



**Testimony of Environment Northeast (ENE)
On L.D. 1851 -- An Act to Establish the
Regional Greenhouse Gas Initiative Act of 2007**

Rockport, ME
Hartford, CT
New Haven, CT
Boston, MA

**Before the Joint Committees of
Utilities and Energy, and Natural Resources
in the Maine Legislature
Augusta, Maine**

April 24, 2007

Michael D. Stoddard, Attorney

On behalf of Environment Northeast (ENE),* I ask you to support LD 1851 to establish the Regional Greenhouse Gas Initiative Act of 2007.

ENE urges your support for this legislation because it:

1. Improves Maine's ability to manage and reduce its rising, volatile electricity costs,
2. Promotes development of new business opportunities in Maine,
3. Maintains the competitiveness of critically important Maine employers, and
4. Reduces greenhouse gas pollution from power plants 10% below current levels and is an essential element for our state, region, and country in achieving climate stabilization.

ENE is one of the 24 members of the Stakeholder Group selected by the Regional Greenhouse Gas Initiative (RGGI) states to represent diverse interests from Maryland to Maine. We have been privileged to work with the many dedicated representatives of these stakeholders during the past four years. ENE has also been grateful for the opportunity to continue that work within Maine as a robust mix of industry, environmental, consumer protection, and state agency personnel contributed to the thoughtful, considered design of the bill now before you.

In effect, this bill is like a stool with three legs. It has three integrated features which, taken together, will achieve the objective of gradually reducing greenhouse gas pollution while strengthening our state economy. The three key features are: (1) regulating the total amount of carbon dioxide pollution that can be emitted from power plants in the participating states; (2) improving Maine's investment in energy efficiency to mitigate any price impacts of this regulation and to deliver significant electric bill savings; and (3) carefully and fairly addressing certain elements of the power generation/industrial sector that are specific to Maine. Without any one of these features, the functionality and fairness of the emerging regulation would be seriously impaired.

* ENE is a Maine-based nonprofit research and advocacy organization focusing on the Northeastern U.S. and Eastern Canada. ENE's mission is to address large-scale environmental challenges that threaten regional ecosystems, human health, or the management of significant natural resources. We use policy analysis, collaborative problem solving, and advocacy to advance the region's environmental and economic sustainability.

1. LD 1851 Improves Maine’s Ability to Manage and Reduce its Rising, Volatile Electricity Costs

While the price of electricity is lower than it would otherwise be had Maine not deregulated in the 1990s, still we have failed to establish policies and best practices that can stabilize and reduce total electricity costs for Maine consumers both large and small.

Driven by ever higher natural gas prices, retail Standard Offer electricity prices (not including delivery charges) paid by residential and small business customers in Maine have risen dramatically in the past seven years.

Figure 1: Retail Standard Offer Prices (cents/kWh) in CMP Territory for Residential and Small Business Customers, 1999 - 2007

