FirstLight Power Resources

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VIA ELECTRONIC DELIVERY
Michele.Totten@po.state.ct.us.

Ms. Michele Totten
Bureau of Air Management
Connecticut Department of Environmental Protection
79 Elm Street
Hartford, CT 06106

Re: Comments on Proposed Regulations RCSA §22a-174-31- Control of Carbon Dioxide Emissions/Carbon Dioxide Budget Trading Program and RCSA §22a-174-31a – Greenhouse Gas Emission Offset Projects

Dear Ms. Totten,

FirstLight Power Resources, Inc. (FirstLight) owns, manages, and operates a number of power generation facilities in Connecticut, Massachusetts and New York. FirstLight is filing this comment letter pursuant to the notice of public hearing dated December 28, 2007, for the intent to adopt proposed regulations *RCSA §22a-174-31- Control of Carbon Dioxide Emissions/Carbon Dioxide Budget Trading Program and RCSA. §22a-174-31a – Greenhouse Gas Emission Offset Projects* for implementation of the Regional Greenhouse Gas Initiative (RGGI) program.

Summary

FirstLight supports the goals of the RGGI program to reduce greenhouse gas emissions and recognizes the challenges faced by the DEP in developing and implementing regulations that further those goals. However, as described in more detail below, the proposed CO_2 Budget Trading Program will have the unintended adverse consequence of increasing the costs of generation in Connecticut resulting in a significant negative impact on the electric customers in the state. In addition, we urge the DEP to participate in the multi-state auction process so that many of the same negative consequences described below that would result from inequities between RGGI and non-RGGI states are avoided by maintaining an even playing field among generators.

The following is a summary of key features FirstLight urges the DEP to incorporate into the draft regulations:

- The auction for CO_2 allowances should be performed at a regional level using a transparent process;

- Non-generators should not be allowed to bid in the allowance auctions since the participation by others will have a detrimental effect on electric consumers;
- Connecticut should not reduce the allowances to below that allocated by the RGGI Working Group;
- Auction proceeds should be closely monitored to ensure they are distributed to projects that benefit ratepayers and not the shareholders of electric distribution companies;
- The offset categories should be expanded; and,
- The "leakage" issue should be addressed by assessing a RGGI allowance cost on imported energy.

The auction of RGGI Allowances should be performed at a regional level

RCSA §22a-174-31(f)(4) speaks to the CO_2 allowance auction, but does not specify how or if Connecticut will participate in the regional auction conducted by the RGGI Staff Working Group. Connecticut should encourage and participate in a RGGI Regional Auction to ensure that the price of allowances will be levelized throughout the RGGI states. Connecticut generators compete in an electricity market that includes not only the New England states but also New York, the states included in the Pennsylvania-New Jersey-Maryland RTO, which stretches south to Virginia and west to Illinois, and Eastern Canadian provinces of Quebec and the Maritimes. Levelizing the cost of allowances over the widest possible region will limit the inequities faced by generators in the state relative to those throughout the region. A regional auction will also aid to provide price transparency and market liquidity and limit leakage from other states.

Inconsistent treatment of allowances across states has the potential of creating disadvantages for generating assets, with the likely outcome of higher costs and power prices including the potential for shutdowns and an increased dependence on generation outside of the state. For example, if a neighboring state decides to give a share of its allowances to its in-state generators, those privileged generators will enjoy a decided advantage relative to generators that need to purchase allowances and offsets. Those generators will be able to bid lower prices and generate more electricity than the generators that have higher costs due to the price of allowances. It could lead to the shutdown of generators and the loss of jobs and tax revenues while the electricity is being produced just across the border and imported into the state. As these states face tight supplies at home, it is very likely the electricity generated will stay home to meet native load. Any inequities will undoubtedly discourage companies from building new, needed generating plants in Connecticut.

Non-generators Should Not Be Allowed In the Auctions

Participation in the auction should be limited to the generators that are located in the state or states participating in the relevant auction. Unlike SO_2, NOx, and Hg, there is no currently available technology to remove CO_2 from the flue gas of fossil-fired generating plants. For those constituents for which control technology is available, the price of allowances has effectively been capped at the cost of those technologies since generators had the installation

of equipment as an alternative to purchasing allowances. Without available backend technologies to reduce CO_2 emissions, allowances and offsets are the only mechanisms available to generators to enable them to continue to generate much needed electricity.

Allowing non-generators to participate in the auction will undoubtedly drive up the allowance prices. Non-generators have no use for the allowances other than to turn a profit and will resell allowances that they win in the auction at a profit to generators that have no choice but to buy them. If non-generators are allowed to purchase allowances, electric customers in Connecticut will be paying the significant profits these non-generators are likely to enjoy, and therefore the ultimate allowance costs will be passed on to Connecticut customers. These higher allowance prices, which will drive up electricity prices, will force businesses out of the state and will further impact consumers who are already facing significant increases in electricity rates due to recent significant increases in the price of natural gas and oil.

