

The Northeast's Global Warming Plan (RGGI)

A Brief Introduction and Summary

Global warming will bring rising sea levels, more intense storms, invasive species and agricultural disruptions, threatening our economy, environment, and way of life in New Hampshire. Scientists agree that we need to achieve 75-85% reductions in global warming pollution in order to avoid the worst effects of global warming.

The Regional Greenhouse Gas Initiative (RGGI) was developed over the last three years by an intensive stakeholder process led by the region's governors. RGGI has broad support, including environmentalists, businesses, consumers, utilities, and power companies. It would achieve about a 10% reduction in global warming pollution from power plants -- not nearly enough to solve global warming, but a crucial first step. It may also pave the way for a national program that addresses global warming.

Seven Northeast governors, including NH Governor Lynch, signed a "Memorandum of Understanding" (MOU) adopting RGGI in December. The MOU is expected to lead to release of a draft "Model Rule" at the end of March 2006, which will be finalized in July 2006. States will then adopt regulations implementing the pollution reduction requirements.

The RGGI Basics

Reductions goal and timetable: RGGI will utilize a "cap-and-trade" system to reduce global warming pollution from electric power plants, the second largest source of pollution in the region (transportation is the largest). Each state gets a "budget" for tons of CO₂ that its power plants can emit, which is close to its projected emissions in 2009. These emissions are capped from 2009 to 2014, then must fall by 2.5% per year through 2018, so that in 2018 they will be 10% below 2009 levels.

Distribution of permits: Each state will charge electricity generators for at least 25% of their permits (probably through an auction), with the money used for "consumer benefit[s] or strategic energy purpose[s]." Each state may use the remaining 75% as it wishes -- including charging for all of them, with the funds reserved for energy efficiency programs and consumer rebates, or giving some to generators for free. Charging for the

permits is important in order to establish the principle that polluters should pay for their emissions, with the public gaining the benefits. It is also vital to ensure that the program gets maximum pollution reductions at minimum cost to residential and business electricity consumers.

Offsets: States agreed to allow electricity generators to use pollution "offsets" -- cleaning up other sources of pollution rather than getting reductions at the stack -- as a way to grant significant flexibility to plant owners. Generators can use offsets for a substantial portion of their required reductions.

To be eligible, offsets would have to meet strict standards, being "real, surplus, verifiable, permanent, and enforceable." Five types would be allowed initially: methane gas capture/burning, sulfur hexafluoride

capture/recycling, tree planting, end-use natural gas and heating oil energy efficiency, and reducing methane emissions from natural gas transmission & distribution. Offsets could be anywhere in the U.S., but would be worth only half as much if outside the region.

Safety valves: The governors also agreed to safety valve mechanisms that give plant owners additional flexibility. If the average price for permits exceeds the safety valve price (\$10/ton) for a year, the compliance period may be extended by up to three years. And, if permit prices exceed \$7 or \$10 per ton, the amount of offsets will be increased and the geographic scope widened, potentially to give full credit to projects

anywhere in North America and from international trading programs. Offsets could account for as much as 20% of all emissions. This might mean offsets would cover all the emissions cuts, with none coming from power plants themselves.

Leakage: The program requires generators in the participating states to reduce their emissions. There is a risk that generators outside the region will operate more and sell power into the region, effectively undercutting the in-region pollution reductions. This is called “leakage,” which is a serious threat to the program’s integrity, and the states have agreed to develop options for preventing it.

RGGI: What’s at Stake?

New Hampshire has historically been a leader in tackling problems such as global warming. The state should move diligently to implement RGGI, which could be done either through legislation or action by the Governor. Weaknesses in the MOU should be improved either through the “Model Rule” which all the states will adopt together, or by legislative or regulatory decisions in the individual states. This includes preventing leakage, banning environmentally harmful offsets, tightening up the loose safety valves, and, most importantly, ensuring maximum reductions at lowest cost by raising the percentage of permits that are auctioned to generators.

Raising the percentage of permits that generators must pay for, benefiting consumers and businesses: The best way to get maximum pollution reductions at lowest cost to consumers and businesses is to require generators to pay for all or most of their permits (allowances), and dedicate the money to energy efficiency programs or consumer rebates. Research by the states shows that doubling spending on efficiency would

result in the average household electricity bill falling by more than \$100 a year, or around 11% -- and business customers would presumably obtain similar savings.

To accomplish this, generators should be required to pay for at least 50% of their permits, and possibly more depending on the market price for the permits. Raising the percentage would protect consumers and enhance support of RGGI by representatives of residential, low income, and business electricity consumers. It is also a critical precedent to set if we are to achieve the deeper emissions cuts that are necessary eventually to stabilize our climate.

For more information:

The States’ official RGGI web site:
<http://www.rggi.org/>.

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