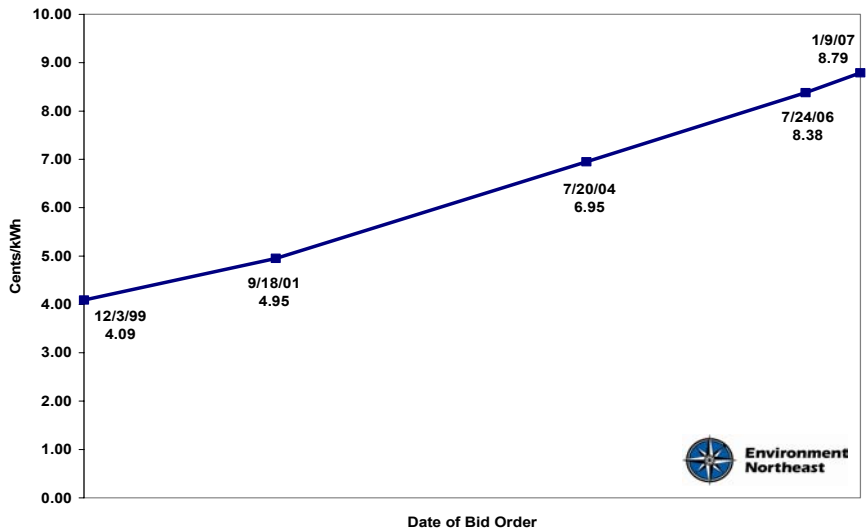
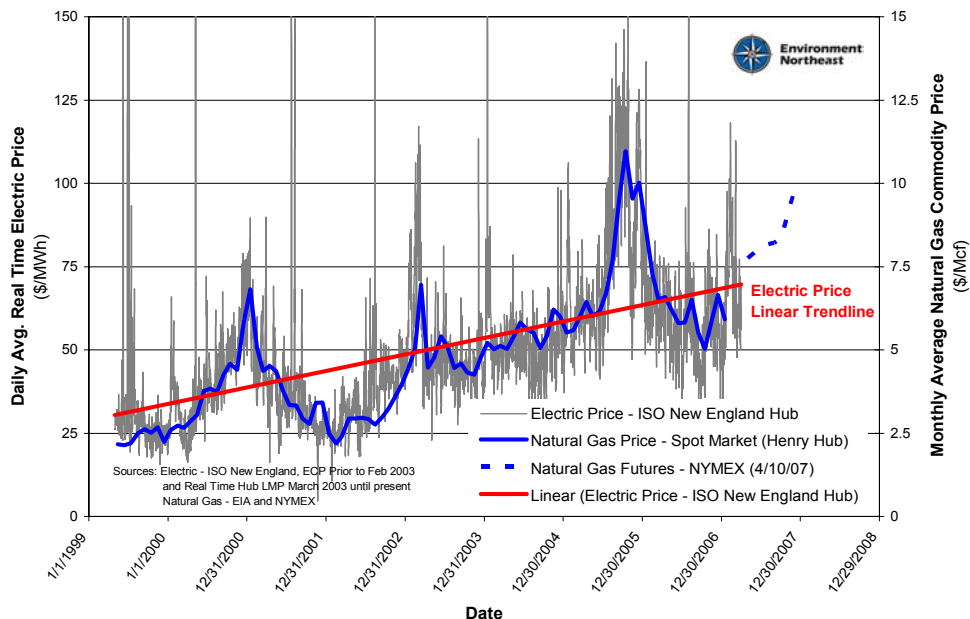


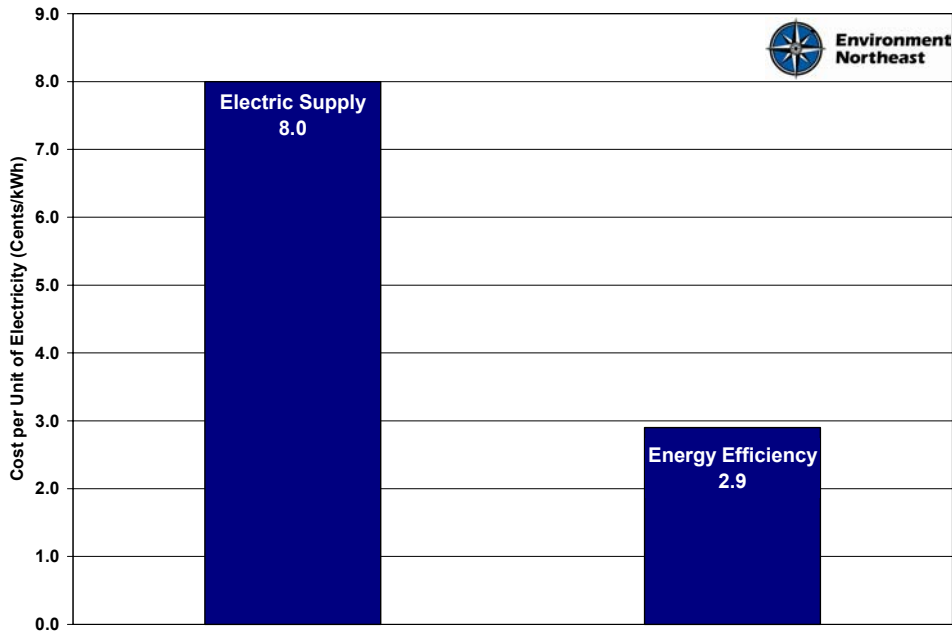
Figure 2: Regional Wholesale prices of Natural Gas and Electricity, 1999 - 2007



