Efficiency Potential for Connecticut and the Southwest Connecticut Region compiled for the Connecticut Energy Conservation Management Board (ECMB)⁴, it was made evident that in order to achieve maximum achievable energy efficiency, the state would need to invest between \$82 million and

² Goals and Guiding Principles. Regional Greenhouse Gas Initiative website. <http://www.rggi.org/goals.htm>.

³ “Memorandum of Understanding”. Regional Greenhouse Gas Initiative. 20 December 2005.

⁴ Docket No. 2002-162 “Commission Staff Report on the Potential for Energy Efficiency in Maine and Recommendations for Conservation Program Funding”. Maine Public Utilities Commission. 11 February 2003.

\$148 million a year in energy efficiency programs, representing, at a minimum, a 30 percent increase in the current energy efficiency budget. Rather than increasing the state's systems benefit charge (SBC) rate, directing the proceeds from the RGGI auction to increased energy efficiency will have the same impact in helping Connecticut realize more of its energy efficiency potential. In addition to addressing the state's greenhouse gas reduction goals, this increased investment in energy efficiency would also bring significant additional benefits to Connecticut's residents and businesses, by lowering overall energy demand and related price impacts; by saving consumers money on their energy bills; and through related economic development enhancements realized through improved business operating margins and more disposable income into the pockets of Connecticut residents. These increases in energy efficiency investments would also keep energy dollars in state instead of flowing out of the region for fossil fuel payments, and would enhance the reliability and security of the New England electric system.

Consider further the additional reasons for allocating carbon allowances for increased energy efficiency:

- 1.) Power generators will factor the incremental cost of emission allowances into their operations and maintenance budget, thus, passing on the increased cost of RGGI onto the customer. Giving the generators the allowances would consequently create a windfall profit at the ratepayer's expense.**

In a deregulated electricity market, such as in Connecticut, a generator's bid will include the incremental cost of generating electricity under RGGI regulations. This incremental cost will include the value of the emissions allowances even if the generator has received the allowance at no cost. Because the value of the allowances will be included in the generators' bid to supply electricity, regardless of whether the allowances are being given to the generators at no cost or if they are required to purchase the allowances, the price of electricity for the ratepayer will be the same. Free allowances will therefore allow the generators to be able to substantially increase their revenues through passing on the cost of a commodity obtained at no charge, thus resulting in "windfall profits" at the expense of electricity consumers.

In its 2005 white paper on the "Allocation of Emission Allowances for the Regional Greenhouse Gas Initiative,"⁵ National Grid, one of the largest distribution utility companies serving the RGGI territory, emphasized the benefit of energy efficiency as a method for relieving rate impacts for its customers as a result of RGGI, as opposed to creating a windfall profit for generators. In a letter accompanying the paper, National Grid officials stated emphatically: "We strongly believe that a carbon dioxide allocation mechanism should minimize the impact on electric customers. In order to accomplish this goal, all carbon dioxide allowances should be auctioned to generators with all proceeds used for direct electric customer rebates or for energy efficiency improvements."

- 2.) Energy efficiency can reduce the need for additional generation.**

With rapidly growing energy use Connecticut, particularly in Southwest Connecticut, it is imperative that the state reduce its peak demand in order to ensure grid reliability and avoid Federally Mandated Congestion Charges. By increasing the use of efficiency of products,

⁵ National Grid. Letter and Whitepaper. 2005. http://www.rggi.org/docs/national_grid_whitepaper.pdf

services, programs and the construction of energy efficiency buildings and homes, energy efficiency is able to permanently reduce peak demand. In fact, NEEP's Achievable Energy Efficiency Potential study⁶ reported that, if implemented to its utmost economic potential, energy efficiency has the ability to offset load growth through 2013. This benefit of energy efficiency not only increases reliability of the electric grid by reducing strain on current generators, but also removes the need to build expensive new generation. Avoiding new generation relieves the additional cost ratepayers would endure and also avoids adding additional greenhouse gases emitted into the air.

