

NEEP Conference, Providence, R.I.
May 24, 2005
Stephen Ward, Maine Public Advocate

- RGGI is a forerunner of what is hoped to be a national carbon program. As a national program, a cap-and-trade initiative makes a great deal of sense
- Personally I believe that as a nation we need to address climate change. Evidence abounds locally and worldwide of global warming: earlier and earlier ice out dates for lakes in New England; greater reliance on artificial snowmaking at Maine ski areas; shorter maple sugaring seasons in Northern New England
- On a stand-alone basis for 9 states, it makes less sense given leakage problems with low compliance costs due to out-of-region imports
- As a consumer advocate, though, the key questions for me boil down to two:
 - 1) What are the price impacts in retail electric rates from a CO₂ reduction program?
 - 2) Will that program actually produce value for environmental improvement?
- Generally – I am willing to accept price increases for environmental clean-up as long as those projects actually accomplish their intended purpose
 - 1) For example, NASUCA has participated in microbial disinfectant rulemakings at the EPA without asserting that all water rate increases are unacceptable per se
 - 2) Likewise, we have actively supported increases in electric rates to cover the full costs of decommissioning nuclear units - notwithstanding the \$500 million cost in Maine for ratepayers
- Important to focus on the issue of how the RGGI allocation process begins and in what way CO₂ allowances enter the trading marketplace
 - 1) One option simply is to turn them over to generation owners in recognition of the compliance costs that generation owners may bear

2) Second option is for states to conduct auctions of allowances so that generators bid against each other and provide value

- No reason to make allowances available for free to generators, in my opinion.
- This was the point of a recent communication from seven consumer advocate agencies across the nation, including my office, to the RGGI Working Group, urging adoption of an auction mechanism for allocating CO₂ allowances. Copies of that April 19 letter are available on request.
- An auction process is a good device for determining the value of a public good
- There is a powerful example in the case of the FCC broadband spectrum license auctions of how much revenue can be derived from an auction process
- Since 1994, the FCC has conducted more than 60 auctions for licensing portions of the electromagnetic spectrum. For example, a Broadband PCS auction in 1994 and 1995 ultimately sold 99 licenses to 18 successful bidders for payments totaling \$7.7 billion. All proceeds went into the US Treasury
- A more recent auction of Broadband PCS licenses in January 2005 provided 217 licenses to 24 successful bidders at a net proceeds level of \$2.04 billion
- In fact, the average proceeds for the Treasury of just ten auctions over the ten-year period ending in January 2005 was no less than \$2.06 billion per auction
- We recognize that these examples are not necessarily germane to the value of RGGI allowances but they do illustrate the principle: an auction process can derive significant value for government enterprises, if property conducted
- In this regard, we see an auction of CO₂ allowances as potentially an important source of revenue for the region's energy efficiency programs, permitting some relief for electric and natural gas ratepayers for shouldering the costs of those programs
- Energy efficiency is, of course, a key element of any successful climate change strategy. It is particularly appropriate that, in its design, a RGGI allowance system could create a source of revenues for exactly those programs

- We hope that the final design of a national CO₂ cap-and-trade program will rely on an auction process, conducted by local governments, whose proceeds can primarily be devoted to energy efficiency funding
- We also hope that the nine-state RGGI program is succeeded relatively quickly by a national CO₂ program so that we don't have to contend with "leakage" from neighboring states whose generators could add to greenhouse gas emissions
- In either event, I see energy efficiency as central to a successful strategy for addressing climate change