Cost equals amount of consumption times price. Across the state, Maine customers consume about 12.5 billion kilowatt-hours (kWh) each year. If all Maine electric customers paid the residential Standard Offer rate of about 8 cents/kWh (larger customers can bargain for a better deal), the cost to Maine’s customers would be roughly \$1 billion each year just on electric energy (not including delivery charges).

The primary solution to the cost crisis for electricity is investment in energy efficiency, a plentiful, local resource that lowers our rate of consumption and costs less than electric supply.

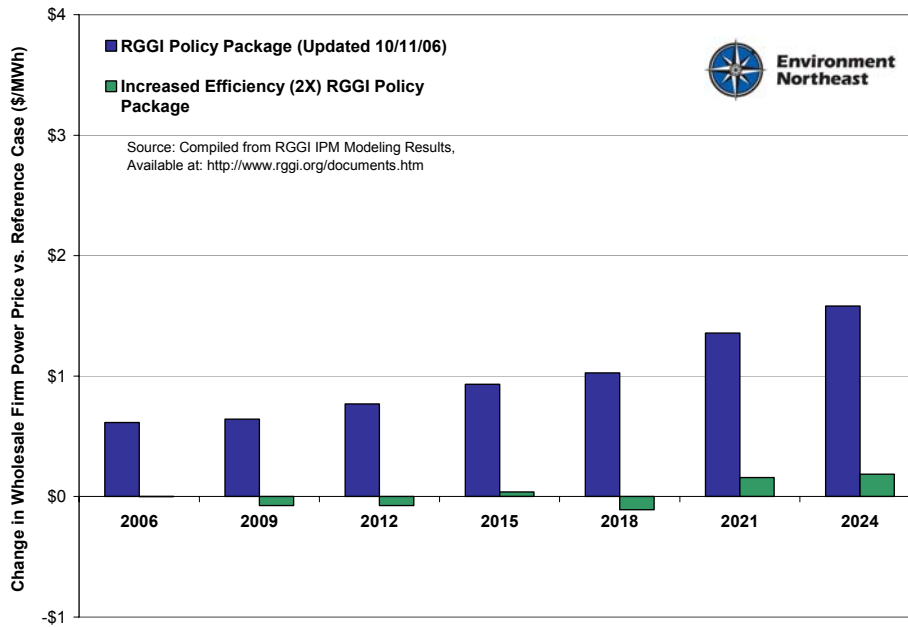
Figure 3: Compare 8 cents (2005) to buy 1 kWh of electric supply from the spot market with 2.9 cents (2006) to invest in 1 kWh of energy efficiency in Maine



Investments in energy efficiency, such as efficient lights, motors, refrigeration, and electronics, have several benefits. In addition to costing less and thus saving money to those who participate in efficiency programs, efficiency investments also push down demand for electricity, transmission and distribution, and capacity. Lower demand drives the price of those commodities down, saving money for everyone on the system. In the context of RGGI, reducing demand for electricity through energy efficiency has the added benefit of lowering demand for carbon credits (called “allowances”), which means it will cost less for electric power generators to buy them.

