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Comments on RGGI Pre-proposal DRAFT Regulations
Section 22a-174-31, Control of CO2 Emissions

On behalf of The Nature Conservancy's 28,000 members in Connecticut, I would like to express our appreciation to the Department of Environmental Protection for the exceptional work the agency's staff has done in this state and with the other states in advancing the Regional Greenhouse Gas Initiative (RGGI).

In commenting on the Pre-proposal draft regulations, I will focus on Section 22a-174-31 Subdivisions **(f) (3) and (5),** concerning CO2 allowance allocations.

We maintain that this section should explicitly require auction of 100% of the emission allowances, starting at the beginning of the program, rather than allowing for auction of ***"up to"*** 100% by the end of the second compliance period, as the draft currently provides. Presumably, the model RGGI rule would require the state to auction at least 25% of the allowances, but that is not clear in this subdivision, and even with that, the draft language could allow only that minimum 25% to be auctioned.

Consumers will benefit most if 100% of the carbon emission allowances are auctioned from the start of the program. Giving the allowances to power producers would not reduce consumer prices. As the Congressional Budget Office noted in a recent paper on the allocation of allowances, "…the cost of holding the allowances would generally be reflected in the prices that producers charged, regardless of whether those producers had to buy the allowances or were given them for free." Producers would pass on the value of the allowances as a cost on to their consumers. "That result was borne out in the cap-and-trade programs for sulfur dioxide in the United States and for CO_2 in Europe where consumer prices rose even though producers were given allowances for free."

Modeling done for the RGGI program has indicated that consumer prices for electricity will increase by .5 to .66 % annually as a result of RGGI. While this is not a significant increase in comparison to other factors that affect prices, impacts on consumers, along with reduction of carbon emissions, must be important priorities of any aspect of the program. The best and most appropriate way to return value to consumers for any increased costs is by directing all auction revenues, after minimal administrative costs, to:

- Energy efficiency and renewable energy programs. *(at least 90% of non-administrative expenditures)*

Investments in energy efficiency will result in far greater energy price reductions for consumers than rebates. Also, every possible aspect of RGGI should be oriented towards addressing and reducing climate change. The state will need to make very significant investments to increase the efficiency of our energy production and use, and RGGI revenues are a very logical and appropriate source for some of the necessary funds.

- Measures to address the impacts of climate change *(up to 10% of non-administrative expenditures)*

  Concerted planning and action will be necessary to decrease the severity of impacts and prepare our human and natural communities to adapt to climate change. The effects in Connecticut 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 timely and appropriate source for the significant funds that will ultimately be required.

While the RGGI MOU and model rule include a form of definition for what the consumer benefit and strategic energy purpose account (CBSEPA) can fund; as they do in many sections, they state that this definition is not necessarily what a particular state will adopt. We therefore recommend that both (f) (3) (B) and subdivision (f) (5), where it refers to "any other strategic energy purpose set forth" in the RGGI MOU, state that at least 90% of the funds deposited in the CBSEPA be used only for energy efficiency initiatives, Class I renewable technologies or innovative greenhouse gas emissions abatement technologies, and that up to 10% of the funds be used for administrative costs and assessment and planning of measures to reduce emissions and mitigate the impacts of climate change.

Thank you for your consideration of these comments.

Sincerely,

David Sutherland
Director of Government Relations