February 7, 2008

To: **Michele Totten, Connecticut Department of Environmental Protection**

CC: **Chris Nelson, Connecticut Department of Environmental Protection**

Regarding: **BCSE Comments on Control of Carbon Dioxide Emissions/Carbon Dioxide Budget Trading Program and Greenhouse Gas Emission Offset Projects**

Submitted Via Email to: Michele.Totten@po.state.ct.us
Chris.Nelson@po.state.ct.us

On behalf of the members of the Business Council for Sustainable Energy (the Council), we appreciate the opportunity to provide comments on the proposed regulations for Connecticut's Control of CO_2 Emissions/CO_2 Budget Trading Program and Greenhouse Gas Emission Offset Projects.

The Council would like to offer a general comment: The Council recognizes that Connecticut has chosen to make clean energy technology deployment central to program design of the Connecticut CO_2 Budget Trading Program through specific, dedicated use of both allowance set-asides and auction revenues. On behalf of the Council's members, we strongly commend Connecticut's decision to allocate five percent of allowances to the Combined Heat and Power (CHP) Set-Aside Account, three percent to the Consumer-Side Distributed Resources (CDR) Account, and one percent to the Voluntary Clean Energy Purchase Set-Aside Account. Further, the Council commends Connecticut's decision to allocate 91 percent of allowances to the Connecticut Auction Account, with approximately 23 percent of auction revenue directed to support the development of Class I renewable energy sources and approximately 69 percent of auction revenue directed to support the development of energy efficiency measures in Connecticut.

The increased use of energy efficiency, renewable energy and cleaner generation will be critical to RGGI's success in Connecticut, and throughout the region – by reducing carbon emissions, lowering compliance costs and electricity rates for consumers, reducing the risk of emissions leakage and easing electric transmission constraints. The Council urges other RGGI states to follow Connecticut's decision to dedicate significant allowance value to renewable energy, energy efficiency, CHP, consumer-side distributed resources and the voluntary renewable energy market.

Introduction

The Business Council for Sustainable Energy is a broad-based coalition of energy efficiency, natural gas and renewable energy industries that advocates energy and environmental policies that promote markets for clean, efficient and sustainable energy products and services. The Council's coalition includes power developers, equipment manufacturers, independent generators, green power marketers, retailers, and gas and electric utilities, as well as several of the primary trade associations in these sectors.

The Council and its members have advised legislators and regulators on the development of domestic and international clean energy, clean air and climate change initiatives for over a decade. The Council's coalition represents available technologies that offer vastly deployable solutions to energy challenges and global climate change.

The Council continues to participate actively in the RGGI stakeholder process and has met with many working group members and agency heads during the past several years. Our members view RGGI as an important vehicle to reduce greenhouse gas emissions and create a workable national model to address climate change.

Please be aware that not all Council members work on, or take positions on, RGGI.

Dedicated Use of Auction Proceeds to Benefit Energy Efficiency, Renewable Energy and Clean Generation

Should Connecticut create advisory stakeholder groups to guide the use of auction revenue – an approach being adopted in Massachusetts and New York and under consideration in other RGGI states – the Council respectfully requests to be considered for participation in the Connecticut Clean Energy Fund's (CCEF) advisory group of stakeholders on how to best utilize auction revenue funds to support the development of Class I renewable energy resources, as well as the Connecticut Light & Power (CL&P) and United Illuminating (UI) programs to support the development of energy efficiency measures.

Although Connecticut has not chosen to use an output-based allocation methodology, which would have strongly promoted clean and efficient electric power generation, the auction revenue provision has significant potential to focus funding toward clean energy activities and advance a more sustainable regional energy future. It is imperative that actions taken by CCEF, CL&P and UI vis-à-vis the distribution of auction revenues provide as much certainty as possible to send clear and consistent signals to the clean energy market. The Council recommends that CCEF, CL&P and UI develop a transparent decision-making process on the distribution of their respective auction proceeds as soon as possible to assist clean energy project developers in decision-making.

We are aware that Connecticut already has a wide array of incentives to encourage clean energy and we commend Connecticut on its current renewable and efficiency programs, particularly the various programs of CCEF, CL&P, and UI. These programs will benefit significantly from increased funding through RGGI auction revenue, resulting in more clean energy and efficiency projects in Connecticut. The Council looks forward to working with each of these programs to identify programs that should be expanded through use of auction revenue, as well as the potential development of new programs.[1]

Even with the admirable programs of CCEF, CL&P and UI, there is still more that can be done to promote clean, cost-effective renewable and energy efficiency projects in Connecticut. Specific, transparent and dedicated use of Connecticut's RGGI auction proceeds can be used to achieve these objectives. The Council offers the following list of criteria to ensure that auction revenue is directed to provide the greatest benefit. These criteria include:

1. Reduce the carbon intensity and promote the efficiency of electric generation
2. Reduce energy demand
3. Provide benefit to the state's economy
4. Promote private investment through partial funding of investments
5. Enhance complementary energy program benefits
6. Help establish new energy programs
7. Increase the market potential of new technologies

Finally, consistency and transparency in auction design will be essential to conducting successful auctions. Connecticut should strive to send clear signals to RGGI stakeholders by establishing a common pattern for

[1] More detail on potential areas for increased or new funding for renewable energy, energy efficiency and clean generation is outlined in the Council's letter to CT DEP on the Connecticut RGGI Pre-Proposal dated March 9, 2007.

auctions in terms of frequency, quantity of CO_2 allowance auctions, and participant eligibility, especially if Connecticut decides to participate in a multi-state RGGI auction. We look forward to learning more details on Connecticut's proposed auction in the coming weeks.

