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Franz Litz, Esquire
Chair, Regional Greenhouse Gas Initiative
New York State Department of
Environmental Conservation
625 Broadway
Albany, NY 12233-1500

May 22, 2006

Re: RGGI MOU and Draft Model Rules

Dear Mr. Litz:

I am writing on behalf of the Center for Energy & Economic Development, Inc. (CEED) regarding the RGGI MOU and draft Model Rules. An electronic copy of these comments is being furnished to the RGGI comment website.

CEED is a national membership organization representing major U.S. railroads, coal producers, electric generating firms and numerous other industrial interests. CEED members have direct and substantial interests in the production and transportation of coal used for electric generation in the Northeast.

CEED participated as an observer in the RGGI process, and contributed several economic and environmental analyses during the course of the stakeholder process. We appreciate your help in ensuring that this work was made available to RGGI stakeholders.

General Comments

When Governor Pataki proposed the RGGI process in April 2003, the national average price of gasoline was \$1.59 per gallon. Imported oil cost \$23 per barrel. Natural gas at the Henry Hub was \$4.47 per mcf.¹ Since 2003, energy prices have more than doubled. Many Northeast states confront the specter of huge electric rate increases due to the expiration of rate caps. This is hardly a time for adoption of a largely symbolic environmental initiative that forces high-cost energy supply choices with no commensurate public benefits.

CEED members support voluntary programs to reduce greenhouse gas emissions, and oppose mandatory “cap-and-trade” programs like the one proposed in the RGGI MOU and Model Rules. Several CEED members are active participants in federal efforts such as EPA’s Climate Leaders program. We are active in promoting carbon sequestration and advanced clean coal power and fuel technologies as means to reduce greenhouse gases, and share the commitment to a “zero-emissions” footprint for coal-based electric generation reflected in the FutureGen project.

CEED is disappointed that RGGI has chosen to implement a mandatory cap-and-trade program for carbon dioxide emissions from electric generating units. Our analyses, such as the study by New Hope Environmental Services,² have demonstrated that the RGGI agreement would have no measurable effects on projected future global temperature or sea level. This conclusion is not surprising given that the greenhouse gas emissions avoided by the RGGI program would be negligible as compared with total world-wide emissions.

CEED appreciates the revisions to the RGGI modeling effort that were made in response to our concerns – and those raised by other stakeholders – about the use of unrealistically low natural gas price assumptions and the preclusion of new coal generation in the “reference case” scenarios. RGGI’s November 2005 modeling results depict more realistic impacts for the imposition of the RGGI “package” control scenario in areas such as energy price increases and the import of power from other regions.

¹ Energy price data for April 2003 from U.S. DOE/EIA.

² New Hope Environmental Services, Inc., “Assessment of Potential Climate Impacts of Alternative Northeastern U.S. Electric Utility CO₂ Caps,” (August 2003). A copy of this study is Attachment 1 to these comments.

In addition, the decision to move to a “current” emission baseline from the initial 1990 baseline proposal avoided severe inequities among states in the potential economic impacts of a given level of emission reductions. The choice of a 1990 baseline would have unjustly enriched states such as New York that had reduced their carbon dioxide emissions for reasons wholly unrelated to climate change.

CEED’s Objections to the RGGI Cap-and-Trade Program

CEED’s has five fundamental objections to adoption of the RGGI MOU and Model Rules by participating states:

- 1) The MOU and Model Rules will constrain energy choices among participating states that will increase electric rates in a region already struggling with massive rate increases and a dangerous dependence on expensive natural gas generation;
- 2) Increasing energy costs for consumers and industries will discourage job creation and retention at new and existing industries throughout the RGGI region, to the detriment of state economies and consumer wellbeing, as households will face increasingly difficult budget choices between energy and other essential goods and services such as nutrition, health care, housing and education;³
- 3) Despite these large costs, the RGGI program will have no discernable effect on global climate, making the program an expensive exercise in political symbolism;
- 4) State legislatures had no opportunity to participate within the RGGI stakeholder process, and are being presented with the RGGI “package” control plan and Model Rules as a *fait accompli*; and
- 5) The proposed mandatory minimum set-aside of 25% of emission allowances for Consumer Benefit and Strategic Carbon programs is a regressive energy tax that will raise the cost of electricity throughout the

³ See, M. Harvey Brenner, Ph.D., “Health Benefits of Low-Cost Energy Supplies,” Environment Manager, November 2005 (calculating potential increased premature mortality of 150,000 lives annually for implementation of the McCain-Lieberman climate bill, SA 2028).

RGGI region while providing additional nonmarket subsidies to uncompetitive energy supplies.

