



The State of New Hampshire
DEPARTMENT OF ENVIRONMENTAL SERVICES



Thomas S. Burack, Commissioner

April 17, 2013

The Honorable Russell Prescott, Chairman
Senate Energy and Natural Resources Committee
Legislative Office Building, Room 101
Concord, NH 03301

Re: HB 306 relative to New Hampshire's Regional Greenhouse Gas Initiative

Dear Chairman Prescott and Members of the Committee:

Thank you for the opportunity to comment on behalf of the Department of Environmental Services (DES) regarding House Bill 306, which seeks to revise New Hampshire's Regional Greenhouse Gas Initiative (RGGI¹) cap and trade program for controlling carbon dioxide (CO₂) emissions. Proposed revisions to the state's RGGI program were considered in the context of the statutorily required 2012 comprehensive review of New Hampshire's RGGI program (pursuant to RSA 125-O:27). DES supports the amendment with certain suggested revisions as noted below.

On February 7, 2013, the participating RGGI states proposed revisions to the RGGI Model Rule (see Model Rule Summary, attached). After a dozen or more stakeholder meetings, the 2012 RGGI program review concluded that the 165 million ton regional cap needed to be reduced to a level more reflective of current emissions² in order to "lock in" the environmental gains of the past few years and to continue to send the appropriate market price signals to encourage further reductions necessary to achieve long term climate goals. These proposed revisions would lower the regional cap, as well as each state's apportioned allowance budget. The states have proposed implementing the reduced cap collectively commencing in January 2014. Since 2008, the RGGI program has demonstrated that a market-based approach to limiting CO₂ emissions in the electricity generation sector can make significant environmental progress while enhancing economic growth. The RGGI states have also proposed a cost containment reserve (CCR) mechanism that adds additional allowances into the market at specified allowance price thresholds in certain years, and this mechanism is designed to provide some assurance that allowance prices will not rise to excessive levels.

Implementing RGGI for New Hampshire makes sense both economically and environmentally. Because New Hampshire is part of a regional electric market, we are directly

¹ *RGGI Fact Sheet*, RGGI, Inc. website http://www.rggi.org/docs/RGGI_Fact_Sheet.pdf

² Emissions have decreased due to several factors including the investment of RGGI and other funds in energy efficiency (thus reducing load demand and need for new transmission and generation in the region, significantly reduced natural gas prices, which in turn have caused generation from gas (with much lower associated CO₂ emissions) to largely supplant generation from coal in the region, and reduced load due to economic conditions since 2008.

affected by the decisions made by other states. If New Hampshire alone were to discontinue its participation in RGGI, it would still incur the costs of the RGGI program without receiving any financial benefit. The RGGI program helps to continue our work toward energy independence and a cleaner environment.

There are several additional significant benefits³ from the RGGI program both in New Hampshire and the region in general. An independent report by the Analysis Group⁴ found that the investment of RGGI proceeds from the first three years:

- Generates \$17 million in net economic benefit in New Hampshire (\$1.6 billion in the nine state RGGI region) through the end of the decade;
- Puts approximately \$20 million in New Hampshire electricity bill savings (\$1.1 billion regionally) back into the pockets of consumers in the region over the next decade;
- Creates 458 job-years in New Hampshire (16,000 in the region); and
- Keeps \$765 million in the regional economy due to reduced fossil fuel demand.

Cap-and-trade programs with CO₂ allowance auctions benefit consumers by harnessing the value of the CO₂ allowances for investment in programs that reduce energy demand, create jobs, and enhance consumers' control over their energy use and costs.⁵ As noted, New Hampshire benefits economically from its participation in RGGI, and is better off participating in RGGI than not. Approximately half of the state's power consumption is purchased from the 6-state New England regional grid and the costs of RGGI implementation in the other states is reflected in the regional electricity rate. Last session, DES and the Public Utilities Commission (PUC) estimated that this ongoing additional cost would be approximately \$6.7 million to New Hampshire ratepayers, if New Hampshire were to withdraw from RGGI.⁶ However, by continuing its participation, New Hampshire would realize an estimated \$13 million from the sale of RGGI allowances allocated to New Hampshire to offset this additional cost, and the most beneficial investment of the proceeds would be in energy efficiency measures.⁷

The cost of RGGI is a very small part of overall electricity bills, and is more than offset by the savings from energy efficiency investments (see attached Figure *Investments in Energy Efficiency and Bill Savings*). On average, the cap on CO₂ accounted for 0.19 to 0.55% of

