

**New England Council  
Connecticut Business and Industry Association  
Delaware Chamber of Commerce  
Maine Chamber of Commerce  
Business and Industry Association of New Hampshire  
New Jersey Business and Industry Association  
Business Council of New York State**

May 22, 2006

The Honorable John Baldacci, Governor of Maine  
The Honorable Jon S. Corzine, Governor of New Jersey  
The Honorable Jim Douglas, Governor of Vermont  
The Honorable Robert L. Ehrlich, Jr., Governor of Maryland  
The Honorable John Lynch, Governor of New Hampshire  
The Honorable Ruth Ann Minner, Governor of Delaware  
The Honorable George E. Pataki, Governor of New York  
The Honorable M. Jodi Rell, Governor of Connecticut

Dear Governors:

The undersigned business organizations write to express their collective concerns and recommendations regarding the Regional Greenhouse Gas Initiative (RGGI). Many of our organizations wrote to you last September regarding our concerns that RGGI had the potential to further raise electricity prices and to exacerbate electricity reliability concerns in the region. Neither the Memorandum of Understanding (MOU) signed by seven states last December or the draft Model Rule released by the Staff Working Group this past March have addressed our concerns. We once again urge that if RGGI is to move forward, significant changes must be made to the program to make it realistic, usable and to minimize impacts on the economy of our states.

As we stated in September, the RGGI region already has the highest average electric prices in the continental U.S. The New England region is now 71% above the national average and New York is 62% above the national average. These high energy costs are already having a detrimental impact on the competitiveness of businesses in our states.

Carbon dioxide emission reduction schemes have the potential to raise electricity prices. Recent research by economic research firm Global Insight, Inc. revealed that if the United Kingdom, Italy, Germany and Spain are to meet the requirements of the Kyoto Protocol by 2010 they face an average increase in electricity prices of 26%. Each of the four countries could see at least 200,000 jobs lost as a result of meeting Kyoto targets by 2010.

The modeling assumptions that RGGI is based on are overly optimistic and unrealistic. The modeling assumes that the region can double its natural gas consumption by 2015 although every LNG proposal that has been introduced in the region has been met with significant opposition. The modeling also assumes that two Cape Wind size renewable projects will be introduced into the region a year. Finally, the modeling is based on a nine state program that includes Massachusetts and Rhode Island, rather than the current seven state program.

In short, RGGI policymakers, stakeholders and the public lack a realistic and meaningful understanding of the costs of the RGGI program. If RGGI is to move forward, policymakers must make changes to the program to ensure that it does not raise electricity prices.

In addition, we are concerned that the RGGI program will have an adverse impact on power supply and the reliability of the power grid. RGGI will pose another impediment to the siting of new generating capacity in the RGGI region; it may also impact the financial viability of some existing generating units. At a time when states are facing growing demand for power -- current ISO reports (NY, NE, PJM) indicate the need for new generation capacity in the 2006 to 2008 timeframe -- RGGI may further exacerbate insufficient generating capacity additions needed to sustain economic growth.

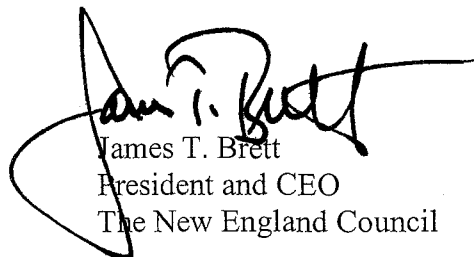
With these twin concerns, we believe some changes need to be made to the RGGI program to make it realistic, usable and to minimize impacts on our states' economies:

- 1) **A True Safety Valve Mechanism is Needed.** The so-called "safety valve mechanisms" contained in the MOU and the draft Model Rule will do too little to prevent the allowances from becoming very expensive. Credits in Europe have reached prices of up to \$32 and if the RGGI allowances reach this price, the price of electricity in the region will rise considerably. An example of a true safety valve mechanism is an "alternative compliance payment," which has been endorsed by (i) United States Senator Jeff Bingaman, a Democrat for New Mexico, and one of the leading proponents of a national climate change policy; (ii) the National Commission on Energy Policy, a bipartisan group of 16 of the nation's leading energy experts -- representing the highest ranks of industry, government, academia, labor, consumer protection and the environment; and (iii) former Chairmen of the Council of Economic Advisors under President Clinton and Bush. Pursuant to an "alternative compliance payment" mechanism, sources could make payment to the states for allowances in the event the allowance price reaches a target price. We urge you to adopt a true safety valve mechanism such as an "alternative compliance payment" or other mechanism (suspension of RGGI cap) in the event of allowance price spikes or sustained high allowance prices.
- 2) **New Sources Need to Initially Operate Outside the RGGI Framework.** Independent observers have repeatedly noted that it is imperative that more generation be added to the region. However, the MOU leaves nearly all

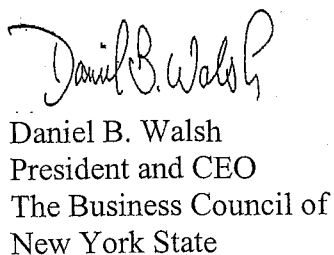
allocation of allowance decisions to the states and we are concerned that new sources will be dissuaded from entering into the region because of the lack of allowances. Accordingly, we recommend that new sources operate outside of the RGGI program until the units are captured under the normal allocation process.

