

February 11, 2008

Department of Environmental Protection
Bureau of Air Management
79 Elm Street
Hartford, Connecticut 06106-5127
Attn: Michele Totten

Re: Comments related to:

- R.C.S.A. section 22a-174-31 – Control of Carbon Dioxide Emissions/ Carbon Dioxide Budget Trading Program (section 31); and
- R.C.S.A. section 22a-174-31a – Greenhouse Gas Emission Offset Projects (section 31a)

The Nature Conservancy of Connecticut appreciates the opportunity to submit the following public comments in response to Connecticut's draft Regional Greenhouse Gas Initiative (CT RGGI) regulation R.C.S.A. section 22a-174-31 – Control of Carbon Dioxide Emissions/ Carbon Dioxide Budget Trading Program (section 31); and R.C.S.A. section 22a-174-31a – Greenhouse Gas Emission Offset Projects (section 31a)

We commend Governor Rell and her staff, as well as Commissioner McCarthy and her staff at the Department of Environmental Protection (CT DEP) for their efforts to address the threat of climate change. We are confident that this program will prove to be an important first step in protecting precious places and natural resources in the Northeast and globally. Through participation in RGGI, Governor Rell and Connecticut will continue to fulfill a long-standing commitment to leadership in one of our era's most important challenges.

The Nature Conservancy is an international nonprofit organization dedicated to preserving the plants, animals and natural communities that represent the diversity of life on Earth by protecting the lands and waters they need to survive. Our conservation work is carried out in all 50 states and in 30 countries with the support of approximately one million members. To date, we have helped conserve more than 117 million acres and 5,000 river miles around the world. The Conservancy owns and manages approximately 1,400 preserves throughout the United States—the world's largest private system of nature sanctuaries. We recognize, however, that our local and global mission cannot be achieved by protected areas alone; increasingly, our projects seek to accommodate compatible human uses, especially in the developing world, to address sustained human well-being.

Climate change is already affecting the landscapes and waters that support the diversity of plants, animals and natural communities in Connecticut, and responsible scientific evidence predicts this pattern will accelerate. The lower Connecticut River and several tributaries are home to internationally recognized tidal marsh communities that provide habitat to bald eagles, Atlantic salmon and six kinds of

plants and animals that are rare or endangered worldwide. Your agency, New York and the federal government have preserved critical coastal sites along the length of Long Island Sound. The state has worked with communities and organizations around Connecticut to assemble exemplary large forest blocks. Climate change puts these investments and the species that depend on them at significant risk from sea-level rise and increases in temperature.

We strongly support the adoption of the CT RGGI regulation, as it sets an exemplary precedent for establishing a market-based system to cap CO₂ emissions from the energy sector at little or no cost to the consumer. We view the success of the RGGI cap-and-trade program as an imperative, since it will act as a model and catalyst for further regional and national action, which will be critical to reducing heat-trapping emissions and minimizing climate change impacts to people and nature.

100% Auction

The Conservancy supports the allocation of one hundred percent (100%) of Connecticut's CO₂ emissions budget to be auctioned. The Conservancy supports auctioning allowances to enable Connecticut to raise significant revenue for climate related public purposes. Such revenue will allow Connecticut to further invest in actions to mitigate climate change, enabling the RGGI program to help support further greenhouse gas emission reductions in addition to the 10% reduction by 2019 mandated by the declining cap.

Use of Auction Proceeds

The Conservancy supports the use of the proceeds from the sale of the CO₂ allowances to be distributed as detailed in the proposed regulations such that approximately 69% are used to support the development of energy efficiency measures through programs executed by Connecticut Light and Power and United Illuminating and overseen by the Connecticut Energy Conservation and Management Board, and another approximately 23% of the proceeds are used to support the development of Class I renewable energy sources through funding of the Connecticut Clean Energy Fund.