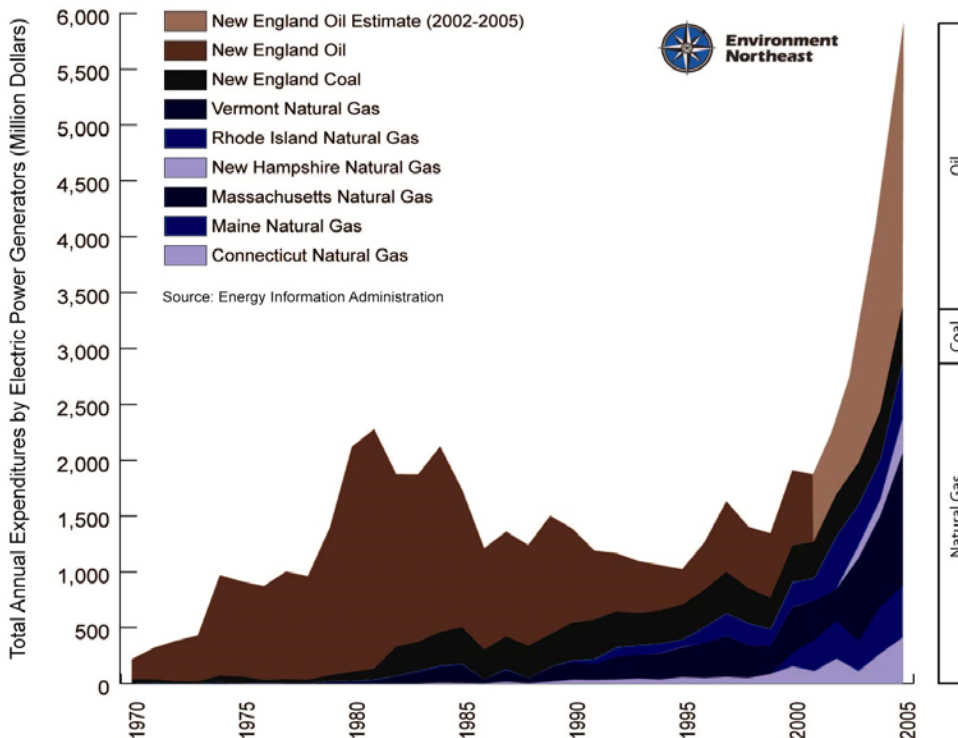
If we simply adopt RGGI regulations for the carbon cap agreed to by the states and invest no new funds for energy efficiency, we should see spot market prices rise between \$0.50 and \$1 per megawatt-hour (or between 0.05 and 0.1 cents per kWh) during the next decade. If we double our investment on energy efficiency, we should see prices stay level or even decline over the same period, as shown in Figure 4.

Figure 4: Power Price Impact of RGGI with and without A Doubling (2X) of Energy Efficiency Investment



Another benefit of energy efficiency is that it keeps consumer dollars in the Maine economy instead of sending them away to pay for the cost of the fossil fuels (coal, oil, and natural gas) imported to make our electricity. In 2005, the New England states collectively sent \$6 billion out of the region for fossil fuels used just to make electricity.

Figure 5: Cost of Fossil Fuels Paid by All New England Electric Power Generators



LD 1851 has carefully considered the opportunity presented by improving our investments in energy efficiency, and proposed several critical elements to ensure Maine's electric consumers, and the state economy as a whole, can achieve the CO₂ reductions required by the cap while saving consumers money. Over a ten year period, investments in energy efficiency contemplated by the bill could yield savings of more than \$1 billion and equivalent CO₂ emissions of almost 10 million tons.

First, Section 3 of the bill clarifies that the Public Utility Commission's (PUC) energy conservation programs are to be developed so as to "help reduce energy costs by the maximum amount possible."

Second, the bill takes steps to ensure that there is adequate funding to make the efficiency investments necessary to reduce Mainers' energy costs. At present, the conservation assessment in Maine is 0.145 cents/kWh, the lowest level of any state in New England, which is estimated to deliver about \$15 million in funding each year over the next several years. This level of funding is so low that many large opportunities for savings are being lost and many segments of customers are not served. This level of funding is so low it would leave Maine electric consumers fully exposed to any price impacts of RGGI or any national carbon regulation that is likely to be adopted in the next decade. The bill has assembled a package of funding mechanisms that, taken together, will mitigate price impacts of RGGI and position Maine's electric consumers to compete and prosper in an economy that regulates greenhouse gases. The bill accomplishes this package by fixing the conservation assessment at its current level, directing all of the proceeds from auctioned RGGI carbon allowances to be invested in energy efficiency, directing the re-investment of any payments from the forward capacity market into energy efficiency, and directing the PUC to make additional assessments as necessary.

