FirstLight
Power Resources

One Corporate Center
20 Church Street, 16th Floor
Hartford, CT 06103
tel: (860) 895-6900
fax: (860) 895-6481

June 1, 2007

VIA ELECTRONIC DELIVERY
chris.nelson@po.state.ct.us

Mr. Chris Nelson
Connecticut Department of Environmental Protection
79 Elm Street
Hartford, CT 06106

Re: Comments to Connecticut DEP on Regional Greenhouse Gas Initiative (RGGI) Pre-proposed Regulations

Dear Mr. Nelson:

FirstLight Power Resources, Inc. (FirstLight) owns and operates a number of power generation facilities in Massachusetts and Connecticut. FirstLight would like to thank the Connecticut DEP for providing a forum to comment on the pre-draft RGGI regulations prior to the formal comment period. This letter summarizes FirstLight's opinions on the RGGI regulations as drafted and presented in April 2007.

Offset Projects

FirstLight agrees with the DEP's decision to divide the regulations into two separate sections: one dealing with the Control of Carbon Dioxide Emissions and the second with Greenhouse Gas Offset Projects. Separating these topics will make it easier to add more offset projects to the approved list. One of the benefits of other cap and trade systems has been the development of creative solutions to control emissions. Limiting the technologies that are eligible for RGGI offset credit 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 then approved when 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, and efficiency upgrades at hydro facilities are valid CO_2 reduction techniques and thus should be eligible for RGGI offset qualification.

Although these categories are not currently included in the RGGI Model Rule definition, states do have the discretion to modify their regulations to include other source categories. Therefore, we recommend that Connecticut push to include more offset project opportunities.

Allocation of Allowances

The proposed RCSA Section 22a-174-31(f)(3)(C) regulations state that "The commissioner shall, by no later than the end of the second compliance period, allocate up to one hundred percent of the remaining Connecticut CO_2 trading program base budget to the consumer benefit account." This is the only reference to 100% auction and it is clear that by 2015, the state must auction all of the allowances. However, there is no reference to what could or should be done before that time.

FirstLight believes that the percentage of RGGI CO_2 allowances auctioned should be consistent across all RGGI states. Inconsistent treatment of allowances within the region will disadvantage generators in states without allocated allowances. This would result in higher costs and power prices including the potential for shutdowns and an increased dependence on generation outside of those states.

FirstLight does not support auctioning of 100% RGGI CO_2 allowances at this time. An auction of this magnitude is untested for cap and trade programs and is unlikely to succeed since there is no back-end technology control and capture options for generators. We recommend that the auction of allowances for the entire RGGI region be phased in to allow the market to determine the price of the allowances. For the first compliance period, we recommend in 2009 that 25% of the allowances be auctioned and 75% be allocated to the generators, followed by 50% auction in 2012 and then the 100% auction in 2015. A phased-in auction approach would allow the price of allowances to adequately stabilize and come to a true market value. Additionally, the phasing in of allowances auctioned would help give certainty to RGGI-affected sources in the next few years. Compliance plans can be formulated and put into place and business plans can be developed with knowledge that the generating units will have adequate allowances to run at full load.

Auction Process (Open vs. Closed)

The draft regulations do not indicate whether the auction will be open to all interested parties or only those affected by the RGGI regulation. We strongly recommend a regional auction involving all RGGI states to ensure that the price of allowances is the same throughout the RGGI states. The auction should be a closed auction, open only to the generators located in the states participating in the regional auction. If a state does not participate, its generators should not be allowed to participate in the regional auction.

CO_2 is unlike SO_2, NOx, Hg, etc. in that there is no technology available today to remove it from the flue gas of fossil-fired generating plants. Where technology is available, the price of allowances was effectively capped at the cost of those technologies since generators could install equipment rather than 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 generate. With the uncertainty surrounding the availability of offsets for generators to use in the RGGI-region, prices of the allowances will likely be high. Allowing non-generators into the auction will only reduce the supply and increase the price of the allowances thereby increasing costs ultimately embedded in electricity prices and charged to consumers.

FirstLight Power is very concerned that generators may be unsuccessful in acquiring allowances through the auction process to operate their generating facilities. If this is the case, a generator may need to reduce generation which will present reliability concerns in the RGGI region and possibly a greater dependence on generation outside of the RGGI region.

Auction Proceeds

At least a material portion, if not all, 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. 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.

Leakage

The draft regulations do not address the most potentially detrimental piece of the RGGI rule - the lack of leakage provisions. The absence of a national program will lead to generators located in RGGI states facing increased costs compared to those in non-RGGI states. In turn non-RGGI state generators will run more and export 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, depriving RGGI states of jobs and tax revenue, and leave these states dependent on outside generators to supply needed electricity. To prevent this from happening, the RGGI states need to assess a similar RGGI allowance cost 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 if you have any questions or wish to discuss these issues further.

Sincerely,

Jim Ginnetti

James A. Ginnetti
Vice President – External Affairs