To clarify the use of the remaining 7.5% of the proceeds from the sale of the CO₂ allowances, we strongly urge that more explicit language be added to the regulation to ensure these funds are used in accordance with Bill # 7432 - An Act Concerning Electricity and Energy Efficiency, as enacted into law on June 4, 2007. As stated in the legislation, Sec. 93(c), "The regulations adopted pursuant to subsection (a) of this section may include provisions to cover the reasonable administrative costs associated with the implementation of the Regional Greenhouse Gas Initiative in Connecticut and to fund assessment and planning of measures to reduce emissions and mitigate the impacts of climate change. Such costs shall not exceed seven and one-half per cent of the total projected allowance value."

The Nature Conservancy strongly supports the use of up to 7.5% of these funds to fund measures to mitigate the impacts of climate change. Given certain impacts that are occurring and are predicted to occur it is critical to further understand and develop and implement strategies to adapt to current and future impacts. Climate change planning and adaptation includes preparing human and natural communities

for phenomena that result from climate change such as, flooding, drought, temperature changes, coastal erosion and habitat disruption. These changes are already affecting our communities, economy and natural areas.

In Connecticut, the effects from just one aspect of climate change, sea level rise, will very likely include increased flooding in coastal areas, more catastrophic storm events, and submersion of tidal wetlands and barrier beaches that are essential for protecting nearby communities from storm surges. It is critical that Connecticut begin to plan and act immediately to help ensure the safety, security and survival of our human communities and natural habitats. RGGI revenues would be one appropriate source for the significant funds that will be required for this work.

Our vision of climate change adaptation is focused on preserving biodiversity and includes efforts to:

- Identify and protect the areas that best represent resilient natural systems. Ideally, these areas reflect intact and functional terrestrial, freshwater and marine ecosystems with a full complement of species and processes, allowing them to resist and recover from climate change impacts.
- Ensure that plants and animals can migrate and adapt to the changing climate. For example, by implementing new stream flow standards, designing new culverts and dams to allow for fish passage, and – where appropriate - removing such barriers, we can ensure that freshwater species can migrate to feeding and spawning areas and withstand periodic floods and drought.
- Conduct restoration of the most vulnerable ecosystems. For example, removing invasive species, planting native species, reducing the risks of forest pests and pathogens, and allowing natural stream flow strengthens natural ecosystems. Restoration can enhance an estuary's ability to withstand damage by storm surges and sea level rise (thereby, also protecting human communities along the coast).
- Use innovative land conservation strategies to connect the most sensitive natural areas. As temperatures increase, some species will need to migrate to cooler temperatures to survive. Improved pathways between important natural areas will aid in their movement.

With this initial funding from RGGI allowance sales, Connecticut can begin to anticipate climate change phenomena, and develop best management adaptation practices for addressing them. By implementing adaptation strategies, we believe Connecticut could lessen the financial impact of natural disasters that many predict will only worsen over time. As in so many areas of the climate change policy arena, Connecticut has an historic opportunity to serve as a leader in adaptation planning and implementation because of our unique – and magnificent - estuarine and forest resources that are in close proximity to the most densely populated – and threatened – coastal regions in North America.

The Cap

There is growing concern that the RGGI program cap may have been set too high. Emission data from 2006 and preliminary data from 2007 indicate this to be the case. According to data compiled by Environment Northeast, the cap could be 11% or greater above the emission level for the regulated sources projected for 2009.

If this is the case, the program will not fulfill its main goal of achieving greenhouse gas emission reductions. In addition, allowances at the outset of the program could be valued very low or at zero which will not lead to any shifting in the electricity market toward cleaner sources and any investment in cleaner technologies.

There are a couple of important ways to address this situation. One is to urge all states to reassess the cap level a year or so into the program and consider the possibility of collectively lowering the cap at the start of the second compliance period. In order to allow for this to occur, we urge the CT RGGI regulations to include a clause providing an explicit charge to assess the cap level related to emissions at the start of 2010 and the possibility of adjusting the decline to ensure intended emission reductions.

Another way to address the potential inflated cap is through the establishment of a reserve price and a contingency account whereby allowances falling below an established low price would be placed and held. This is detailed more below under comments related to the Auction Design and Implementation.

Auction Design and Implementation

The following are comments related to the structure and administration of an auction in RGGI.