The additional assessments contemplated in Section 6 of the bill are critical in several regards. They will supplement the existing conservation assessment to provide immediate cost relief for Maine consumers. They may also provide a jump start to efficiency investing during the period before RGGI allowances start to be auctioned (January 2009). This will help many residential and business customers to install new equipment and systems that can bring their consumption down by the start of the RGGI regulation, and will in turn benefit all customers by driving down the demand for, and the price of, CO₂ allowances. This provision to direct investment in all efficiency opportunities, so long as they are cost-effective, reliable and feasible, has already been adopted by Vermont and Rhode Island and is being considered in bills in both Massachusetts and Connecticut with support from their largest utilities.

Third, Section 10 of the bill establishes a new Energy Conservation Board. This board will enhance Maine's efficiency programming by expanding the range of voices and expertise assisting the PUC in developing and evaluating programs. With adequate funding for outside consultants, as has been ensured in other New England states, the board can bring new ideas and best practices to the table and help to ensure that the significant new funding levels for efficiency are put to the best possible use.

2. LD 1851 Promotes Development of New Business Opportunities in Maine

The RGGI framework requires that large electric generators hold one CO₂ allowance at the end of every three period for every ton of CO₂ emitted at that generator. Generators can purchase the necessary allowances at auction or on the open market, or they can use an alternative in the form of CO₂ offset allowances (called "offsets").

Each offset represents one ton of CO2 reductions “from actions that have reduced or avoided atmospheric loading of CO2 or CO2 equivalent or sequestered carbon...” (RGGI Model Rule. – Subpart XX-10). In the early years of RGGI, initially eligible offset projects are limited to:

- (i) Landfill methane capture and destruction;
- (ii) Reduction in emissions of sulfur hexafluoride (SF6);
- (iii) Sequestration of carbon due to afforestation;
- (iv) Reduction or avoidance of CO2 emissions from natural gas, oil, or propane end-use combustion due to end-use energy efficiency; and
- (v) Avoided methane emissions from agricultural manure management operations.

RGGI Model Rule, Section 10.3(a)(1)

Some of Maine’s largest businesses are well situated to make voluntary reductions in their CO2 emissions and receive payment from power generators throughout the Northeast and Mid-Atlantic seeking qualified offsets. For example, large electric transmission and distribution utilities use SF6 in their equipment and may be able to sell offsets for voluntarily reducing their use of that potent global warming pollutant. Maine’s large industrial facilities use oil and natural gas to run their boilers and may receive payments from out-of-state generators in return for voluntary reductions of CO2 emissions achieved by switching to cleaner fuels or improving their energy efficiency. In the future, owners of Maine’s working forests may be eligible to receive payments for changes in their forest management practices that increase retention of CO2 in the trees and soils of their land.