These considerations will lead CEED and its members to resist implementation of the RGGI Model Rules within the eight states potentially involved in their implementation, and to oppose the expansion of the RGGI program to nonparticipating states. Unlike the RGGI region, which relies on coal for less than 20% of its electric generation, the rest of the nation generates 55% of its electricity with coal.

RGGI conflicts with regional and national energy policy objectives

RGGI overlaps and duplicates the intent of Renewable Portfolio Standard laws already in place in most RGGI states. The projects needed to comply with these mandates will increase zero- and low-carbon resources in utility portfolios, further reducing the greenhouse gas intensity of Northeast electric generation. The narrow offset provisions set forth in the Model Rules would prevent utility developers from claiming these emission reductions toward their RGGI obligations due to concerns about “additionality.” This will raise the cost of meeting RGGI targets, especially as the second phase compliance period approaches in 2015.

At a national level, the RGGI MOU is an impediment to the needed expansion of coal-based generation capacity. DOE’s Energy Information Administration projects that some 175 Gigawatts of new coal capacity will need to be constructed over the next 25 years to meet growing electric demand across the country.⁴ Securing emission offsets for the amount of new coal generation potentially needed in the RGGI region will be extremely difficult and costly given the constraints and offset penalties that the Model Rule places on offsets obtained from sources within and outside of the RGGI region. CEED views expanded state, federal and private commitments to the commercial development of advanced clean coal technologies as a more effective approach to the longer-term reduction of greenhouse gases and criteria pollutants.

CEED also is mindful of the concerns raised within the RGGI stakeholder group about “leakage,” and the formation of a new working group to address means to abate leakage in the form of increased power imports from non-participating states. The likelihood that a portion of RGGI’s carbon reduction

⁴ U.S. DOE/EIA, “Annual Energy Outlook 2006” (December 2005).

targets will be met through increased power imports from non-participating states reflects the imbalance of power production costs between electric generating entities within RGGI and those with more diverse, coal-based generation portfolios in nearby regions.

Increasing the flow of relatively low-cost power into the RGGI states will help to offset the consumer and industrial costs of compliance with the RGGI program. Efforts by RGGI states to impede or limit interstate power transfers, including the construction of new transmission capacity needed in many areas of the nation, could conflict with broader national and regional energy policies.

For these reasons, CEED intends to monitor the RGGI Imports and Leakage Workgroup process to ensure that the interests of its members within and outside of the RGGI region are not affected adversely by recommendations or actions taken to constrain power imports by RGGI states.

CEED appreciates the opportunity to submit these comments.

Sincerely,

/s/

Eugene M. Trisko

cc: RGGI Agency Heads
Honorable Peter Smith, NYSERDA
Honorable Paul Tonko
Honorable Charles Fox

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**Assessment of Potential Climate Impacts of Alternative Northeastern U.S.
Electric Utility CO₂ Caps**

Prepared by New Hope Environmental Services
August 2003

To assess the potential impacts on global climate from alternative carbon dioxide emissions caps on Northeastern U.S. electric utilities, we performed an analysis similar to that performed by Wigley (1998) in which the climate impact of emissions reductions prescribed by the Kyoto Protocol was assessed. The Wigley (1998) study is widely cited as an accurate representation of the potential for carbon dioxide emissions regulations to affect the future course of global temperatures and sea levels.

In our analysis, we employ the same climate model, we start with the same baseline emissions scenario (i.e. the IS92a scenario from *the Second Assessment Report* of the Intergovernmental Panel on Climate Change [IPCC]), and run the model under the same set of assumptions (e.g., the temperature sensitivity to a doubling of the atmospheric carbon dioxide levels is taken as 2.5°C, see Wigley, 1998, for more details) as in Wigley (1998) to estimate the potential sea level and mean global temperature impacts of regional caps on CO₂ emissions by electric generators in an 11-state region of the Northeast (New England plus Mid-Atlantic states).

We performed a series of 5 different model runs, each based incorporating slight modifications to the IPCC IS92a emissions scenario in order to examine the potential impacts of a series of emissions regulations. Our initial run serves as the baseline condition, the second run examines the potential impacts of the original Kyoto Protocol, the third run examines the potential impacts of the Kyoto Protocol without the involvement of the United States, and the fourth and fifth runs examine the potential impacts of the Kyoto Protocol without the official involvement of the United States, but with the employment of one of two alternative emission caps only on Northeastern U.S. electric utilities. The first of the two scenarios assumed a cap of the carbon dioxide emissions from the Northeastern utilities at 1990 emission levels, and the second scenario assumed a cap at a level 25 percent beneath the level of the 1990 emissions. Energy Ventures Analysis, Inc. provided base case electric utility emission projections for the region to 2025.

The details and results from each model run are described below.