Retirement of Allowances for Clean Energy Purchases

The Council commends DEP for inclusion of a voluntary renewable set-aside provision – the Voluntary Clean Energy Purchase Set-Aside Account – under the Connecticut CO_2 Budget Trading Program (Section 22a-174-31, (f) (5), p. 31-25). Beyond increasing the use of renewables within utilities' portfolios under the state's RPS, the customer-driven voluntary renewables market is an important catalyst for renewable energy development in Connecticut and the Voluntary Clean Energy Purchase Set-Aside provision will increase compatibility between the cap-and-trade program and the voluntary market.

To encourage further growth in Connecticut's voluntary market, the Council recommends that the credits retired through the Voluntary Clean Energy Purchase Set-Aside Account grow in proportion to the size of Connecticut's voluntary market, rather than be capped at a maximum of one percent of CO_2 allowances to be retired per year. As suggested by the Renewable Energy Marketing Association, a sound approach to managing the voluntary renewable account would be to start with an initial allocation of allowances and subsequently true-up the account in the following year, based on actual sales. This will ensure that Connecticut customers who purchase renewable energy through the voluntary market are indeed receiving the environmental benefits they have sought to buy. Further, generation from renewables and combined heat and power via the customer-driven voluntary market benefits state economic interests and all ratepayers, as capital costs for the additional generation are borne by the customer.

Offsets

The Council strongly encourages a broader use of offsets within RGGI to provide compliance flexibility, lower compliance costs and encourage technology innovation and deployment.[2] We encourage Connecticut and other RGGI states to work with RGGI stakeholders to develop expanded eligible offset categories that go beyond projects that either capture and destroy landfill methane, avoid sulfur hexafluoride emissions, sequester carbon through afforestation, provide end-use energy efficiency, or avoid methane emissions from agricultural management operations. A strengthened and expanded offset program will have a secondary benefit by allowing non-capped sectors to participate in creating additional reductions beyond levels set by RGGI Member States. The Council looks forward to working with Connecticut and other RGGI states to design expanded offset program categories that will evolve over time to capture significant emissions reductions beyond RGGI's current offset categories.

Harmonization With a Mandatory Federal Greenhouse Gas Program

The RGGI regional model will play a significant role in the development of a federal greenhouse gas program. As such, the Council encourages Connecticut and all other RGGI states to develop clear and consistent provisions in their state RGGI rules to transition to a national program.[3] The Council calls for additional clarity on how the Connecticut Control of CO_2 Emissions/Connecticut CO_2 Budget Trading Program and provisions for Greenhouse Gas Emission Offset Projects will harmonize with an eventual federal greenhouse gas program.

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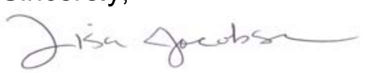
[2] Please see the attached paper for a more thorough discussion of the Council's position on offsets: *Recommendations for a Federal Greenhouse Gas Offset Program,* BCSE, September 2007, also available at: http://www.bcse.org/publications/press_releases/BCSE_Offset_Principles_final_9_5_07.pdf.

[3] For example, see recommendations from Public Service Enterprise Group (PSEG) as part of the RGGI Draft Model Rule stakeholder comment process at http://www.rggi.org/docs/pseg.pdf, p. 4. Also see New Jersey's legislation on implementing RGGI, which requires "substantial comparability" between the New Jersey program and an eventual federal greenhouse gas program, available at: http://www.njleg.state.nj.us/2006/Bills/AL07/340_.PDF, Sec. 1, p. 2, and Sec. 10, pp. 10-11.

Conclusion
We appreciate the opportunity to share our perspectives with you. Again, should the state create advisory stakeholder groups to guide the use of auction revenue, we respectfully request to be considered for participation in the Connecticut Clean Energy Fund's advisory group of stakeholders on how to best utilize auction revenue funds to support the development of Class I renewable energy resources, as well as the Connecticut Light & Power and United Illuminating programs to support the development of energy efficiency measures.

We thank you for your consideration of these recommendations and we look forward to continued collaboration with the Connecticut Department of Environmental Protection and other agencies and programs that will implement the renewable energy, energy efficiency and clean generation programs of the CT RGGI Rule. If you have any questions, please feel free to contact me at (202) 785-0507 or via email at ljacobson@bcse.org.

Sincerely,



Lisa Jacobson
Executive Director

CC: Chris Nelson, Connecticut Department of Environmental Protection