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News

Climate Change

Consumers Could See Annual Energy Savings If Regional Credits Used for Energy Efficiency

A regional emissions trading plan by Northeastern states could reduce energy costs for households in the region--if a significant portion of the funds collected for the allowances is spent on consumer programs to boost energy efficiency, according to figures released Nov. 23.

Northeastern households would see average annual energy savings of $30.51 in 2015 and $50.24 in 2021 if the regional emissions plan and the energy-efficiency efforts are adopted, according to figures prepared by the Economic Development Research Group, a Massachusetts-based consulting group.

The estimates assume the savings from increased energy efficiencies are distributed equally to all households, according to the report, REMI Impacts for RGGI Policies Based on the Std REF & Hi-Emission REF.

REMI refers to the regional economic modeling used by the consultant, while the REF abbreviation refers to various cases or scenarios, such as different regulatory approaches at the regional or national level.

According to state officials familiar with the report, the cost figures are based on an assumption in the regional plan that would have each state hold in reserve 20 percent to 25 percent of the emissions allowances for consumer benefit, such as programs to boost household energy efficiency. Under the regional plan, the remaining 75 percent to 80 percent of the allowances would be traded between power generators.

The cost estimates were provided Nov. 23 to representatives from the nine states participating in the Regional Greenhouse Gas Initiative (RGGI), designed to stabilize and ultimately to reduce carbon dioxide emissions in the Northeast. The RGGI is being coordinated by New York, Massachusetts, Maine, New Hampshire, Vermont, Connecticut, Rhode Island, New Jersey, and Delaware to initially cover power plants, but it may ultimately be extended to other emission sources.

With the Bush administration opposed to any national cap-and-trade system on such greenhouse gases, the RGGI plan, if implemented, would constitute the foremost regulatory approach on carbon emissions in the United States.

While the outlines of the regional program are still under development, an RGGI working group in August called for stabilizing carbon dioxide emissions at approximately 150 million tons from 2009 through 2015 and reducing such emissions by 10 percent between 2015 and 2020 (164 DEN A-9, 08/25/05.

With utilities increasingly concerned about the plan's impact on energy costs, Massachusetts Gov. Mitt Romney (R) this week suggested power plants should be guaranteed a price cap to limit their costs for exceeding any carbon dioxide emission limits under the regional plan.

Some Higher Cost Estimates

Not all of the estimates provided by the consulting group Nov. 23 suggest household energy costs would decline under the regional emissions plan. For example, the figures suggest household energy costs would suffer an initial blow if the emission allowances for household energy-efficiency programs are not set aside in any regional plan.

Under that scenario, the direct impact of the RGGI program for northeastern consumers--before energy efficiencies are taken into account--could range from $2.90 annually per household in 2015 to $5.45 annually per household in 2021.

The consultant's report provided even higher cost estimates under a second scenario in which no energy-efficiency programs are funded and the federal government ultimately adopts its own cap-and-trade system for carbon dioxide emissions. A combined regional and federal cap-and-trade system without additional efficiency efforts would cost consumers an estimated $36.84 per household each year by 2015 and $45.99 annually per household by 2021.

Cost Estimates Dubbed 'Abnormally Low.'

The research group's cost estimates came under fire from electric utilities and the Institute for Trade, Standards, and Sustainable Development, a legal research organization that opposes the regional cap-and-trade program.

The head of ITSSD, Lawrence Kogan, told BNA Nov. 23 that the Economic Development Research Group's projected costs for implementing the regional trading scheme "are abnormally low" and either minimize or completely ignore factors ranging from potentially high energy costs to supply bottlenecks.

The cost estimates "basically rely on energy-efficiency model estimates which are in themselves pie in the sky," Kogan said. Figures purporting to show cost savings for consumers who implement energy conservation around the home are based on historical estimates that almost always overstate the savings a household receives from those measures, he said.

"I've been speaking to a number of industry players on this, and they're very concerned" over the push to implement the RGGI in the United States, Kogan said.

Some of the pressure for implementing the regional program in the United States is coming from Europe, he said, where electric utilities and other energy providers want "a level playing field" as European Union members move toward compliance with a similar cap-and-trade emissions system.

The Economic Development Research Group report, REMI Impacts for RGGI Policies Based on the Std REF & Hi-Emission REF, is not yet publicly available but will be posted on the stakeholder process page of the Regional Greenhouse Gas Initiative website at http://www.rggi.org/stakeholder_schedule.htm .

By Dean Scott