Environmental, Health & Safety
80 Park Plaza, T17, Newark, NJ 07102-4194
tel: 973.430.7000 fax: 973.623.7758

PSEG
Services Corporation

Ms. Michele Totten (Michele.Totten@po.state.ct.us)
Connecticut Department of Environmental Protection
Bureau of Air Management
79 Elm Street
Hartford, CT 06106

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Re: PSEG Power Connecticut Comments on the Connecticut RGGI Proposal

On behalf of PSEG Power Connecticut, I am pleased to offer comment on Connecticut's Regional Greenhouse Gas Initiative (RGGI) proposals 1.) Section 22a-174-31. *Control of Carbon Dioxide Emissions*, and 2.) Section 22a-174-31a. *Greenhouse Gas Emission Offset Projects*.

PSEG Power Connecticut, which owns and operates the Bridgeport Harbor and New Haven Harbor generating stations, is a subsidiary of PSEG Power, an independent power producing company, and an indirect subsidiary of Public Service Enterprise Group Incorporated (PSEG), a diversified energy company headquartered in Newark, New Jersey. PSEG's other primary subsidiaries are Public Service Electric and Gas Company (PSE&G), and PSEG Energy Holdings. PSE&G distributes electric and natural gas energy to more than two million utility customers in New Jersey, while PSEG Power and PSEG Energy Holdings own and operate approximately 16,000 megawatts of electric generating capacity in New Jersey, New York, Connecticut, Texas, Pennsylvania, New Hampshire, California, and Hawaii.

PSEG believes climate change is a real and growing environmental challenge. The company has long been a strong advocate for national action on climate change that includes mandatory greenhouse gas reductions delivered through a cap and trade program. PSEG has supported the Regional Greenhouse Gas Initiative (RGGI) as a way to encourage national action on climate change.

As the likelihood of Congress enacting a national greenhouse gas cap-and-trade program increases, we believe the best course for Connecticut and the region is to implement RGGI in a manner that will allow it to be harmonized with a comparable national program as quickly and efficiently as possible. PSEG believes that when a mandatory national climate change program is implemented, there must be a smooth transition for RGGI affected sources and related programs. The regulatory elements of the RGGI program (including implementing regulations at the state level) should be aligned with the national regulatory program so as not to have redundant and possibly conflicting programs and compliance requirements.

PSEG recommends definitive language to evaluate the continuance of RGGI in the advent of a mandatory national GHG program. Such language has been recently included in RGGI enabling legislation enacted in NJ. The law finds and declares that any emissions allowance trading program established in the State to reduce emissions of greenhouse gases should transition to any federal program enacted by the federal government that is comparable to the emissions allowance trading program established in the state. Specifically, NJ defined comparability by requiring the calculation of the projected percent reductions of greenhouse gas emissions from electric generating facilities serving customers in the State as compared to the projected percent reductions of greenhouse gas emissions from electric generating facilities serving customers in the State under the national program. Furthermore, reductions anticipated through the implementation of other State regulated carbon reduction initiatives, including but not limited to a renewable energy portfolio standard or any energy efficiency portfolio standard shall not be considered in determining the comparability of the programs.

Throughout the RGGI process, PSEG has recommended the adoption of strategies to moderate CO_2 allowance prices to keep the costs of the program within the forecasted ranges. This will not only minimize the impacts on RGGI region consumers but also help to mitigate an increase in electricity imports and the associated emissions leakage. These strategies include: expanding the categories of projects that are eligible for generating carbon offsets, and expanding the allowable use of offsets by RGGI CO2 Budget Sources.

PSEG also continues to be concerned with the adoption of an open auction process at the start of the RGGI program. PSEG believes that unconstrained access to the auction (from RGGI CO_2 Budget Sources and non-Budget Sources) is likely to drive up allowance prices, which will increase compliance costs for RGGI Budget Sources and increase the costs of the program for Connecticut electricity customers.

PSEG believes that the auctioning of allowances should be limited to budget sources only in the early years of the program while the region acclimates to the new cap-and-trade program and cost effective compliance solutions mature. PSEG recommends that Connecticut limit participation in the auctions for the first three allowance vintage years (2009-2011) to CO2 Budget Sources and their agents only. Non-CO2 Budget Sources could participate in the secondary market as well as auctions for future vintage allowances from 2012 onward. In the absence of cost effective compliance measures, the electric power sector will be vulnerable to competition from hedge funds and other financial institutions and entities that may drive up the price of RGGI allowances. The result will be higher energy prices and increased emissions with leakage.

The Maine DEP has proposed regulations providing the authority to the DEP Commissioner to waive or suspend compliance obligations for CO2 Budget Sources if there are high allowance prices or if issues not under the control of the Budget Source occur. PSEG encourages CT DEP to review this regulation (Chapter 157, CO2 Budget

Trading Program Waiver and Suspension) and add similar provisions in the CT DEP RGGI regulations.

Finally, upon review of the proposals, PSEG has noted a few areas that require clarification and/or changes:

- **Page 31-24 (f) CO2 Allowance Allocations (4) CO2 allowance auctions. (D)** *Proceeds derived from the sale of CO2 allowances held in the Connecticut Auction Account shall be distributed as follows: Seven and one-half (7.5) percent of auction proceeds shall be retained by the commissioner.*

  This language is too vague and should be revised to reflect the legislative language in Public Act 07-242, Section 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.*

- **(Page 31-34) G Allowance Tracking System (5) Compliance (B)(iii)** *If the commissioner determines that there have been at least two Stage Two Trigger Events in immediate succession; five (5) percent of the CO2 budget source's CO2 emissions for the first three years of the control period, and twenty (20) percent of the CO2 budget source's CO2 emissions for each year after the third year of the control period.*

  This language is not consistent with the RGGI Model Rule and should be revised.

Please contact me with questions and clarifications,

Daniel Cunningham

Daniel Cunningham

Environmental Policy Manager, PSEG
(973) 430-6307