³ *Regional Investment of RGGI CO₂ Allowance Proceeds, 2011*, RGGI report November 2012
http://www.rggi.org/rggi_benefits

⁴ *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*, The Analysis Group November 15, 2011

http://www.analysisgroup.com/uploadedFiles/Publishing/Articles/Economic_Impact_RGGI_Report.pdf

⁵ *RGGI Fact Sheet: RGGI CO₂ Allowance Auctions*, RGGI, Inc. website
http://www.rggi.org/docs/RGGI_Auctions_in_Brief.pdf

⁶ *RGGI RATEPAYER COSTS*, DES and PUC 2-page handout

⁷ *Economic Impact in New Hampshire of the Regional Greenhouse Gas Initiative (RGGI): An Independent Assessment*, University of New Hampshire (Gittell and Magnusson January, 2008) available at
http://des.nh.gov/organization/divisions/air/tsb/tps/climate/rggi/documents/unh_rggi_study.doc

average residential electricity bills across the region. Based on typical household electricity usage, that translates into 43 cents per month for residential consumers. Market-based implementation results in competition, efficiency, and innovation that deliver emissions reductions at the lowest possible cost. Furthermore, New Hampshire's participation has allowed the state to mitigate the electricity cost impact of RGGI implementation throughout the rest of the region, as compliance costs have been reflected in the regional wholesale price of electricity. This has been accomplished through the creation of a state fund to increase energy efficiency from the sale of RGGI allowances.

Although RGGI is clearly intended to reduce CO₂ emissions in order to address climate change, it is important to understand that it was only after significant study and debate that New Hampshire opted into RGGI as a "no regrets" policy that directly benefits the state both economically and from an energy independence perspective. These conclusions remain fundamentally sound today, whether one believes that climate change induced by emissions of greenhouse gases from human activity is occurring or not. While both the DES and the PUC participated in the development of RGGI, we did not endorse enactment of a New Hampshire statute until we were certain that the program would meet our state's needs and would not impose economic hardship on New Hampshire's citizens and ratepayers.

New Hampshire was one of the last states to become a participant in RGGI, and we did so only after a University of New Hampshire economic study confirmed that New Hampshire would be better off participating in RGGI than not, and that RGGI would have a net *positive* impact on New Hampshire's economy as well as help to stabilize and, over the longer term, reduce the state's electricity costs. Even then, New Hampshire's enabling legislation includes several safeguards to additionally protect the state from potential unintended consequences of any significant market volatility.

Some critics have perceived investments of proceeds from RGGI allowance auctions as beneficial only to those individuals, municipalities, and businesses directly receiving RGGI grants. To the contrary, any investment of RGGI proceeds toward energy efficiency directly benefits *all* New Hampshire citizens and ratepayers by reducing the overall demand for electricity, which in turn reduces the additional capital investment needed by electricity providers to meet increased demand. In particular, the high cost of both generation and transmission infrastructure necessary to meet "peak" electricity demands are reduced or avoided⁸. Thus, investment in energy efficiency ultimately reduces costs for everybody.

In the 2012 session (HB 1490, effective January 1, 2013) the legislature amended RSA 125-O:23 to reduce the threshold above which funds are rebated to customers to \$1 per allowance sold, and to distribute the rebates solely to default service ratepayers. Because greater economic benefits accrue from greater investments in energy efficiency, the legislature may at a later time, following additional study, wish to consider potential adjustment of the investment

⁸ See ISO New England *ISO on Background Energy Efficiency Forecast* presentation (slide 22) at <http://www.iso-ne.com/nwsiss/pr/2012/index.html>

threshold. DES is not proposing any action relative to the rebate threshold in this legislation. However, DES recommends that the General Court consider revising the latter provision to instead provide that rebates are made to all customers regardless of service class.

DES also requests the following two additional minor technical changes;

- the date of the amended Model Rule (line 2, p. 2) should be February 7, 2013, rather than February 11, 2013, and
- section 1 (lines 5-7, p. 1) should be revised as follows: *“provided that the department may incorporate national or regional protocols by reference that are referenced in the RGGI model rule”*.

DES looks forward to working with all who share an interest in addressing climate change in an economically beneficial manner. Thank you for the opportunity to provide testimony. Should you have further questions or need additional information please feel free to contact either myself or Michael Fitzgerald, Air Resources Division (271-6390, michael.fitzgerald@des.nh.gov).

Sincerely,



Thomas S. Burack
Commissioner

Encl: RGGI Model Rule Summary
Figure Investments in Energy Efficiency and Bill Savings