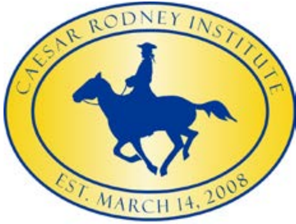

Inside Energy

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RE: Critique of Acadia Center RGGI Report
DATE : 10/9/2019 **David T. Stevenson, Director**

Once again, the Acadia Center has issued a flawed report exaggerating carbon dioxide, and other air pollutant emissions reductions, Regional Greenhouse Gas Initiative (RGGI) allowance impacts on electric rates and the economy, and the impact of spending the RGGI funds. In fact, my peer reviewed study, “A Review of the Regional Greenhouse Gas Initiative”, published in the Cato Journal refutes every claim by the Acadia Center.

- There were no added emissions reductions or associated health benefits from the RGGI program.
- Spending of RGGI revenue on energy efficiency, wind, solar power, and low-income fuel assistance had minimal impact.
- RGGI allowance costs added to already high regional electric bills. The combined pricing impact resulted in a 12 percent drop in goods production and a 34 percent drop in the production of energy intensive goods. Comparison states increased goods production by 20 percent and only lost 5 percent of energy intensive manufacturing. Power imports from other states increased from 8 percent to 17 percent.

Following is a list of flaws in the Acadia Center report corrected in my report:

1) Used 2008 as the base year after RGGI auctions had already begun instead of 2007.

2) Compared RGGI states, which all deregulated the supply portion of electric bills, to all states. Over the last decade deregulated states saw only a 1% increase in electric rates compared to 10% for regulated states. A correct comparison compares deregulated states with Renewable Portfolio Standards, but do not participate in RGGI. With that comparison RGGI state prices increased 64% faster.

3) Ignored the contribution to emissions reductions of the natural gas revolution which accounted for 70% of national reductions, and EPA regulations which accounted for 30%. RGGI had zero impact.

4) Touted the positive impacts were accomplished with very low RGGI allowance prices. The allowance prices were low because non-RGGI forces lowered emissions and the need for allowance, faster than RGGI could remove allowances from the market.

5) Used percentage reductions instead of actual tonnage. Because of historical differences in the way electric generation grew in the RGGI states they started with a lower percent of high emission coal-fired generation than much of the country. A one million to reduction is a 50% reduction if you start with 2 million tons, but only 33% if you start with 3 million tons. Both RGGI and comparison states shut down the same 16 percentage points of coal-fired generation, and increased by 10 percentage points of natural gas generation.

6) Touted GDP growth in RGGI states without explaining why there was so much state to state variation, -7% to +8.2%. RGGI annual allowance sales only amounted to about 0.1% of GDP, and cannot have a substantive impact on GDP. GDP growth comparisons are highly suspect, and RGGI, Inc. makes no claims about GDP growth.

7) Touted effectiveness of RGGI allowance money spent on energy efficiency (EE), and wind and solar power subsidies. RGGI's own report admits only 27% of RGGI funds were spent on EE, and wind and solar, with three quarters of that spent on EE. Most of the EE funds were spent on things like LED light bulbs and Energy Star refrigerator subsidies. Energy savings are not measured, but "deemed" to have occurred. Refrigerator subsidies backfire by financing the purchase of more expensive units that use more energy, and LED lighting has such a quick payback it would be done without the subsidy. Studies have shown subsidies for HVAC systems often result in little energy savings as owners go for comfort, lowering the thermostat in summer and raising it in winter. Comparison states installed twice as much in-state wind and solar, and improved energy intensity faster than RGGI states.

8) Acadia used a study by the Analysis Group for its GDP growth claims. That report ignored the cost impact of increasing electricity imports about $3 billion a year to RGGI states as they cut generation. IT also ignored the cost impact of higher RGGI state bids for wholesale electricity prices raising the cost of electricity in non-RGGI states might total $1.8 billion/year now, potentially rising to $3 to $7 billion by 2030. The biggest flaw is the assumption small decreases in electric demand will lead to lower electric prices. First, we have already shown energy efficiency improved faster in non-RGGI states. Second, demand for electricity is very inelastic, demand has little impact on price.

The Acadia Center report is so flawed, it is unusable.