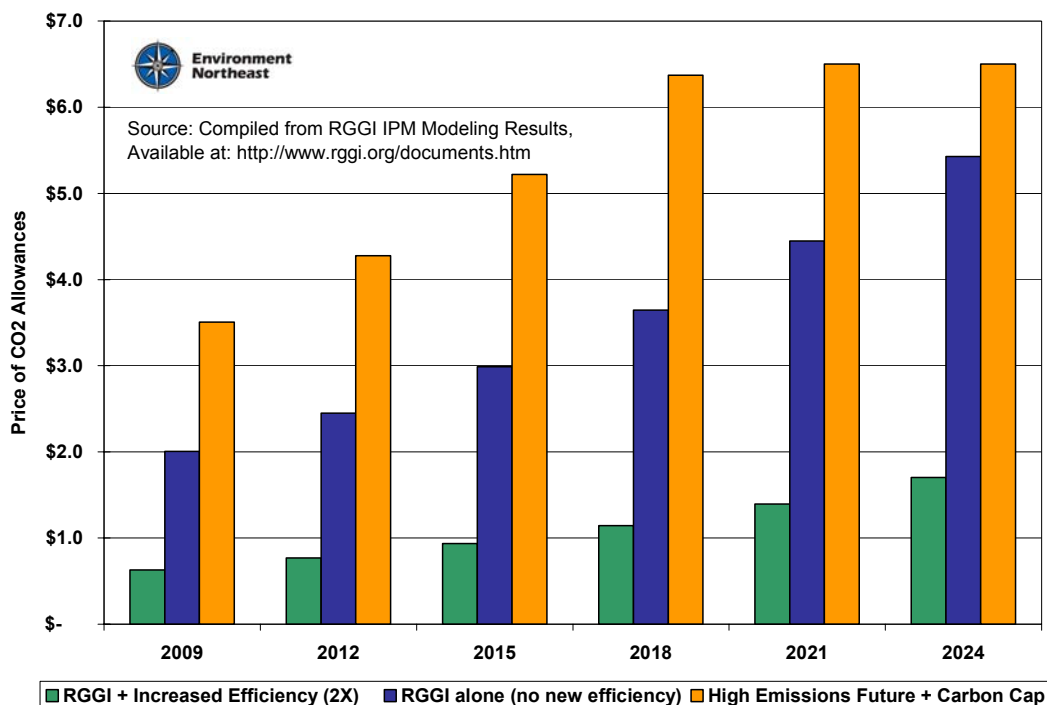
LD 1851 will make Maine a part of the regional marketplace in which these offsets can be sold and will provide significant opportunities for Maine businesses.

3. LD 1851 Maintains the Competitiveness of Critically Important Maine Employers

Among Maine’s largest employers are businesses that consume huge quantities of electricity. Adoption of LD 1851 will help these businesses maintain and improve their economic competitiveness for the long term as well as in the immediate future.

LD 1851 achieves a major contribution to sustaining economic competitiveness for Maine by positioning the state’s electric consumers for the inevitable national regulation of global warming pollutants. Within the next decade, a new national regulation of CO2 from power plants and other large emitters is expected. State and regional economies that rely on electric generation from dirty coal and oil fired power plants, or that have not invested in energy efficiency, will face increasing electric prices as carbon allowances will be in very high demand. By comparison, economies that have shifted to cleaner electric generation (avoiding the construction of new coal or oil power plants) and have invested in energy efficiency will have far lower demand for carbon allowances and will face comparatively lower electric prices. Figure 5 illustrates three scenarios of prices spanning the next two decades. It shows that we will pay the highest prices for CO2 allowances if more high-emitting (e.g., coal) plants are built and we then have to comply with a carbon cap. We will pay mid-level prices for CO2 allowances if we adopt RGGI but do not invest in additional energy efficiency. We will pay the lowest prices for allowances if we adopt RGGI and also increase energy efficiency investments. As discussed earlier, we can actually lower our total electric costs by keeping these prices as low as possible and by consuming less electricity overall, both of which can be achieved by aggressively increasing our energy efficiency investments.

Figure 5: Allowances Prices for High- and Low-Emission Generation Fleets



LD 1851 also ensures that among Maine’s largest electricity consumers, those who self-generate using combined heat and power (CHP) systems are treated fairly. To the extent these facilities consume the output of their CHP systems for their own energy needs, LD 1851 provides that these customers will not need to purchase allowances. However, to the extent these facilities “export” electricity onto the grid, they will be treated like all other power generators in the RGGI area and will have to purchase CO2 allowances.