Reserve Price

We agree with the recommendations of the RGGI Auction Design Team put forth in their recently released report to RGGI staff working group on the auction design that the setting of a reserve price is extremely important in carrying out the auction. As experts in auction design and execution, the Auction Design Team cites experience with auctions that illuminates the setting of a reserve price as one critical element in ensuring market liquidity and preventing collusion. Importantly, it also ensures a market signal to developers of green technology, without which investments might not be made. Finally, it ensures a societal value is placed on the allowance commodity, and requires that they aren't given away in a capricious manner. There needs to be some value placed on these allowances to ensure that the program achieves its stated goal of emission reduction.

Contingency Account

We recommend, especially if it is determined that RGGI is significantly over-allocated, that any allowances falling below the reserve price are retired. At a minimum, any allowances that fall below the reserve price should be placed in a contingency reserve account. This account should be held, and only released if the

price of allowances reaches a high trigger price at which greater market liquidity may be desirable.

Timing of the Auction

One critical element of ensuring a smooth start up to the RGGI program and in mitigating market volatility will be to begin to auction the allowances as soon as possible. We urge Connecticut to help ensure and participate in the first auction that has been proposed to occur in as early as June 2008. Doing so will provide market transparency that the generators will need to plan into the future. For the same reasons, we support quarterly auctions.

Regional Auction

We urge Connecticut to continue to help establish and participate in a regional auction. A regional auction will minimize market confusion and needlessly higher administrative and transaction costs.

Market Monitoring

Once the auction and secondary market for allowance sales is up and running, it is important that market monitoring occur to ensure no market manipulation is taking place. We call on RGGI, Inc. to hire a third party to perform this important task.

Offsets

The Conservancy supports the use of offsets in the RGGI program, to reduce the risk of price volatility in a cap and trade program, and thereby lessen the need for other cost-control measures. Offsets both increase the flexibility and lower the cost of emission reduction programs.

Additional Offset Project Types

The Conservancy strongly supports the inclusion of additional offset types in the RGGI program in keeping with the provision in the RGGI Memorandum of Understanding (MOU) dated 12/20/05, which states the RGGI participating states will consider including other types of forestry projects and grassland re-vegetation as eligible project activities in the future, given their potential to yield real emission reductions and substantial benefits for people and the diversity of plants and animals. We support this consideration and urge Connecticut to consider the adoption of these other offset project types as soon as a viable protocol, which is under development and after vetting with a broad array of key stakeholders, is formally proposed.

Direct Allocation of Allowances

As proposed the draft CT RGGI regulations propose 9% of the allowances be directly allocated for three purposes: 1% for voluntary clean energy purchase, 3% for consumer-side distributed resources, and 5% for combined heat & power. The following are our comments related to these proposed direct allocations.

Voluntary Clean Energy Purchase

We support a direct allocation of allowances to sellers in the voluntary renewable energy market. As proposed these allowances would be retired once sellers provide documentation proving sale of renewable energy. This provision will allow for sellers

of renewable energy to claim the greenhouse gas reductions associated with the sale of the renewable energy. Such an auction component is essential for this market to continue and grow in a manner consistent with the program's objectives. Yet, we are concerned that a 1% allocation to this market may not be sufficient and urge this amount to be increased at least 1% with a stipulation that an annual measurement of allowance needs is conducted with any excess allowances being released for auction.

Definition of Sustainably Harvested Biomass

The Conservancy supports the intent to only allow for sustainably harvested woody and herbaceous fuel sources to be used for biomass energy facilities eligible for regulation under the RGGI program. This is based on the clear relationship between burning biomass and re-growing sufficient forest to capture what has been cut for this purpose. It is important to ensure materials are sustainably harvested in order to prevent environmental harm that could undermine the intended carbon benefits and cause additional harm to biodiversity protection and other environmental goals.

To ensure this we recommend that the definition specify that the wood source be from forested land that is not being converted to a non-forest land use and is not otherwise harvested in a manner incompatible with the capacity of that forest to regrow at a rate that is not less than the rate of carbon accumulation prior to the harvest.

On behalf of The Nature Conservancy of Connecticut, thank you again for your and your staff's demonstrated great leadership and dedication in progressing toward the implementation of the historic RGGI program.

Sincerely,



David Sutherland
Director of Government Relations