FirstLight is aware of certain studies that suggest demand response resources will offset the increased price of electricity from allowance costs. Our analysis indicates that these studies significantly overstate this offsetting impact. First, since 2000 New England has seen a 20 percent increase in peak demand even though electric prices have risen 60 percent, clearly demonstrating that demand has grown significantly despite demand curtailment efforts. In addition, it appears nearly 10 percent of New England's supply is expected to come from demand response resources based on the first ISO-NE Forward Capacity Auction, which is an untested and unprecedented level. In fact, the PJM RTO market participants were concerned about possible reliability effects of levels of demand response less than 1 percent of the installed capacity requirement. Now we are to assume that more demand response resources will not only occur, but offset allowance costs. We assert that these resources will not offset the higher electric prices but may in fact increase prices given the uncertain nature and unprecedented levels of demand response resources assumed.

Allocation of Allowances for Auction

RCSA §22a-174-31(f)(3) indicates DEP is proposing to reduce the number of allowances that will be auctioned on an annual basis. Connecticut has been allocated a base budget of 10,695,036 tons for years 2009 through 2014. DEP is proposing to reduce the available Allowances for auction by 9%, down to a total of 9,732,483 tons. The RGGI Working Group established the state base budgets based on historic emission levels and reducing the total allowances that can be auctioned for generators will cause compliance issues for those generators and for any new generation that comes into the state. Because the options for compliance with the RGGI program are limited to Allowances which will be purchased at auction and only up to 3.3% of total emissions in the form of offset projects, many generating units will be unable to operate and could be forced to shut down. Unlike the other cap-and-trade programs implanted and successful in Connecticut, there are no back-end controls for CO_2 capture. Therefore, it is imperative that the total number of allowances available for Connecticut generators remain whole. At the very least it will unduly increase allowance costs and in turn electric prices as discussed above essentially imposing a hidden tax to Connecticut consumers.

Auction Proceeds

RCSA §22a-174-31(f)(4)(D) indicates that Connecticut will be distributing proceeds as follows:

- 7.5% to be retained by the Commissioner;
- 23.125% held by the Connecticut Clean Energy Fund to be used to support development of Class I renewable sources;
- 69.375% transferred to UI and CL&P to support the development of energy efficiency measures

The majority of the auction proceeds will be allocated to CL&P and UI for programs which they administer; however, no framework for these programs is included in the regulations. It should be required that 100% of the allowance revenue be used for the benefit of the Connecticut ratepayer and that CL&P and UI not profit from the administration of these programs.

FirstLight believes that a material portion of the proceeds from the auction should be directed to research to find methods of capturing and sequestering CO_2 from fossil-fired generators and to develop other low intensity CO_2 forms of power generation, in addition to the Class I renewable resources that will be funded by the Clean Energy Fund. Funding for this research will create technology-related jobs in the region and help to increase the timing of having reliable back-end technology that can be implemented by generators to reduce CO_2 emissions and achieve the RGGI program goals.

Offset Projects

FirstLight also would like to see criteria for qualifying offset projects under proposed RCSA §22a-174-31a consistent across the RGGI region. Inconsistent treatment of offset projects across the RGGI region has the potential of creating disadvantages for generating assets.

As proven with other cap and trade systems, one of the benefits is the unleashing of creative solutions to control emissions. Limiting the technologies that are eligible for RGGI offset credit under RCSA §22a-174-31a defeats this valuable benefit. Instead of identifying a few known technologies, the RGGI states need to create a mechanism where new technologies can be evaluated and approved as they can demonstrate effective CO_2 control.

For example the utilization of enhanced forestry management (e.g., restocking), the destruction of refrigerant gases that are potent greenhouse gases, the long term sequestration of CO_2 through ecosystem restoration via photosynthesis, efficiency upgrades at existing fossil fuel plants, and efficiency upgrades at hydro facilities are valid CO_2 reduction techniques and should be eligible for RGGI offset qualification.

Although these categories are not included in the RGGI Model Rule definition, states do have the discretion to modify their regulations to include other source categories. We

recommend that Connecticut push to include more offset project opportunities and that the entire RGGI region use the same criteria for identifying qualified projects.

Leakage

The draft regulations do not address a serious problem with the RGGI rule to generators - the lack of leakage provisions. The absence of a national program will lead to the fact that generators located in RGGI states will face increased costs compared to those in non-RGGI states. This will lead to those non-RGGI state generators running more and exporting their electricity into the RGGI states. As a result, it is possible that the generators in non-RGGI states will emit more CO_2 than would have been emitted by the units in RGGI states whose generation they have displaced. It may also cause generators in RGGI states to shut down, with the accompanying loss of jobs and tax revenue, and leave RGGI states dependent on outside generators to supply needed electricity. To prevent this from happening, the RGGI states need to assess a similar cost, based on the price of the latest auction or market, on imported electricity from CO_2 emitting sources located outside the RGGI region. Failure to assess this cost could reverse a significant portion of the CO_2 reductions that would be realized by RGGI.

We appreciate the opportunity to submit these comments to you. Please call me at (860) 895-6918 or Cynthia Vodopivec at (860) 895-6961 if you have any questions or wish to discuss these comments further.

Sincerely,

James A. Ginnetti
Vice President – External Affairs

Cc: C. Vodopivec