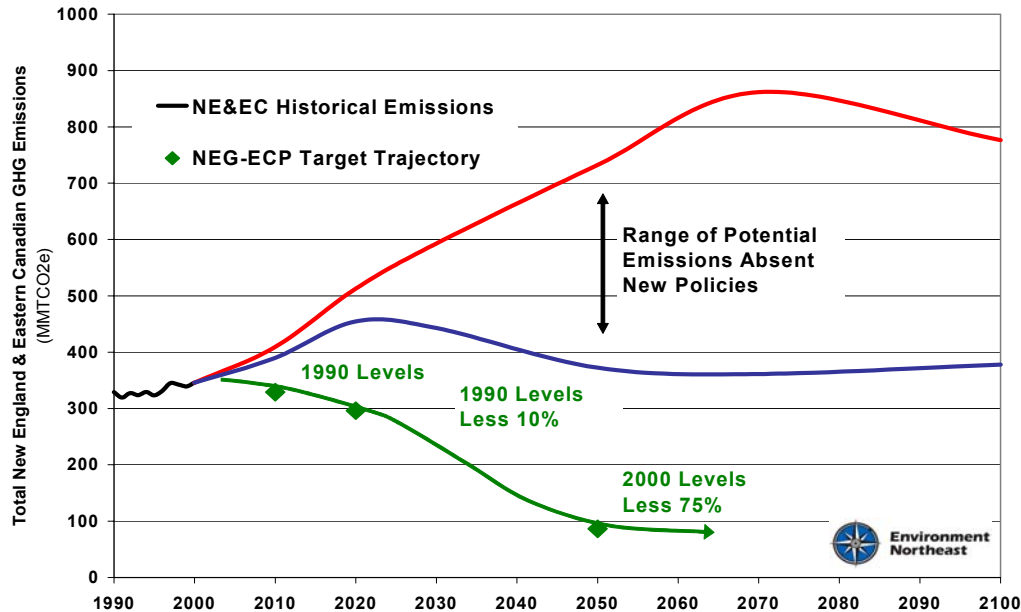
4. LD 1851 Reduces Greenhouse Gas Pollution from Power Plants 10% below Current Levels and Is An Essential Element in Achieving Climate Stabilization for Maine, The Region, and The Country.

On April 2, 2007, the United States Supreme Court issued its ruling in *Massachusetts v. EPA* finding that “the harms associated with climate change are serious and well recognized” and that “legislatures ... do not generally resolve massive problems in one fell swoop ... but instead whittle away over time....” (No. 05-1120 April 2, 2007).

Adoption of LD 1851 will not stop climate change in one fell swoop. It will, however, enable Maine to join nine other states from here to Maryland in tackling the largest industrial source of CO2 pollution. Implementation of RGGI will reduce greenhouse gas pollution from electric power plants by 10% from 2009 levels. Together with the adoption of clean car standards, establishing a cap and trade program for power plants that integrates significant energy efficiency investment is the most important greenhouse gas reduction strategy within the jurisdiction of state governments.

Environment Northeast has published several reports on the menu of policy solutions available to state policy makers. Recently, ENE released the *Climate Change Roadmap for New England and Eastern Canada*. The *Climate Roadmap* notes that the states and provinces of this region established in 2001 greenhouse gas reductions targets for 2020 and the long-term.

Figure 6: Emission Targets for New England States and Eastern Canadian Provinces Compared to Potential Emissions Absent New Policies



ENE calculated that the entire suite of state and federal policies enumerated in the *Climate Roadmap* could, if implemented aggressively, put our region on track to achieve the mid-term 2020 targets of 10% less greenhouse gas emissions than were emitted in 1990. Because electric generation is responsible for about 20% of all greenhouse gases emitted, the RGGI program is considered an essential element in the suite of state policies that we must adopt.

Maine could of course delay or ignore the problem, but doing so would be irresponsible. There is no escaping the long-term need to reduce our total emissions as a region, and a country, by 75%. Nearly every country and state that has looked at this question has concluded that reductions of this magnitude are needed to avoid the most dangerous climate changes.

The longer we wait, the more precipitous will be our path to the target. The steeper this descent, the more disruptive it will be to our economy and our way of life.

Just as one does not expect to train for a marathon just a few days before the event, we as a state and a region must not delay the process of whittling away at our emissions of CO₂ from power plants, and as soon as possible, other sources too.

Please take this important step forward by casting your vote for LD 1851, a bill that is carefully crafted to meet the needs of Maine’s electric consumers and large industrial cogenerators, and to reduce our region’s power plant emissions by 10%. In doing so you will have answered the growing chorus of Maine citizens asking state government to help us get a handle on energy costs and put us on the long path to meeting emission reduction targets. Thank you.