

TO: Connecticut Department of Environmental Protection
FROM: Northeast Regional Greenhouse Gas Coalition¹
DATE: **JUNE 1, 2007**
RE: **Comments Regarding Connecticut's RGGI Pre Proposal**

Introduction

This memo provides the Northeast Regional Greenhouse Gas Coalition's (GHG Coalition) comments for consideration by the Connecticut Department of Environmental Protection (CT DEP) on its pre-proposal to implement the Regional Greenhouse Gas Initiative (RGGI) in the State.

The GHG Coalition's is pleased to see an indication in the pre proposal language that CT DEP is willing to proceed more cautiously than some other RGGI states are regarding the amount of its CO₂ state budget that will be auctioned at the outset of the program. As the GHG Coalition indicated in its comments submitted to CT DEP on March 9, 2007, the GHG Coalition is very concerned with the emerging trend in the RGGI states in support of a 100% open auction.

The GHG Coalition does not support a 100% auction, particularly at the start of the RGGI program in 2009. Instead, the GHG Coalition recommends a more reasonable 'phased in' consumer benefit/strategic energy purpose allocation approach that does not rely on a 100% open auction at the outset of RGGI.

As an alternative, the GHG Coalition recommends phasing in an auction coupled with the direct sale of allowances to existing and new CO₂ Budget Sources and a direct allocation to existing and new CO₂ Budget Sources. The direct sale and direct allocation of allowances should be based upon a State defined allowance allocation methodology. Going slowly in transitioning to a substantial auction would permit the auction design to be adjusted and provide greater business certainty to CO₂ Budget Sources.

¹ For more information see <http://ghgcoalition.com>

First, the consumer benefit/strategic energy purpose allocation should start at a 25% in the First Compliance Period (2009-2011).

- The consumer benefit/strategic energy purpose allocation could then increase by a specified percentage per compliance period.
- This phase in should only occur if the comprehensive program review that the RGGI states agreed to in the RGGI MOU concludes that such a phase in is warranted and would not have adverse impacts.

Second, only a portion of the consumer benefit/strategic energy purpose allocation should be auctioned.

- The quantity of consumer benefit/strategic energy purpose allowances auctioned could increase by a specified percentage per compliance period.
- The auction should only be open to CO₂ Budget Sources or their agents, particularly in the First Compliance Period, to prevent undue market speculation at this early stage.
- The remaining consumer benefit/strategic energy purpose allocation should be made available for purchase by CO₂ Budget Sources (based upon a State defined allowance allocation methodology) at the price per ton determined in the auction up to a predetermined escalating price cap.

Third, the remaining allowances should be “allocated” to CO₂ Budget Sources based upon a State defined allowance allocation methodology.

- A portion of the remaining allowances could be directly allocated to CO₂ Budget Sources free of charge.
- The remaining portion of the allowances could be sold directly to CO₂ Budget Sources (based upon a State defined allowance allocation methodology) at the price per ton determined in the auction up to a predetermined escalating price cap.
- The quantity of allowances sold directly to CO₂ Budget Sources could increase by a specified percentage per compliance period and the quantity of allowances directly allocated free of charge could decrease by a corresponding percentage.

Fourth, the GHG Coalition recommends that CT DEP outline in its RGGI proposal the specific percentage breakdown for the uses of the auction proceeds and revenue generated from the direct sale of RGGI allowances based on the RGGI MOU categories outlined below:

1. To promote energy efficiency,
2. To directly mitigate electricity ratepayer impacts,
3. To promote renewable or non-carbon emitting energy technologies,
4. To stimulate or reward investment in the development of innovative carbon emissions abatement technologies with significant carbon reduction potential, and/or
5. Fund administration of this Program.

This ‘phase in’ consumer benefit/strategic energy purpose allocation approach has several advantages including:

- greater probability that allowance prices will be moderate, while at the same time not adversely affecting the regional electricity markets;
- provides a transitional path to implement allowance auctions into cap and trade programs and provides business certainty to CO₂ Budget Sources;
- provides at least a portion of the allowance value to the companies (through a direct allocation), and can reduce the potential increases in electricity imports into the RGGI region; and
- is more realistic and easier to manage for all stakeholders if the auction design isn’t “right”.

We look forward to continued participation in the Connecticut RGGI process and thank you for this opportunity to provide input on the pre-proposal.