

Mr. Chris James
Bureau of Air Management
Department of Environmental Protection
79 Elm Street
Hartford, CT 06106

June 1, 2007

Dear Mr. James:

The Connecticut Business and Industry Association (CBIA) appreciates the Department of Environmental Protection's (DEP's) invitation to submit comments regarding the pre-proposed rules for the Regional Greenhouse Gas Initiative (RGGI) in Connecticut. CBIA would like to reiterate comments from its February 13, 2007 letter to the DEP and address the DEP proposed language to defer the auctioning of 100% of the allowances until 2015.

I. Introduction

CBIA and the DEP both remember the primary purpose for initiating RGGI in the first place: to demonstrate the feasibility of placing a functional cap & trade program on carbon emissions in the northeast in order to help spur a national program for controlling the emissions of greenhouse gases. Ultimately, climate change is a global issue requiring, at a minimum, a national solution to ensure consistent rules, a fair and competitive marketplace, and to realize actual CO₂ reduction benefits. The US Congress is considering several proposals for establishing a federal program to limit greenhouse gas emissions.

Deferring 100% auction of allowance allocations until 2015 as discussed in the pre-proposed rule and verbal comments by the Commissioner is a better approach towards limiting the potential risk of such an auction at the outset of this new program. This will help promote what should be the goals of RGGI implementation in Connecticut

- i) minimize economic risks to Connecticut energy consumers and suppliers;
- ii) provide certainty for longer-term energy transactions and investment in existing and new infrastructure; and
- iii) ensure the Connecticut program can transition seamlessly over to the forthcoming national program we are confident is coming.

II. General concerns with RGGI implementation in Connecticut

1. Cost: It is well recognized that RGGI implementation will add to the cost of energy in our state and in the northeast region. The proposed rules require that the DEP auction 100% of the allowance allocations no later than the end of the second compliance period (2015). DEP should conform to the model rule and auction only 25% of allowances as long as possible deferring to auction 100% until 2015. This deferral will allow the market to settle out and remove an important variable that would otherwise stimulate rampant speculation and unnecessary inflation of the allowance prices. Otherwise, these speculative costs would be incurred, and inevitably passed on to the consumer.

Additionally, the price trigger mechanisms contained in RGGI are not true cost cap mechanisms. Rather, they are simply ‘cost mitigation’ mechanisms in that CO₂ budget sources will still have to purchase allowances to offset emissions though, once the triggers are reached, CO₂ budget sources can purchase allowances from a broader geographic region. Consequently, there is nothing in RGGI that limits its potential impact on energy costs.

CBIA urges the DEP to select strategies that will mitigate the upward pressures on energy prices. Strategies to consider may include:

- i) Distributing allowances only to the CO₂ budget sources at a price based on a value determined under the provisions of the Model Rule.
- ii) Instituting a true price cap on the price per ton of CO₂ to remain in effect until full carbon capture and sequestration is deemed economically viable, regulatory approved, and commercially available on a broad scale.

Without these critical components, Connecticut’s program will create the highest level of risk with respect to costs for both our energy consumers and our energy suppliers.

Further, Connecticut has a number of generation facilities that are contracted on a long-term basis without a CO₂ pass-through mechanism. It is critical that this type of facility be dealt with in a fair and equitable manner. Otherwise, it creates even further capital market volatility and uncertainty for an energy industry that needs to encourage critical additional infrastructure investment prior to 2015. It would be reasonable to phase in the auction process for facilities when their current contracts expire. It is our understanding that such contracts will likely expire either at the end of the second compliance period or during the third compliance period.

2. Reliability: While other “cap and trade” programs have been successfully implemented to limit air emissions of certain materials (e.g. Nitrogen oxides (NO_x) and Sulfur dioxides (SO₂)) without major impacts on reliability, the RGGI program is fundamentally different from those programs.

Unlike the federal NO_x and SO₂ programs where industry has the ability to use control technologies to limit emissions at their stacks, there is no practical CO₂ control option that can be used at the point of emission other than to reduce energy production thus jeopardizing reliability.

While switching to less carbon intensive fuels such as natural gas is an option, further dependence on natural gas in a state and region that is already overly dependent on natural gas will create additional energy price volatility and reliability related concerns.

This supports the case for moving cautiously with RGGI implementation. CBIA urges the DEP to limit the public benefit portion of Connecticut’s allowances to 25%, consistent with the RGGI Model Rule. Deferring the 100% allowance auction until 2015 is a step in the right direction towards the protecting the reliability of our electric system, and

maintaining Connecticut's policy of encouraging greater fuel diversity, and investment in new Connecticut energy projects.

3. Transition to a federal program: Momentum for a nationwide federal program to control greenhouse gases is snowballing, and at this point, a nationwide program in short-term future, regardless of election returns, is a near-certainty. While it is of course too early to predict the design of the federal program, it is highly unlikely to include an immediate nationwide mandate for an auction of 100% of CO₂ emission allowances. On these and other key provisions, Connecticut's program must be structured to allow for transition over a future federal program with as little disruption to energy markets and Connecticut business and residential consumers alike. More generally, CTDEP should also ensure that its RGGI-based program will sunset once a federal program is in place.

III. Recommendations

CBIA urges the DEP to implement RGGI in a manner that minimizes economic risks to Connecticut energy consumers and suppliers, provides certainty for longer-term energy transactions and investment in existing and new infrastructure, and ensures the Connecticut program transitions seamlessly over to the forthcoming national program.

The DEP should make every effort to implement RGGI in a manner that ensures that Connecticut's economy is not adversely impacted through even higher energy prices and possible job migration and erosion.

To achieve this goal, CBIA urges the following recommendations:

- **The CT DEP should distribute RGGI allowances only to CO₂ budget sources at a price based on a value determined under the provisions of the RGGI Model Rule.**
- **Implementation should include a true price cap on the maximum price per ton of CO₂ to remain in effect until full carbon capture and sequestration is deemed economically viable, regulatory approved, and commercially available on a broad scale.**
- **The public benefit portion of Connecticut's allowances should be limited, at least initially, to 25%, consistent with the RGGI Model Rule.**
- **DEP should ensure that RGGI will sunset in Connecticut once a federal program is in place.**

CBIA appreciates the opportunity to be part of the dialogue on RGGI implementation in Connecticut. We are confident the DEP shares our concerns regarding energy cost and reliability. CBIA looks forward to continuing to work with the DEP to implement RGGI in a manner that minimizes the potential negative economic and environmental impacts on our state.

Sincerely,

Eric J. Brown
Associate Counsel