- 3) **The Offset Limitations and Criteria Should be Relaxed.** No back-end controls exist to limit carbon dioxide emissions from facilities. Accordingly, in the short term, the facilities will need to find allowances or offset their emissions. Abundant inexpensive offsets are crucial to insure that electricity prices do not rise. This highlights the importance of a flexible, robust offset program that allows for offsets to be obtained anywhere in the world. RGGI has been solely developed to combat the problem of climate change, which is a global problem. Offsetting carbon dioxide emissions in the RGGI region or anywhere in the world accomplish the same exact goal. We remain very concerned that the model rule's restrictive offset provisions will result in higher allowance and energy prices under RGGI. We urge RGGI policymakers to eliminate the percent, geographic and categorical limitations on offsets and relax the approval criteria.
- 4) **A Solution to the Leakage Problem Needs to be Developed Before the Model Rule is Finalized.** We remain very concerned that RGGI may not only raise electricity prices, but also increase emissions because of leakage. Virtually every observer and participant in the RGGI process including the signatories to the MOU have identified leakage as a significant problem that needs to be resolved before the program is implemented. However, the states intend to finalize the Model Rule -- and provide a blueprint for how to implement RGGI -- without addressing this great challenge. We expect that any solution to the leakage problem may require major changes to the program and will further increase in-region power prices and pose a threat to system reliability. We urge the states to delay finalization of the Model Rule until a solution to leakage that does not contribute to higher electricity prices or system unreliability is developed.

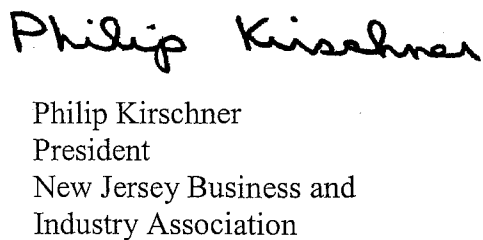
Each of us will contact our respective Governor to amplify, explain and to urge significant changes to the RGGI program. Please contact any of the undersigned organizations if we can answer any questions.



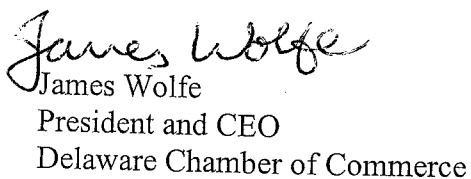
James T. Brett  
President and CEO  
The New England Council



Daniel B. Walsh  
President and CEO  
The Business Council of  
New York State

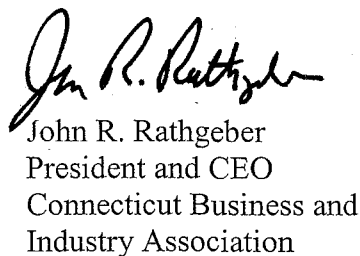


Philip Kirschner  
President  
New Jersey Business and  
Industry Association

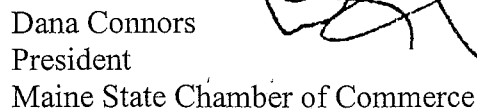


James Wolfe  
President and CEO  
Delaware Chamber of Commerce

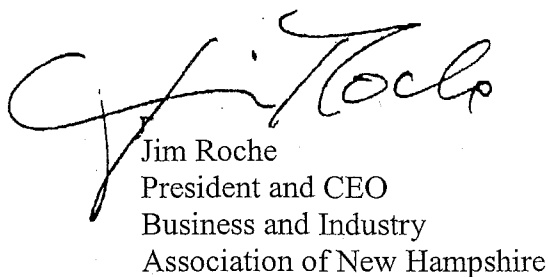
Sincerely,



John R. Rathgeber  
President and CEO  
Connecticut Business and  
Industry Association



Dana Connors  
President  
Maine State Chamber of Commerce



Jim Roche  
President and CEO  
Business and Industry  
Association of New Hampshire

cc: The Honorable Donald L. Carcieri, Governor of Rhode Island  
The Honorable Mitt Romney, Governor of Massachusetts  
RGGI Staff Working Group