New England Council
Connecticut Business and Industry Association
Maine Chamber of Commerce
Associated Industries of Massachusetts
Business and Industry Association of New Hampshire
New Jersey Business and Industry Association
Business Council of New York State
Greater Providence Chamber of Commerce
Vermont Chamber of Commerce

September 22, 2005

The Honorable John Baldacci, Governor of Maine
The Honorable Donald L. Carcieri, Governor of Rhode Island
The Honorable Richard J. Codey, Acting Governor of New Jersey
The Honorable Jim Douglas, Governor of Vermont
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
The Honorable Mitt Romney, Governor of Massachusetts

Dear Governors:

The undersigned business organizations write to express their collective concerns and recommendations on the Regional Greenhouse Gas Initiative (RGGI). The Staff Working Group's (SWG) Package Proposal dated August 24, 2005 (the "Proposal") was developed through a deficient process. If the proposal is to be enacted, significant changes must be made to the Proposal to make it realistic, usable and to minimize impacts on the economy of the Northeast.

For the private sector businesses we represent, the cost of electric power, and the reliability of our power grids, are priority issues. Obviously, recent developments have made energy prices a significant issue for the average citizen as well.

The RGGI region already has the highest average electric prices in the continental U.S., with New England region at 52% above the national average, and mid-Atlantic region at 31%. For many businesses, these high energy costs are already having an adverse impact on their competitiveness.

In our view, the Proposal poses a significant risk of higher electric power prices in the region, by driving generators increasingly toward natural gas; by imposing additional costs for the acquisition of CO_2 allowances and/or offsets; and by driving additional capital costs for the upgrading of combustion units. A 2004 Charles River Associates

(CRA) report found that a CO2 carbon control program with a cap as little as 10% below 1990 levels would lead to a 23% increase in electricity prices in the Northeast by 2010.

In addition, we are concerned that the Proposal will have an adverse impact on power supply and the reliability of the power grid. The Proposal 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 -- ISO New England has indicated that rolling blackouts may begin as early as 2008 unless new generation is added to the region -- the Proposal may result in insufficient generating capacity needed to sustain economic growth. And we strongly question the ability of new investments in energy efficiency to offset the rising demand for electric power.

At the same time, power plants in the RGGI region are already among the "cleanest" and most efficient in the nation, due to both federal (OTC requirements) and state-level initiatives, and due to our fuel mix, which relies more heavily on natural gas and oil than some regions, particularly the mid-west.

Finally, the capping of CO2 emissions in the RGGI region will cause an increase in the price of electricity generated in the region. As a result, electricity that is generated outside of the region, and which is not subject to a CO2 emissions cap, will be cheaper. The result will be an increase of imports of electricity into the region from higher carbon emitting lower cost generating plants located in the mid-west. The SWG has not presented, nor are we aware, of any solution to this leakage problem that does not substantially raise the cost of electricity. We remain concerned that leakage will defeat the purpose of RGGI.

Because of these very real concerns, we call on the RGGI Governors to clearly demonstrate how RGGI will impact energy prices, energy supplies and suppliers, and economic growth in the Northeast before our states make a final commitment to the RGGI process.

In the following paragraphs, we illustrate several specific issues we have regarding the availability of data and modeling that the states' have relied upon in the development of the Proposal, and make a number of recommendation of additional provisions that we believe at minimum are necessary to achieve a cost-effective regional cap and trade program.

I. The RGGI Development Process is Deficient in Certain Areas.

A. The RGGI Development Process Lacks Transparency.

The RGGI Development process has lacked transparency from the beginning. Numerous documents related to the development of the Proposal have been requested, but not supplied. For example, although the SWG has undertaken as many as 20 IPM

Modeling runs, the full outputs (i.e. emissions, electricity price impacts, changes in electric generating capacity inside and outside the RGGI region, changes in electricity imports, etc.) on only one modeling run have been released. In addition, the SWG has indicated that REMI modeling has taken place that has not been released to the public. This lack of transparency must be remedied before the Proposal is seriously considered.

B. Flaws in the RGGI Modeling Must be Rectified Prior to Discussion of the Scope of the Proposal.

Originally, the SWG discussed a two prong strategy for modeling: 1) the ICF IPM model would capture key responses from the electric generation sector under RGGI; and 2) the REMI model would trace how the sector's responses to RGGI transmit economic impacts across the region. The IPM Modeling has been detailed, but has been unrealistic in certain areas. The REMI Modeling performed and released at this point has been negligible. Two reports prepared by reputable sources, CRA and the Nuclear Energy Institute (NEI), have shown that RGGI will have extreme effects on the economy and require extensive changes in the energy infrastructure in the Northeast. These results are much different than the results from the flawed modeling performed by the SWG to date. In short, because the RGGI modeling has been so flawed, RGGI policymakers, stakeholders and the public lack a realistic and meaningful understanding of the implication of the CO2 caps in terms of the electric generation sector or other sectors of the economy.

II. The Proposal Must be Changed.

Assuming the states believe a rule must be adopted in the face of a failed process and little environmental benefit for the cost, a number of provisions must be included in the Proposal in order to make it realistic, usable and to minimize impacts on the economy of the Northeast:

- **Every RGGI state should promulgate or enact the Proposal before any state's rule goes into effect.** If there is any benefit to RGGI, its value is that it attempts to address climate change on a broader basis than a state level. If individual RGGI states refuse to promulgate or enact the Proposal or there are delays, emission leakage to those states will occur and the economic consequences will be unfairly distributed. The Proposal is silent on this issue. The Proposal should provide that it would not be effective in any one state until all other RGGI states have promulgated or enacted the Proposal.

- **The public benefit allowance allocation raises substantial concerns.** Pursuant to the Proposal, states could retain a portion of their allowance budgets and/or non-generators could acquire allowances. The Proposal should provide that only generators can acquire allowances from the states, and the states cannot hold back allowances other than a limited set aside to provide for new generating capacity.

- **There should be no limit on the use of offsets.** To reduce the potential that RGGI may continue to increase the region's reliance on natural gas, we believe that a robust global greenhouse gas offset program, which includes all six GHGs, must be created to ensure that affected sources have access to flexible and low-cost emissions reduction opportunities, including credit for unit shutdowns. This would include the ability to purchase offsets anywhere in the world where such credits can be verified. Furthermore, the SWG's recommendation limiting the use of offsets to 50% of the difference between the projected business as usual emissions and the emissions cap could force non-gas fired electric generation facilities to leave the region. This could have serious impacts on fuel diversity, electric reliability and the cost of energy in the region.

- **"Circuit Breaker" or "Safety Valve" Mechanism is Needed.** Because RGGI may significantly raise retail electricity rates, as demonstrated by CRA study, we recommend that the Proposal contain a "circuit breaker" or "safety valve" mechanism that, when the price of credits reach a certain level, would trigger a pause in the regional emissions cap or would allow generators to purchase more credits at a set price.

- **RGGI Should Sunset When a National Program Develops.** The value of RGGI, if any, is that it provides a model for a national climate change program. Accordingly, the Proposal should provide that it sunsets when a national program is developed.

These comments reflect our initial collective view of the Proposal. Each of us will contact our respective Governor to amplify, explain and to urge significant changes to the Proposal.

Please contact any of the undersigned organizations if we can answer any questions.

Sincerely,

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