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STATE OF MAINE
PUBLIC UTILITIES COMMISSION

THOMAS L. WELCH
CHAIRMAN

DAVID P. LITTELL
MARK A. VANNOY
COMMISSIONERS

February 12, 2013

Honorable John J. Cleveland, Senate Chair
Honorable Barry J. Hobbins, House Chair
Energy, Utilities and Technology Committee
115 State House Station
Augusta, Maine 04333

Re: Report on the RGGI Price Impacts

Dear Senator Cleveland and Representative Hobbins:

By a letter dated June 20, 2007, the Chairs of the Utilities and Energy Committee (now the Energy, Utilities and Technology Committee) requested that the Public Utilities Commission (Commission) provide RGGI-related information to the Committee on a regular basis, at least annually. Specifically, the letter requested a report from the Commission on any ongoing efforts to work with regional partners to develop a model for tracking electricity and natural gas prices and usage in the region in a way that provides indicators of the price impacts from RGGI. Attached is the Commission's Report for the Committee's consideration.

If you have any questions, please do not hesitate to contact us.

Sincerely,

Thomas L. Welch, Chairman

On behalf of the Chairman and

David P. Littell, Commissioner
Mark A. Vannoy, Commissioner
Maine Public Utilities Commission

Attachment

cc: Energy, Utilities and Technology Committee Members
Jean Guzzetti, Legislative Analyst

**Report by the Public Utilities Commission to the
Energy, Utilities and Technology Committee
Regarding L.D. 1851,
“An Act to Establish the Regional Greenhouse Gas Initiative”**

February 12, 2013

I. BACKGROUND

During its First Regular Session, the 123rd Legislature enacted an Act to Establish the Regional Greenhouse Gas Initiative (RGGI) (P.L. 2007, Chapter 317) a cooperative program by ten eastern and mid-Atlantic states to limit carbon dioxide (CO₂) (including greenhouse gas) emissions.¹ RGGI established a goal of reducing carbon emissions from large fossil fuel-fired power plants in the RGGI region by 10% by the year 2018. RGGI is the first regulation of global warming emissions in the United States.

The RGGI law requires generators of electricity to account for their carbon emissions and pay for every ton of CO₂ that they emit. Generators comply with the law by purchasing or trading allowances – one allowance is permission to emit one ton of CO₂ - or reducing their emissions by implementing efficiency measures or switching to lower carbon containing fuels. The RGGI law requires proceeds from emission allowance auctions to be deposited into a trust fund (the RGGI Trust Fund formally the Energy and Savings Carbon Trust) and used for specific purposes. The proceeds from the auctions enhance energy efficiency and renewable energy projects that should reduce demand for electricity leading to lower electricity costs for Maine’s electricity consumers.

By a letter dated June 20, 2007, the Chairs of the Utilities and Energy Committee (now the Energy, Utilities and Technology Committee) requested that the Public Utilities Commission (Commission) provide RGGI-related information to the Committee on a regular basis, at least annually. Specifically, the letter requested a report from the Commission on any ongoing efforts to work with regional partners to develop a model for tracking electricity and natural gas prices and usage in the region in a way that provides indicators of the price impacts from RGGI.

II. RGGI AUCTIONS

Over the eighteen quarterly auctions conducted by RGGI since September 2008, allowance prices have ranged from \$3.51 in March 2009 to the reserve price of \$1.86 in both the September 2010 and December 2010 auctions. Each of

¹ The original ten participating states were: Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island, and Vermont. New Jersey withdrew from participation in RGGI effective December 31, 2011.

the four quarterly auctions during 2012 produced allowance prices of \$1.93, with between 53% and 62% of the allowances offered being sold. For 2012, quarterly proceeds attributable to Maine ranged from \$1.2 million for Auction 18 held on December 5 to \$1.5 million for Auction 17 held on September 5. Maine's share of the auction proceeds totaled \$5.5 million for 2012 and \$34.2 million since the first quarterly auction in 2008.

III. RGGI PROGRAM REVIEW

As called for in the original RGGI Memorandum of Understanding (MOU), the RGGI states have completed a comprehensive two-year review of the RGGI program and, on February 7, 2013, released Program Review Recommendations and an updated RGGI Model Rule.

Key recommendations include:

- A 45% reduction of the 2014 regional CO₂ budget (RGGI cap), from 165 million to 91 million tons. The cap would decline 2.5 percent each year from 2015 to 2020.
- Additional adjustments to the RGGI cap from 2014-2020 to account for the bank of allowances held by market participants before the new cap is implemented in 2014. From 2014-2020 compliance with the applicable cap will be achieved by use of "new" auctioned allowances and "old" allowances from the private bank.
- Cost containment reserve (CCR) of allowances that creates a fixed additional supply of allowances that are only available for sale if CO₂ allowance prices exceed certain price levels (\$4 in 2014, \$6 in 2015, \$8 in 2016, \$10 in 2017 and increasing by 2.5% each year thereafter.)
- Updates to the RGGI offsets program, including a new forestry protocol.

