The Business Council for Sustainable Energy

MEMORANDUM

TO: State Initiatives Task Force
DATE: June 22, 2009
SUBJECT: State and Regional Initiatives Update

While legislative activity on climate and clean energy in the House of Representatives and the Senate has drawn considerable attention in recent months, emission reduction proposals and programs at the State and regional level have also been moving forward.

The following provides a brief summary of recent state and regional activity on climate change. If you have any questions, or comments, please contact Ruth or Aaron in the Council's offices.

Latest RGGI Cap and Trade Auction Marks Success

June 19th, 2009 – Recently, the Regional Greenhouse Gas Initiative –a partnership of 10 Northeastern states that jointly ventured to participate in a regional cap and trade program- successfully conducted its fourth auction of allowances. The total revenue, approximately 104.2 million dollars, will be used to fund numerous projects geared towards energy efficiency, renewable energy, and technology development. This recent success demonstrates how market based solutions have the capability to spawn new investment in clean technology, create new green jobs, and promote a better environment.

RGGI started auctioning allowances in September 2008. To date, RGGI has sold 110 million allowances and has raised 366.5 million dollars in revenue. According to RGGI's market monitors, compliance entities have submitted bids that were more than double the quantity of allowances in 2009 alone. This occurrence helps demonstrate that cap and trade does have credible potential, once implemented.

Most of the programs funded by auction revenues are being directed towards renewable energy and energy efficiency, which is widely seen as a low cost measure to diminish the reliance of fossil fuels. Today, auction funds set aside for energy efficiency have helped States implement weatherization programs, training programs for energy auditors, deployment of combined heat and power and district heating and cooling systems, the subsidization of energy efficiency improvements for small businesses, and other initiatives. Because of energy efficiency's high return on investment, participating states are starting to experience cost savings while reducing greenhouse gas emissions.

A complete report on RGGI's 4th auction can be found here.

Maryland's Moves Forward with the Regional Greenhouse Gas Initiative

May 2008 - The State of Maryland has joined nine other northeastern states to comply with the Regional Greenhouse Gas Initiative- a market based cap and trade program designed to reduce emissions of CO_2 from fossil fuel fired plants. The program will require electric generators to purchase an allowance for each ton of CO_2 that is emitted via auction. Revenue from allowance purchases will fund energy efficiency initiatives that are expected to achieve additional carbon reductions. Recently, the Maryland Department of the Environment proposed new amendments to the State's Code of Maryland Regulations (COMAR) that are aimed towards carbon abatement. Specifically, proposed amendments comprise of:

- A Clean Generation Set-Aside Account where allowances will be credited to facilities that apply best available control technology or lowest achievable emissions rates.
- A Voluntary Renewable Set-Aside account where the Department of the Environment will retire one CO_2 allowance for every ton of CO_2 a person has avoided through the purchase of a Renewable Energy Credit.
- A Limited Industrial Exemption that requires a climate action plan; energy efficiency procedures geared towards emissions reduction; and alternative transportation alternatives for eligibility.

More information on Maryland's involvement in the Regional Greenhouse Gas Initiative can be found here.

Midwestern Governors Lay Framework for a Cap and Trade Program

June 10, 2009 - The Governors from the States of Illinois, Kansas, Michigan, Minnesota, Wisconsin, and the Canadian Province of Manitoba have issued a joint set of recommendations for the proposed Midwest Governors Greenhouse Gas Reduction Accord (MGGGRA). The States of Ohio, Indiana, South Dakota and the Province of Ontario have also shown interest.

The benchmark goals are similar to the American Clean Energy and Security Act (ACES) currently moving through Congress: It sets a short-term reduction goal of 20% reduction below 2005 emission levels by 2020 and an 80% reduction below 2050 emissions by 2050 in the long term. Several sectors will be subjected to the cap, ranging from Electricity Generation to Transportation Fuels. However, biomass and biofuel combustion will be given exemptions.

The objective of the cap and trade program is to accelerate the development of low-carbon technologies; mitigate adverse impacts to consumers, industries and manufacturing infrastructure; and enhancing climate change adaptation strategies.

Decisions to provide free allowances or allowances by auction will be at the discretion of the Governor of the respective locality. In turn, revenue will be based on the allowances set for each state/province. One of the benefits of the revenue structure is the Regional Low-Carbon Technology Commercialization Fund- where revenue from set-aside auctions would directly support “commercial risk projects” (i.e. carbon capture and sequestration).

Monitoring and Reporting will be mandatory one year before the start of the program with an expected start date of 2011. Furthermore, the threshold will be set at 20,000 $MTCO_2e$. The implementation of MGGGRA is set to begin if the American Clean Energy and Security Act of 2009 (ACES) does not get enacted. The Council is glad to see that the Midwestern region has taken initiative to address climate change while recognizing the importance of low carbon technologies.

More detailed information on the Midwest States’ landmark proposal can be found here.

Pending Legislation May Indirectly Affect California’s Voluntary REC Market

Today, the State of California has one of the most robust Volunteer Renewable Energy Certificate (REC) Markets and is an industry leader nationwide. Unfortunately, a confusing yet harmful bill that is geared towards consumer protection may unintentionally inhibit further growth of the Voluntary REC Market along with depriving consumers of the option to purchase clean energy.

The language of the bills appears to require carbon offset providers to adhere to a narrow and potentially inconsistent set of project protocols adopted by the California Climate Action Registry (CCAR) or to be defined by the California Air Resources Board (CARB), or demonstrate publicly that the emission reduction is quantifiable, measurable, additional and enforceable by a state, regional, or local agency within the State of California. These terms may not have universally accepted definitions at this time and may result in legal ambiguity. Although RECs are fundamentally different instruments from carbon offsets, the language of the bill seems to regulate them in the same way and according to the same standards. This approach has the effect of discouraging worthy projects and damaging the voluntary offset and renewable energy markets that California consumers rely on to reduce their greenhouse gas emissions. Because of California’s role as a leader in renewable energy, the Council believes that such legislation would send broad adverse market signals and influence future policy decisions in other states.

Today, the Bill has passed the California State Senate, and is pending in the State Assembly. The Council has drafted the attached letter in opposition to the State legislation that Council intends to send to officials in the California State Legislature. The letter is similar to one that the Council sent last summer on similar legislation being considered by the California State Legislature.

Council members are asked to review the draft letter and notify Ruth in the Council’s offices with any suggested changes or comments by Wednesday, June 24.