CBIA

Connecticut **Business & Industry** *Association*

February 13, 2007

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

Dear Mr. James:

The Connecticut Business and Industry Association (CBIA) appreciates the Department of Environmental Protection's (DEP's) invitation to submit comments in anticipation of the forthcoming February 15 meeting at DEP regarding implementation of the Regional Greenhouse Gas Initiative (RGGI) in Connecticut.

I. Introduction

CBIA urges that as the DEP deliberates its RGGI implementation options, it remain mindful of 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 CO_2 benefits.

Several proposals for establishing a federal program to limit greenhouse gas emissions are currently being considered in Congress. Accordingly, CBIA urges the DEP to proceed cautiously with implementation and to not institute unprecedented and risky measures such as an open auction for 100% of carbon allowances. Rather, the goals of RGGI implementation in Connecticut should be to: 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 blends seamlessly with the forthcoming national program we are confident is coming.

II. General concerns with RGGI implementation in Connecticut

CBIA continues to be very concerned about a number of RGGI implementation issues. These include:

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 degree of this cost increase in Connecticut will depend, in part, on the choices DEP makes in implementing the program. For example, holding 100% of

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the allowances for "public benefit" and distributing these allowances at open auction would insure RGGI's maximum potential impact on creating higher energy prices is realized.

Additionally, the price trigger mechanisms contained in RGGI are not true cost cap mechanisms. Rather, they are simply 'cost mitigation' mechanisms in that allowances will still have to be purchased to offset emissions though, once the triggers are reached, these allowances can be purchased 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 including: distributing allowances only to the source generators at a price based on a value determined under the provisions of the Model Rule; and instituting a true price cap on the price per ton of CO_2 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 CO_2 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 uncertainty for a market that needs additional infrastructure investment.

2. Reliability: While other "cap and trade" programs have been successfully implemented to limit air emissions of certain materials (e.g. Nitrogen oxides (NOx) and Sulfur dioxides (SO_2)) without major impacts on reliability, the RGGI program is fundamentally different from those programs.

Unlike the federal NOx and SO_2 programs where industry has the ability to use control technologies to limit emissions at their stacks, there is no practical CO_2 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 adds to the case for moving cautiously with RGGI implementation. For example, charging forward with the unprecedented use of a 100% allowance auction will, in our view, jeopardize the reliability of our electric system, undermine Connecticut's policy of encouraging greater fuel diversity, and discourage investment in new Connecticut energy projects. Instead, CBIA urges the DEP to limit the public benefit portion of Connecticut's allowances to 25%, consistent with the RGGI Model Rule.

3. Leakage: The propensity for electricity used in Connecticut to be generated outside of the RGGI region due to price premiums in our region will add to energy and environmental concerns in the northeast. Specifically leakage will result in:

a. more pollution being created upwind of Connecticut and negatively impacting our air quality;

b. a greater burden on our limited energy infrastructure and increased congestion costs for energy delivered in Connecticut; and

c. substantial negative implications on the goal of reducing the emissions of greenhouse gases (we understand this could be as much as 33%).

CBIA urges the DEP to continue to work with state and regional stakeholders to address leakage concerns. Ultimately, Connecticut's program must seamlessly blend with a forthcoming federal program. Accordingly, DEP should insure that RGGI will sunset in Connecticut once a federal program is in place.

III. Feb. 15 meeting at DEP

We understand the Feb. 15 meeting will focus on the issue of the public benefit set-aside and specifically explore the questions of: i) what percentage of Connecticut's carbon allowances should be retained by the state?; and ii) how should Connecticut's carbon allowances be allocated?

Relative to our concerns for energy costs and reliability, it is CBIA's view that these two questions should not be answered in isolation and that the answers will have a significant impact on the degree to which RGGI is likely to increase the cost of energy in our state. Therefore, our following comments concern possible combinations of answers to these two questions.

Worst Case Scenario: CBIA believes that the mechanism that would tend to push energy prices to their highest potential levels would be to retain 100% of allowances for public benefit and to sell those allowances at open auction (e.g. open to any entity, not just to generators). Large, billion-dollar financial funds are already established and poised to take control of allowances that they will ultimately make available to generators at a premium price. Further, use of an auction is never mentioned in the RGGI Memorandum of Understanding (MOU) or the RGGI Model Rule. It is a method, by its very nature, most likely to achieve the highest possible price the market can bear. Accordingly, this scenario is simply unacceptable to CBIA.

Best Case Scenario: Conversely, the model which, in our view, would tend to put the least upward pressure on energy prices would be to closely follow the principles of the RGGI Model Rule and MOU. That is, limit the public benefit portion to 25% and allocate those allowances only to energy generators based on a value determined under the provisions of the Model Rule. Coupled with this, and consistent with our comments above, a true price cap should be established from the outset of the program. Together, these measures would limit RGGI's impact on energy prices and provide a degree of price predictability that industry can factor into a business plan.

IV. 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 blends seamlessly with the forthcoming national program.

Every effort should be made to implement RGGI in a manner that ensures that Connecticut's economy is not adversely impacted through even higher energy prices and possible job erosion.

To achieve this goal, CBIA urges the following recommendations:

- **RGGI allowances should be distributed only to source generators 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 CO_2 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 insure 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 Department shares our concerns regarding energy cost, reliability and the potential consequences of leakage. In light of that, CBIA looks forward to continuing to work with the Department to implement RGGI in a manner that minimizes the potential negative economic and environmental impacts on our state.

Sincerely,

Eric Brown

Eric J. Brown
Associate Counsel