



**ENVIRONMENTAL
ENTREPRENEURS®**

*The Independent Business
Voice for the Environment*

November 30, 2010

To: RGGI State Commissioners and Staff
(electronic submission – info@rggi.org)
From: E2 New England
RE: Comments on Policy Scenarios for Program Review

We are writing on behalf of Environmental Entrepreneurs (E2) in support of the progress made thus far by the Regional Greenhouse Gas Initiative (RGGI) and to suggest areas for improvement as RGGI approaches its second compliance period.

E2 represents a national community of over 850 business leaders who promote strong environmental policy to grow the economy. E2 is widely recognized as a strategic resource and an independent voice for understanding the business perspective on environmental issues. We are entrepreneurs, investors and professionals who collectively manage in excess of \$50 billion of venture capital and private equity, and have started well over 1200 businesses, which in turn have created over half a million jobs.

RGGI System Successes

RGGI has been an excellent precedent for a national carbon cap and trade program. It has demonstrated for two years that:

- A large carbon cap and trade program can be fairly and effectively administered
- Auctions of (almost all) the allowances can be conducted in an open way creating an effective and liquid market that shows no signs of market manipulation or difficulty for regulated entities in acquiring adequate allowances in a low risk and timely manner
- A system can be established for assuring that offsets are fully legitimate and administering them in an efficient manner
- A serious commitment to emissions reductions can stimulate the burgeoning clean energy sector throughout the Northeast

Tighten Emissions Cap and Allowances

We observe, however, a number of areas in which RGGI can be improved. First, the RGGI system cap on emission fails to reflect *actual* baseline 2009 power sector emissions for the region. Current actual emissions are much lower than the current emissions cap—even after accounting for the most recent economic recession.¹ Measured 2009 emissions fell 34% below the cap. A cap adjustment should be considered in the context of RGGI's *stated goal to reduce emissions from 2009 levels*. We urge the RGGI State Commissioners to follow through on this objective and reduce the cap based on 2009 actual measured emissions. Additionally, we urge you to set a reduction trajectory based on lowered emissions targets that align with those needed to avert catastrophic climate change.

We also observe that the volume of allowances already in circulation (and currently scheduled for 2011 auctions) grossly exceeds current emissions trends, a fact that should

¹ See RGGI Inc. Draft White Paper—11/2/10: “Relative Effects of Various Factors on RGGI Electricity Sector CO2 Emissions: 2009 Compared to 2005”, prepared by NYSEERDA and available at:
http://www.rrgi.org/docs/Retrospective_Analysis_Draft_White_Paper.pdf

be compensated for as RGGI states revisit the program. Each auction so far has offered to the market many more allowances than are needed to cover the annual emissions.² Using the same protocol for 2010, 67% of the annual “surplus” allowances will have been made available, above and beyond what the market requires to cover their emissions during that period. We urge the RGGI States to lower the number of allowances made available. We also recommend that RGGI establish a mechanism for regulating/adjusting the number of allowances to be made available for auction from time to time.

Link and/or harmonize RGGI with other regional CO2 programs

E2 supports leveraging RGGI’s successes and broadening its scope. In particular, we encourage RGGI states to pursue linking and/or harmonization discussions with other states and Canadian provinces concerning CO2 emissions programs. A number of states and provinces have indicated their intent to implement state-based cap and trade type systems. Linking with other states and provinces would establish a broader carbon reduction system, making greater reductions in carbon emissions than any separate programs could individually accomplish. A critical component of harmonizing with other programs, such as WCI and MGGRA, will be RGGI States’ committing to a stronger cap on emissions.

Expanding to other sectors

E2 also supports the expansion of RGGI to other stationary sources and currently excluded electric sources. Such expansion will further reduce carbon emissions and provide greater price stability and a mechanism to deal with the existing allowance surplus.

Importance for the Business Community

Investors need certainty about the policies that govern the sectors in which they invest so that they can make strategic, profitable investments over the long term. These recommendations -- setting more realistic targets; reducing the volume of allowances; joining forces with other regions of the country; and expanding the program to other sectors -- will provide the market signals that will inspire innovation and investment in the clean energy technologies and jobs of the future.

Thank you for consideration of the E2 business perspective on these issues. Please contact Berl Hartman at 617 497-0393 or at berl@berlhartman.com if you would like to discuss these important matters further.

Sincerely,

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² Apart from auctions, a significant number of allowances are also made available through “special approvals” established by the individual RGGI states, including: set asides for early reductions, voluntary renewable energy sales, special prices for regulated units, and long-term bilateral contracts.