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Economy Gains, But Plant Profits Fall From Carbon Trading: Report

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The Northeast's cap-and-trade program generated $1.4 billion in net economic benefits over the past three years for nine states, even though electric power plants in the region took a $350 million hit to their revenues, according to a report released April 17.

Natural gas, oil, and coal plants experienced a revenue loss of $940 million over three years because they are required to purchase one carbon allowance per ton of carbon emissions under the Regional Greenhouse Gas Initiative requirements, the Analysis Group's report said.

On the other hand, nuclear, hydro, wind, solar, biomass, and pumped storage plants had a $590 million gain in revenues, according to the report. It said these plants benefit from higher wholesale prices, but don't have to buy allowances because they have no carbon emissions.

The report is the first economic analysis of the three-year period when RGGI tightened its emissions cap and effectively raised the cost of carbon emissions for electric generators.

New Jersey and Virginia recently began the process of joining the nine RGGI states — Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New York, Rhode Island, and Vermont.

Power Producers

Susan F. Tierney, a co-author of the report for the economic, financial and strategy consultancy, told Bloomberg Environment that RGGI is influencing the power market as intended by shifting incentives.

"The fleet of power plants will continue to decarbonize," she said. "The particular assets of individual companies are going to be whatever their business model is."

She said "there will certainly be more value for" lower-emitting plants.

Gavin Donohue, president and chief executive officer of the Independent Power Producers of New York, which represents the state's power generators, said RGGI has "shown that a market-based approach to reducing emissions is possible, but New York's own goals are outpacing those of RGGI."

"More states participating, and prices more reflective of the value of reducing carbon emissions to meet the New York's goals, would make RGGI even more effective," he told Bloomberg Environment in an email. "The allowance prices set by RGGI alone are simply too low of a market signal for investment to meet the state's broader de-carbonization goals."

Carbon emissions in the RGGI region have declined by about 76 million tons since 2009, the report said, citing information from RGGI.

Electric companies did not immediately respond to requests for comment on April 16.

The report found that, in addition to the $1.4 billion in overall economic benefits, electricity consumers also saw a $220 million drop in their energy costs. Commercial, industrial and residential users had a $99 million decline in electricity costs and a $121 million decline in natural gas and heating oil costs, according to the report.

The reinvestment of proceeds from RGGI’s quarterly auctions into energy efficiency programs, renewable energy and direct bill assistance has lowered energy costs for consumers and generate overall economic benefits, the report said.