3.) Allocating allowances for increased funding for energy efficiency will result in the lowering of cost of meeting emissions limits for ratepayers.

Analysis, such as that done for NEEP's 2005 Achievable Energy Efficiency Potential Study, has demonstrated that energy efficiency is indeed an effective way to reduce customer rates due to its ability to permanently decrease demand. In fact, energy efficiency is available at approximately one-third the cost of comparable electricity supply.

These economic savings gained through energy efficiency are further evident in the analysis performed by the Massachusetts Division of Energy Resources (DOER) in its economic modeling done as part of the RGGI process,⁷ which demonstrates that by doubling energy efficiency spending through the sale of RGGI allowances Connecticut's energy customers will experience a *decrease* in bill cost as compared to their 2003 energy bills.

Benefits to Connecticut Consumers from Doubling Energy Efficiency Spending, Using Sales Value of RGGI Allowances

	Avg. bill (2003)	\$ saved due to efficiency	% saved
Year 2015			
Residential	\$1,061	\$103	9.7%
Commercial	\$8,736	\$721	8.3%
Industrial	\$75,786	\$3,887	5.1%
Year 2021			
Residential	\$1,061	\$166	15.6%
Commercial	\$8,736	\$1,145	13.1%
Industrial	\$75,786	\$5,853	7.7%

As can be seen in this table, the increased implementation of energy efficiency programs, because of the savings that are incurred, can help to relieve, or even exceed, the increased cost of RGGI that might otherwise be passed on to ratepayers.

⁶ Economically Achievable Energy Efficiency Potential in New England. NEEP. 2004 Updated 2005. http://www.neep.org/files/Updated_Achievable_Potential_2005.pdf.

⁷ Massachusetts Department of Energy Resources RGGI Modeling Spreadsheet. 2006.

4.) Energy efficiency can help Connecticut achieve additional greenhouse gas emissions reduction goals.

Connecticut has expressed its sincere intentions to reduce harmful greenhouse gas emissions through the 2005 adoption of its Climate Change Action Plan⁸. In the plan, Connecticut set a goal of reducing greenhouse gas emissions to 10 percent below 1990 levels by 2020. The plan also recognized energy efficiency programs as being among the most valuable methods for reducing greenhouse gas emissions. By offsetting projected system electric energy and peak demand growth, energy efficiency reduces the need for increased generation and the construction of new generating plants. As a result of decreased generation needs, future greenhouse gas emissions from generator plants are avoided, thus helping Connecticut meet their mandatory carbon caps.

Conclusion

It is worthwhile to note that, as of this writing, four other RGGI states – Vermont, New York, Maine and Massachusetts – have decided to implement a 100 percent consumer allocation of the RGGI allowances. Each of these states also has very comprehensive energy efficiency programs that will continue to provide consumers with energy savings thanks to enhanced program investments funded through the auction of carbon credits in RGGI. Consumer allocation of RGGI allowances provides an exceptional opportunity to enhance the state's energy efficiency program funding without having to increase its SBC rate.

Such recognition of the opportunities presented by RGGI is evident in Connecticut as well, with Governor Jodi Rell earlier this week having expressed her support for auctioning off all carbon credits as well. In a March 5 press release, the governor stated that she intends to proposal legislation setting a regulatory structure for incentives and penalties for RGGI, and will include a recommendation that up to 100 percent of the carbon allocations be auctioned to the generators and utilized for consumer benefit.⁹

In its RGGI rule, Connecticut has a unique opportunity to not only take a major step in addressing climate change, but to do so in a way that has minimal economic impact on the ratepayers of the state. A 100 percent consumer allocation, with the proceeds of the auction of those credits being invested in new cost-effective energy efficiency, would help Connecticut best realize that opportunity.

Thank you again for the opportunity to provide comments into your deliberations regarding RGGI and its carbon allowances. Please do not hesitate to call upon NEEP and its staff if we can assist you in any way.

⁸ Governor's Steering Committee on Climate Change. Connecticut Climate Action Plan 2005.

⁹ Governor Rell. Press Release. 5 March 2007.