Run 1:

The first run uses the IS92a scenario as described in the IPCC *Second Assessment Report* and slightly modified by Wigley (1998) (this is the IPCC *Second Assessment Report* “business as usual” scenario). This scenario produces a temperature rise in global temperatures from 1990 to 2100 of 2.068°C and a rise in globally averaged sea level during the same period of 49.5cm. These are the same numbers reported in Wigley (1998).

Run 2:

This run shows the effects of the full adherence to the original Kyoto Protocol by all nations of the world to which it would apply (Annex-B countries including the United States). This is also a duplicate of the central scenario of Wigley (1998). It assumes that the Kyoto targets are reached by 2010 and that the emissions of the Annex-B countries stay constant from that point on. The emissions from the rest of the world follow the IS92a pathway. This results in a global temperature rise of 1.917°C by 2100 and a sea level rise of 46.9cm. The “Kyoto savings” are thus 0.151°C and 2.6cm of sea level rise by 2100 (as reported in Wigley, 1998).

Run 3:

This run shows the effects of the United States not being part of the Kyoto Protocol. U.S. emissions to the year 2025 follow those projected by the Energy Information Administration in its *Annual Energy Outlook 2003*. These U.S. emissions are removed from the IS92a Annex-B emissions, and the remainder (presumably the non-U.S. portion of the Annex-B emissions) are reduced to 95 percent of their 1990 emissions by 2010 and remain constant thereafter (as prescribed by the Kyoto Protocol). The U.S. emissions after 2025 remain a constant percentage of the IS92a Annex-B emissions pathway. The non-Annex-B countries emit as prescribed by IS92a. This scenario results in a temperature rise of 2.007°C by 2100 and a sea level rise of 48.4cm. Thus the “Kyoto savings without the U.S. participation” are 0.061°C and 1.1cm of sea level rise by the year 2100.

Run 4:

This run shows the effects of the cap on Northeastern power plant emissions at the 1990 level. All the assumptions are as in Run 3, except that the total U.S. emissions are reduced in accordance to the values provided by Energy Ventures Analysis to the year 2025. From 2025 to 2100, Northeastern power plant emissions are assumed to grow at a rate similar to that of overall U.S. emissions (as calculated in Run 3), and thus the reductions are calculated from those numbers.

The table below shows the base emissions out to 2100, with the related caps at 1990 and 1990 less 25 percent. (Note that in IS92a, there is no total emissions growth from 2025 to 2050 in Annex-B countries).

Base Case and Capped Northeast CO2 Emissions
(Millions of tons of CO2/yr.)

<u>Year</u>	<u>Base</u>	<u>1990 Cap</u>	<u>1990 less25%</u>
1990	283	283	212
2000	287	283	212
2010	314	283	212
2020	359	283	212
2025	396	283	212
2050	396	283	212
2075	430	283	212
2100	465	283	212

This scenario results in a temperature rise from 1990 to 2100 of 2.004°C and a sea level rise during the same period of 48.4cm. Thus, the additional savings, over and above the Kyoto savings without U.S. participation, resulting from the Northeastern power plant emissions cap at 1990 levels is 0.003°C and 0.0cm of sea level rise.

Run 5:

This run examines the effects of a cap of Northeastern power plant emissions at a level that is 25 percent below the 1990 level. All calculations are similar to the ones in Run 4. This results in a global average temperature rise from 1900 to 2100 of 2.002°C and a global sea level change of 48.3cm. The savings resulting from this scenario, over and above the Kyoto saving without the U.S. participation, are 0.003°C and 0.1cm of sea level rise.

Observations

Figure 1 shows the temperature savings for each of the four policy scenarios over the baseline of IS92a, and Figure 2 shows the reduction in projected sea level rise resulting from the same four policy scenarios.

