Independent Power Producers Of New York

DEC's RGGI Program Will Jolt Ratepayers, Curtail Investment

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Albany, N.Y., 8/11/08 - The New York State Department of Environmental Conservation (DEC) is approving a Regional Greenhouse Gas Initiative (RGGI) that will hit New York's energy consumers with higher electric bills and have a chilling effect on potential investment in this state, according to the Independent Power Producers of New York, Inc. (IPPNY).

"IPPNY has been a supporter of the development of a properly structured greenhouse gas program from the onset, but for years IPPNY's concerns about our members' ability to comply with the regulations while minimizing costs have fallen on deaf ears at the DEC," said Gavin Donohue, IPPNY President and CEO. "It has become evident that the Department's agenda does not include seeking a balance with the environmental, economic, and energy needs in this state."

"This program is not taking place in a vacuum. As compared to this time last year, home heating oil prices are approximately 70% higher, propane is up 35%, natural gas has risen over 70%, and we all know what has happened with oil. The DEC is burdening every household and business in the state with another layer of cost," said Donohue. "In fact, some estimates indicate that electricity bills will increase around nine percent if the program remains as it is."

"There is still time before the rule is finalized for changes to be made that will address several concerns," said Donohue. "Since there currently is no carbon-control technology available to retrofit power plants, power producers should have priority access (like in other programs) to the emission allowances needed for facilities to operate in a reliable manner. In addition, a price cap on the cost of the emission allowances would soften the blow to ratepayers. Finally, power producers who are locked into long-term contracts and will suffer devastating economic blows due to their inability to recover the costs to comply with program must receive a proper level of relief."

"New York is in a state of fiscal crisis and needs to do more to encourage investment in business, infrastructure, and other sources of revenue," said Donohue. "However, it is hard to imagine how unleashing a program with unknown compliance costs sends the signal to investors that New York is where they should do business. Instead, other states that are not part of the RGGI - including a large part of the East Coast, Ohio and even Pennsylvania right next door - will capitalize on the jobs, the taxes, and other benefits that result from a more business friendly environment. We cannot afford to be uncompetitive with neighboring states, and that is exactly what New York is doing. A national program, with all states on a level playing field, is the right approach to reducing CO2 emissions."

Cost to Ratepayers

The DEC's costs assumptions, which form the basis of predicting the overall cost of the RGGI program, are very outdated and completely inaccurate. The differences between actual prices being experienced currently and those that were predicted are highlighted in the following table. Based upon these enormous disparities, the cost of the RGGI program cannot be known definitively.

Assumption Factor	Modeled Price	2008 Peak Price	Percent Difference (%)
Oil ($ per barrel)	30	147	390
Natural gas ($ per mmBtu)	4	13	225
Allowances ($ per ton)	2	8	300

Threat to Electric System Reliability

The RGGI program would cap carbon dioxide emissions from 2009 until 2015 and then reduce them by ten percent from 2015 until 2019, which is a laudable goal. However, the program is structured such that a power generator must obtain a quantity of allowances equal to its carbon emissions in order to continue operation (an allowance represents a quantity of carbon dioxide). The problem lies in the process designed to make those allowances available - an auction, open to the public, in which nearly 100% of the allowances needed to operate power plants will be sold.

Lack of carbon emission control technology means generators must obtain allowances through the auction so that power generation can continue and reliability can be maintained. However, the auction is open to any interested party (generator and non-generator), meaning generators may be unable to obtain sufficient allowances - at any cost. Furthermore, the absence of an allowance price cap indicates that program costs will have no limits - costs that ultimately will be passed on to the ratepayers. A generator may be compelled to pay exorbitantly high prices for allowances and then have no choice but to pass these costs onto consumers in the form of higher wholesale electricity costs. Without back-end control technology to reduce emissions from existing plants and with the real potential of power producers being unable to obtain allowances necessary for them to continue operating, the DEC has yet to indicate how it expects New York to meet its energy needs at a reasonable cost to consumers.

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The Independent Power Producers of New York, Inc. (IPPNY) is an Albany-based trade association representing the competitive power supply industry in New York State. IPPNY Members generate over 75 percent of New York's electricity using a wide variety of generating technologies and fuels including hydro, nuclear, wind, coal, oil, natural gas and biomass.