

The Nature Conservancy would like to again congratulate the leadership of the state staffs and the Governors in the seven states that have signed onto the Northeast Regional Greenhouse Gas Initiative (RGGI) Memorandum of Understanding (MOU). This represents an historic step toward implementing a mandatory market based system to reduce greenhouse gas emissions. We recognize the extraordinary work and effort that has gone into achieving this critical milestone which will allow the program to move toward reality.

The Conservancy's lead scientists view climate change as one of the greatest threats to preserving biodiversity, protecting plants and animals around the world, and managing lands and waters for the benefit of people. Using widely accepted models, Conservancy scientists have estimated that the majority of our investments at our 1,400 preserves are at risk because the projected changes in climate mean that the plants and animals at Conservancy sites will no longer be able to thrive. If left unchecked, climate change threatens to harm current and future generations.

With this in mind, we have chosen to advocate for the adoption of RGGI and to ensure that it leads to real emissions reductions using a market-based system that results in little to no cost to the consumer.

We would like to take this opportunity to offer comments and questions on the MOU. We hope that the issues we raise may be clarified and responded to in the drafting of the Model Rule or in the process to adopt RGGI.

### ***Safety Valve Trigger***

The language in the MOU describing when the safety valve trigger would occur is unclear and could be interpreted to mean that the trigger would occur at 15 months or 26 months after the program launch.

- The Conservancy urges you to clarify the exact timing of the safety valve trigger, such that the trigger is not able to occur until after the program has been running for 26 months.

It also isn't entirely clear if the safety valve is triggered and the compliance period extension occurs, if this would in any way affect the cap decline as detailed in the MOU.

- The Conservancy requests that it is clear that the cap reduces over time, even if a safety valve trigger occurs, as scheduled to ensure the 10% emission reductions by 2019.

### ***Offset Program***

Overall, The Conservancy would like to see the offset program designed to minimize confusion and ambiguity regarding: what types of offsets are permitted; when can offsets be used; acceptable locations for offset projects; how many offsets are allowed; and the

process for determining the validity of offset projects. Minimizing confusion will allow for a smooth process and will minimize critiques of this component of the program. The Conservancy views the offset program as a critical component in ensuring a smooth running program with low-cost emissions reduction options.

#### *Minimum eligibility*

The Conservancy agrees with and supports the minimum eligibility language put forth in the MOU that offset projects must be real, surplus, verifiable, permanent, and enforceable. However, we also strongly urge that language be included in the Model Rule that mandates that offset projects must provide a net-environmental benefit beyond climate change mitigation. We feel strongly that projects with additional environmental benefits such as biodiversity conservation and water quality improvement should be promoted and that there must be safeguards against environmentally harmful projects.

- The Conservancy strongly urges language be included in the Model Rule that mandates that offset projects must provide a net-environmental benefit beyond climate change mitigation and encourages project create environmental co-benefits.

We understand that the Staff Working Group (SWG) intends on including draft definitions of the minimum eligibility requirements in the Model Rule.

- The Conservancy urges the SWG to be fully transparent on rationale for the development of specific rules and be very open to and accepting of input from industry experts on the various project types prior to issuing the final Model Rule.

To that end, the Conservancy will be drafting specific recommendations regarding definitions and rules applicable to afforestation and other proposed land use offset project types and will be submitting those to the SWG shortly.

#### *Offset Types*

As stated in the MOU, the states will “continue to cooperate on the development of additional offset categories and types, including other types of forestry projects, and grassland re-vegetation projects. Additional offset types will be added to the Program upon approval of the Signatory States.”

- As the Conservancy has stated in previous comments, we strongly urge the inclusion of forest management and forest conservation as additional project types.

In addition, a process that requires a signed amendment to the MOU and a regulatory approval process in each state to approve new project types will be very challenging. Authority should be given to the Regional Organization to approve new project types and thereby not requiring an amended MOU.

- The Conservancy urges the SWG to include specific language in the Model Rule that will clearly outline a process for adding offset project types and one that does not require a new MOU be signed.