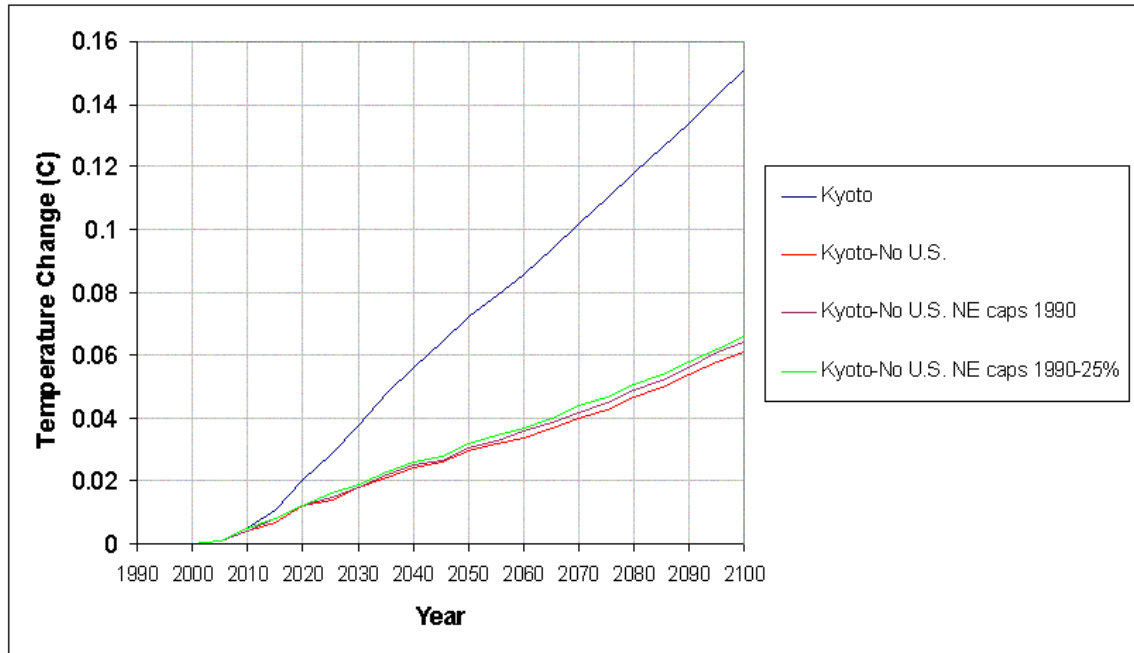


Figure 1. Temperature savings from the IS92a baseline for each of the four policy scenarios examined.

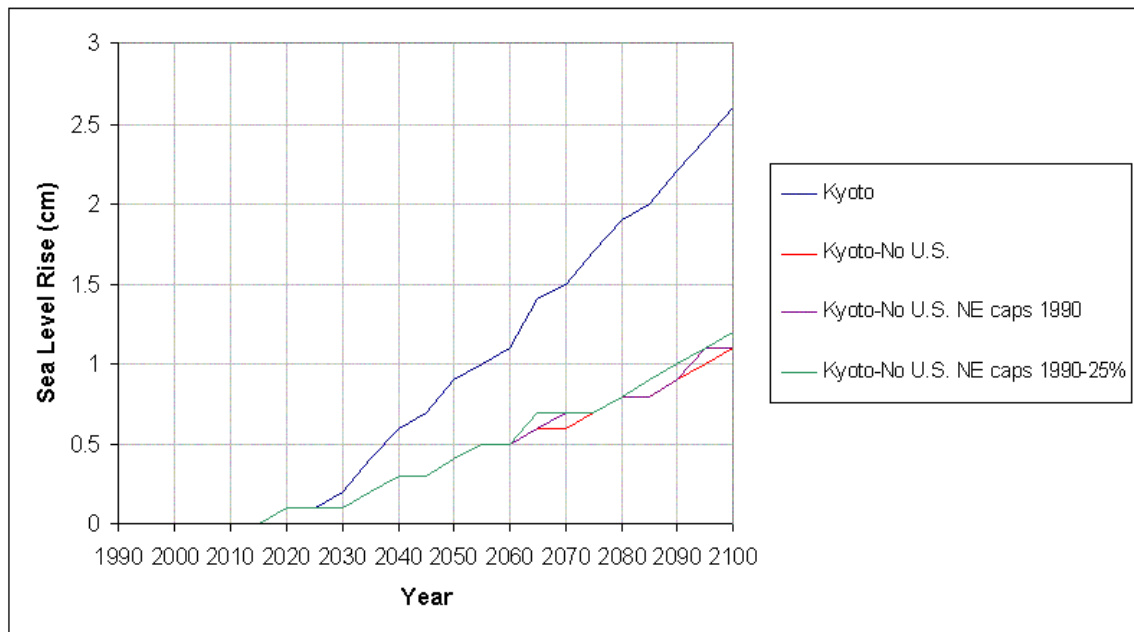


Figure 2. Reduction in sea level rise below the IS92a baseline for each of the four policy scenarios examined.

These results are relatively scalable to different temperature rise projections. For instance, if one were to argue that the global temperature rise from IS92a of 2.068 was too low, and suggested that the rise should be twice that, then the temperature savings values would also double. Therefore, these results can be used to get a good idea of the potential impacts from the alternative caps on Northeastern electric utilities against a background of a range of possible future emissions scenarios.

However, despite the choice of emission scenario, it is obvious from these simulations that under no circumstance would either of these alternative emissions caps result in a measurable impact on the future course of global temperatures or sea level rise. As such, even the values calculated for the 25 percent reduction below 1990 emission levels are insufficient to result in any noticeable impacts on other climate-related environmental variables (e.g., rainfall, drought, species migration and extinction, etc.).

References

Energy Information Administration, 2003. *Annual Energy Outlook 2003 with Projections to 2025*, U. S. Department of Energy, <http://www.eia.doe.gov/oiaf/aeo/index.html>

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