

# Federal Preemption of RGGI: State Impacts and Policy Solutions



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Climate legislation under consideration in the Senate may preempt state and regional greenhouse gas cap and trade programs. Federal preemption of the Regional Greenhouse Gas Initiative (RGGI) from 2012 through 2018 could cost RGGI states \$3.5 to \$10.2 billion in funding (based on allowance prices lower than those projected for a federal system), and \$5 to \$14.5 billion in efficiency savings. Policy options (elaborated on page 2) exist to mitigate the impact of preemption and provide states with sufficient compensatory revenue:

- **Limit preemption to a finite period at the start of a federal program**, allowing states to restart cap and trade programs once a federal system is well established (the approach in the ACES Act)
- **Require that a minimum portion of electric utility allocations be invested in cost-effective energy efficiency (e.g. 1/3 of allowances)**, and ensure that public utility commissions are authorized to exceed minimum funding levels
- **Allocate allowances to states to support efficiency and clean energy programs**

## RGGI Revenue and Benefits to Date

Through the first 7 successful auctions, RGGI has raised over \$582 million in revenue for state efficiency and other climate programs. Including allowances sold at fixed prices, and allowances withheld to support voluntary green energy and other programs, the total value of all allowances through April 2010 is \$668 million. States are dedicating more than 1/2 of auction revenue to energy efficiency programs. Based on experience in New England, efficiency programs typically deliver \$3 in savings for every \$1 in funding, suggesting that the \$322 million dedicated to efficiency funding to-date will save consumers \$965 million.

**Table 1: To-Date RGGI Auction Revenue, Energy Efficiency Funding, and Projected Savings**

	Auction revenue \$ millions	Efficiency Funding \$ millions	Projected Savings \$ millions
Connecticut	\$ 31.0	\$ 21.6	\$ 64.7
Delaware	\$ 13.9	\$ 5.9	\$ 17.7
Maine	\$ 18.0	\$ 18.0	\$ 53.9
Maryland	\$ 113.3	\$ 31.4	\$ 94.1
Massachusetts	\$ 93.3	\$ 84.0	\$ 251.9
New Hampshire	\$ 21.4	\$ 21.4	\$ 64.2
New Jersey	\$ 64.5	\$ 51.6	\$ 154.8
New York	\$ 213.4	\$ 74.1	\$ 222.2
Rhode Island	\$ 9.3	\$ 9.3	\$ 28.0
Vermont	\$ 4.3	\$ 4.3	\$ 12.9
<b>Total</b>	<b>\$ 582.4</b>	<b>\$ 321.7</b>	<b>\$ 965.2</b>

## RGGI Preemption Impact

If RGGI were preempted from the start of a federal program in 2012 through the end of RGGI in 2018, states would surrender 1.27 billion allowances. At mean allowance clearing prices to-date (\$2.75/ton), those allowances would be worth \$3.5 billion. If RGGI states tighten the cap during program review in 2012, the value of allowances could be significantly higher. For example, a cap tightening of 20% and allowance prices of \$10/ton would imply a value of approximately \$10.2 billion. Investing auction proceeds in efficiency programs according to current state distribution formulas (a conservative assumption, given that states such as NY, DE and MD plan to increase efficiency investments), could deliver \$1.7–\$4.8 billion in efficiency funding and \$5–\$14.5 billion in consumer savings from 2012–2018.

**Table 2: Potential State Budgetary Impacts of RGGI Preemption 2012-2018**

State	2012-2018 Total Allocation allowances	Allowance Value		Efficiency Savings	
		at \$2.75/ton* \$ millions	at \$10/ton^ \$ millions	at \$2.75/ton* \$ millions	at \$10/ton^ \$ millions
Connecticut	72,191,493	\$ 198	\$ 578	\$ 348	\$ 1,013
Delaware	51,028,562	\$ 140	\$ 408	\$ 89	\$ 260
Maine	40,155,089	\$ 110	\$ 321	\$ 281	\$ 819
Maryland	253,151,885	\$ 695	\$ 2,025	\$ 464	\$ 1,352
Massachusetts	179,956,377	\$ 494	\$ 1,440	\$ 1,317	\$ 3,837
New Hampshire	58,188,105	\$ 160	\$ 466	\$ 331	\$ 964
New Jersey	154,525,928	\$ 424	\$ 1,236	\$ 755	\$ 2,199
New York	434,097,934	\$ 1,192	\$ 3,473	\$ 1,166	\$ 3,398
Rhode Island	17,949,863	\$ 49	\$ 144	\$ 146	\$ 426
Vermont	8,274,353	\$ 23	\$ 66	\$ 67	\$ 197
<b>Total</b>	<b>1,269,519,588</b>	<b>\$ 3,486</b>	<b>\$ 10,156</b>	<b>\$ 4,964</b>	<b>\$ 14,464</b>

\* \$2.75/ton is mean auction clearing price to-date

^ Cap reduced by 20% and allowance price of \$10/ton

### Policy Solutions

Federal policy should only preempt state and regional GHG-reduction initiatives when such programs would disrupt federal climate goals. Preemption should not extend to state policy realms – such as energy, air quality, and transportation – that are best established at the local level. States have been, and should continue to be laboratories of energy and environmental policy innovation: preemption would stifle the development of policy solutions needed to address the risk of climate change.

In order to ameliorate the potential adverse impacts of preemption on existing state-supervised efficiency and clean energy programs, federal legislation should:

- **Require minimum efficiency funding levels in utility allocations.** Ensuring that utilities maximize consumer savings through efficiency investments builds on the successful RGGI model, saves consumers billions of dollars and reduces emissions at low cost. In the ACES Act natural gas utilities are required to invest 1/3<sup>rd</sup> of free allocations in efficiency, and the same should be required of electric utilities.
- **Ensure that state utility commissioners have authority to support effective state efficiency programs,** thus allowing states to continue funding energy saving programs in the absence of RGGI auction revenue.
- **Allocate allowances to all states to support efficiency and clean energy programs,** in quantities sufficient to replace current and potential RGGI revenue.

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