*Offset Triggers and Resets*

The current section in the MOU on offsets, triggers and resets associated with using additional amounts of credits and allowing projects in expanded geographies is confusing. For instance, it is unclear as to exactly when the triggers to expand the offsets market to allow a covered source to meet up to 5% and then 20% of its cap through offsets.

- The Conservancy urges the SWG to clarify the exact timing of the various offset triggers and resets and how this would affect and interact with offset project approvals and use of offset credits associated with projects that may be allowed and then not based on the project applicability rules of the various triggers.

*Initial Offsets Geography and Limits*

The Conservancy supports the inclusion in the RGGI program of the allowed use of offsets from all regions of the United States and, if triggered, from North American and International trading programs. It is unclear if areas inside the United States include U.S. territories.

- The Conservancy supports that projects in U.S. territories be included in the definition of United States as there is tremendous environmental benefit to carrying out land-use offset projects in the U.S. territories.

In general, the Conservancy is concerned that there will be very limited opportunities in the RGGI region to generate competitively priced land-use offsets, particularly those from afforestation. Neal Sampson estimated in a report submitted to the SWG, in November 2004 that these credits are likely to be valued in the range of \$10-20/ton which would likely price them well above the RGGI estimated allowance price, based on ICF modeling results. If the ICF modeling is accurate, no afforestation projects will likely take place in the RGGI region.

We are currently conducting a thorough study of the RGGI region (including Pennsylvania and Maryland) to measure the quantity and cost of carbon credits that could be generated through a variety of carbon sequestration opportunities. Our efforts will reveal where the greatest amount of carbon is available from various land-use activities at low-cost. We will also demonstrate where the greatest amount of cost-effective carbon credits overlaps with high priority conservation and biodiversity protection opportunities. This study will be published in January 2007. We plan on using it to inform the RGGI land-use offsets market in this region and guide high quality projects that promote multiple environmental co-benefits.

We do know that land-use offset projects, including afforestation projects, are much more economical in other regions of the country, such as in the Southeastern U.S., and in tropical areas outside of the country.

The concerns about enforceability and verification for projects outside of the RGGI region can be met through a rigorous third-party verification program.

- The Conservancy recommends that a third-party verification program be put in place to ensure that such projects are monitored, reviewed and validated by expert third-parties, who can attest to the real carbon emission reductions.

### ***Early Reduction Credits***

The MOU properly gives incentive for regulated entities to implement emission reductions prior to launch of the program in 2009. However, it is unclear whether these early reductions will be subtracted from the cap or not.

- The Conservancy feels that the Model Rule must ensure that early reduction credits be subtracted from the cap so as not to inflate the cap and weaken it even further. Incentives should be given to generators who make early reductions, however these reductions should be acknowledged through the awarding of credits in each state and not as reductions from the cap.

### ***Regional Organization***

- The Conservancy feels that the Regional Organization (RO) should be charged with screening offset projects and producing technical guidance documents regarding the approval for the various offset types. It is also important that a specific timeframe for approval be defined in order to ensure a quick, consistent review process across all of the participating states.
- The Conservancy also feels that a clear procedure with well defined timelines for reviewing the approval of additional offsets project types be delineated as rules for the operation of the RO. This will ensure that new offset projects are reviewed in a timely manner.

### ***Program Expansion***

We applaud the language that allows for other states to join the RGGI program. We hope this language applies to groups or regions linking to this program. It is important that every effort is made to expand this program to encompass as wide a geographic area as possible to minimize leakage and achieve larger emissions reductions at a low cost.

- The Conservancy asks that the Model Rule clarifies that groups of states or regions are able to join RGGI in addition to individual states.

Thank you for the continued opportunity to provide feedback and input on the RGGI process. Overall, we feel that a stronger more effective program has emerged and will continue to be refined through the active participation of the many stakeholders involved.

Should you have any questions on our comments put forth, please feel free to contact:

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