

January 22, 2009

Angus Duncan, President
Bonneville Environmental Foundation
240 SW 1st Ave
Portland, OR 97204-3503

Dear Angus,

As I mentioned I have had our Cap and Trade Team review the Oregon Cap and Trade Draft and submit to you and Gregg our unedited comments and ask that you review this body of work which I hope you find helpful in fine tuning the document up for consideration on Thursday.

The Nature Conservancy Cap and Trade Team has a few specific comments on Oregon's draft resolution that you and the Commission might find useful:

1) **CRITICAL:** We're very happy to see that the draft includes support for adaptation under the "Use of Auction Proceeds" point (#3) in the qualifications. With many changes to the climate system already happening, and additional changes expected from GHGs that have already been emitted, adaptation is a key piece of any program to address climate change. It is vital that enough funding is directed towards natural system adaptation.

In response to some of the outstanding questions:

2) **MINOR:** Question 2 poses a question about allocation of allowances. While TNC does not have a official position on this issue at the state and regional level, it is important to note that achieving the goals outlined in the "Qualifications" section numbers 3 and 6 (including support for adaptation and for complementary measures) may be supported by auction revenue. At the federal level, we have taken the position that there should be some free allocation to regulated entities during a transition period, but that this free allocation should be phased out. If the Commissions wants more details, we can get you more details about our position for federal legislation.

3) **IMPORTANT:** Question 4, 5th bullet point: "Should Oregon deem its in-state biomass combustion as carbon neutral?"

We provided detailed comments on the WCI design draft regarding this issue. In short, the answer is no - while the CO2 coming directly from the biomass burning was recently sequestered out of the atmosphere during the growth of that biomass, there may be additional upstream emissions that need to be accounted for. For a complete answer that represents TNC's position on this issue, please see the second page of the attached WCI comments, point 1.3. The answer is directed in part to biofuels, but all the relevant issues are the same in biomass burning for power or heat generation as well.

4) **CRITICAL:** Questions 7 ("Compliance Flexibility Tools") and Question 8 ("Availability and Use of Offsets") We agree that cost containment is an important piece of any cap-and-trade program to address GHG emissions and global warming. Compliance flexibility mechanisms, such as banking of allowances and use of offsets, can provide strong cost containment.

Offsets help protect the integrity of the program by containing costs by providing low-cost emission reductions while low-carbon technologies advance and are deployed. Reducing a ton of CO2 emissions through offsets has the same impact on the atmosphere as a ton of reductions from covered sectors. Criteria must be established to ensure

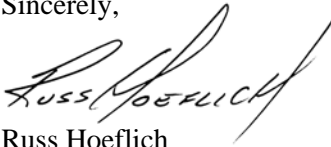
all offsets are environmentally additional, verifiable, permanent, measurable, and enforceable. Forest carbon in particular can be an important source of offsets, and TNC has demonstrated, through our on-the-ground work in Belize, Bolivia, and Brazil, that emission reductions from reduced deforestation are real and can be credibly measured, validated, and verified.

We recommend that Oregon adopt the maximum WCI recommended offset provision, set at 49% of reductions.

We do not support the type of "circuit breaker" mechanism that would cap compliance costs by raising emissions caps. However, at the federal level, we have supported proposals such as a "strategic reserve" that would set aside a portion of future allowances at the outset of the program, which could then be sold into the market if certain price levels are reached (to release some price pressure). In addition to this type of "system-wide borrowing" of allowances, a strategic reserve could also be filled by government purchases of offsets on the national and international market, similarly available to be sold in the event of excessively high allowance prices.

I hope the Commission finds these points helpful, and if you have any questions about them or need anything additional, please let me know.

Sincerely,

A handwritten signature in black ink, appearing to read "Russ Hoeflich". The signature is fluid and cursive, with a large initial "R" and "H".

Russ Hoeflich
Vice President & Oregon State Director