Individual state-specific statutory and regulatory processes will be required for each participating state to revise its RGGI program. Each RGGI state seeks to complete its state specific process for changes to take effect on January 1, 2014.

IV. EFFORTS TO TRACK RGGI PRICE IMPACTS AND MACROECONOMIC EFFECTS

RGGI Inc. is a non-profit organization set up by the RGGI states to provide administrative and technical services to each state and the states collectively to administer the quarterly auctions, provide allowance tracking and other services performed most efficiently for all nine states together. At the request of the states, RGGI Inc. provides analysis of pricing impacts and allowance usage in

the RGGI states. Pursuant to the states' request to look at pricing, in 2011, RGGI, Inc. reported:

The cost of CO₂ emissions allowances is a very small part of overall electricity bills. On average, the cap on CO₂ emissions accounted for 0.24 to 0.61% of average residential electricity bills across the RGGI region in 2010. Based on typical household electricity usage, that translates into 46 cents per month for residential consumers. This very small increase is offset by strategic reinvestment of CO₂ allowance proceeds in energy efficiency measures which reduce demand for electricity and give households and businesses control over their energy bills.²

As reported in the 2011 report to the Legislature, in a study released on November 15, 2011, Analysis Group measured the economic impacts of RGGI's first three years by tracking the path of RGGI-related dollars from generators who purchase CO₂ allowances, through electricity prices and customer bills, into state expenditures and into the overall economy.³ The Analysis Group report was performed independently of the RGGI states and RGGI Inc. During the 2009-2011 time period, Analysis Group estimated that RGGI increased consumers' overall payments for electricity by 0.7 percent in the RGGI ten-state region and by 0.6 percent for consumers in New England. Based on investments of RGGI proceeds in the first three years, the Analysis Group concluded that investments of RGGI auction proceeds in energy efficiency programs and measures are reducing electricity consumption and producing, on a net present value basis, net economic benefits of \$888 million in New England and \$1.6 billion in all RGGI states. These economic benefits include 7,237 job-years added and almost \$800 million in reduced customer bills compared to the non-RGGI states, according to the Analysis Group.

RGGI, Inc. has also estimated the impact on electricity bills of the recommended changes to the program. Overall, the average monthly electricity bill through 2020 for residential, commercial and industrial customers in Maine would be projected to increase by between 0.8% and 1.4% or:

- \$0.42 on an average household bill of \$49.57

² *About the Regional Greenhouse Gas Initiative (RGGI)*, Available at www.rggi.org

³ *The Economic Impacts of the Regional Greenhouse Gas Initiative on Ten Northeast and Mid-Atlantic States. Review of the Use of RGGI Auction Proceeds from the First Three-Year Compliance Period*, Paul J. Hibbard, Susan F. Tierney, Andrea M. Okie, and Pavel G. Darling, Analysis Group, November 15, 2011.

Report on RGGI Price Impacts

- \$4.08 on an average commercial bill of \$289.23
- \$63.17 on an average industrial bill of \$4,812.23

This impact on electricity bills throughout the RGGI participating states is estimated on an overall average basis. Customers who participate in energy efficiency programs funded by additional RGGI allowance proceeds could realize smaller bill increases or bill decreases resulting from reduced electricity usage.

Economic impacts for Maine from the recommended program review revisions, including reducing the CO₂ emissions cap to 91 million metric tons of CO₂ for investments of allowance proceeds through the year 2020 are: a cumulative increase in Maine Gross State Product of \$200 million from business as usual (expressed in 2010 dollars), a cumulative increase in employment of 5,000 job-years from business as usual, and a cumulative change in real personal income of \$100 million (expressed in 2010 dollars).

If the amount of RGGI proceeds dedicated to fossil fuel efficiency programs were increased from 13% in the first three years to 20%, the economic impacts for Maine are projected to be: a cumulative increase in Maine Gross State Product of \$300 million from business as usual (expressed in 2010 dollars), a cumulative increase in employment of 7,500 job-years from business as usual, and a cumulative change in real personal income of \$200 million (expressed in 2010 dollars).⁴

V. CONCLUSION

RGGI, Inc. and others continue their efforts to assess the costs and benefits of RGGI participation, particularly in connection with the completion of the program review and issuance of recommended program improvements. It is likely that some of the recommended improvements will be proposed as changes to the RGGI statute and the Commission will continue to stay abreast of efforts and analysis of the impacts of the RGGI program.

⁴ The economic impacts on Maine of the proposed program revisions were estimated using the Regional Economic Models Inc. (REMI) model that estimates net economic impacts.