

September 24, 2007

To: **Nicholas Bianco, Massachusetts Department of Environmental Protection**

Robert Sydney, Massachusetts Division of Energy Resources

Regarding: **BCSE Comments on Massachusetts CO₂ Budget Trading Program**

Submitted Via Email to: Nicholas.M.Bianco@state.ma.us
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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 the Massachusetts CO₂ Budget Trading Program. As our comments to both Massachusetts Department of Environmental Protection (MassDEP) and Massachusetts Division of Energy Resources (DOER) are related, the Council has chosen to submit a joint letter to both agencies.

The Council would like to offer a general comment: The Council recognizes that several opportunities remain untapped to make clean energy technology deployment more central to program design of the Massachusetts CO₂ Budget Trading Program, particularly through specific, dedicated use of auction revenues. This is of critical importance because increased deployment of existing clean energy technologies – such as demand- and supply-side energy efficiency and renewables – will be a key element of keeping the cost down of the Regional Greenhouse Gas Initiative (RGGI). As outlined below, greater emphasis on clean energy deployment can be achieved through design elements such as set asides from auction proceeds and other policies. In particular, the Council is concerned that 1) non-polluting renewable energy sources, clean generation and energy efficiency were not recognized by 310 CMR 7.70 as recipients of direct allowance value by utilizing an output-based allocation scheme; and, 2) the language contained in MassDOER's proposed auction regulation 225 CMR 13.00 regarding the use of auction proceeds for clean energy is vague and does not specifically mention "renewable" or "clean" energy among other stated goals. Further, it is unclear how an annual decision-making process regarding the distribution of auction proceeds will provide enough certainty to clean energy project developers and other beneficiaries of auction revenues to allow for consistent growth in Massachusetts' clean 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

The Council specifically requests the opportunity to participate in the advisory group of stakeholders that will be formed to advise the Secretary of the Executive Office of Energy and Environmental Affairs (the Secretary) on how best to utilize the auction proceeds (DOER CO₂ Budget Trading Program Auction Regulation 225 CMR 13.00, 13.06 (8), p.5).

The Council's primary concern with the proposed auction regulation is the lack of specificity of stated goals for the utilization of auction proceeds, in particular as this pertains to renewable energy and clean generation. While energy efficiency is included in the list of explicitly stated goals, renewable energy and clean generation are not included in this list (DOER CO₂ Budget Trading Program Auction Regulation 225 CMR 13.00, 13.06 (8), p.5). Renewables and clean generation have long been priorities of the Commonwealth, and therefore it could be interpreted that renewables and clean generation would indeed fall under the category of "other strategic energy goals of the Commonwealth" eligible for auction proceeds; however, the Council strongly encourages DOER to add further specific language to 13.06(8) including "renewable energy" and "clean generation," as directly stated goals rather than leave these goals to interpretation.

As Massachusetts has not chosen to use an output-based allocation methodology and has not elected to use a consumer benefit or strategic energy purpose allocation, the auction proceeds provision has the most potential of the entire CO₂ Budget Trading Program to focus funding toward clean energy activities and advance a more sustainable regional energy future. It is imperative that the Secretary's actions 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 is concerned that an annual decision-making process on the distribution of auction proceeds would not provide enough certainty to clean energy project developers, potentially resulting in the unintended consequences of impeding clean energy project development and creating undue administrative burden.

We are aware that Massachusetts already has a wide array of incentives to encourage renewables and energy efficiency including:

- Massachusetts Technology Collaborative (MTC) grant and loan programs for energy efficiency and renewables
- Massachusetts Division of Energy Resources (DOER) Renewable Portfolio Standard (RPS)
- Massachusetts DOER and Massachusetts Department of Revenue's various tax exemptions for renewable and energy efficiency projects

Even with these admirable programs, there is still more that can be done to promote clean, cost-effective renewable and energy efficiency projects in Massachusetts. Specific, transparent and dedicated use of the Commonwealth'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 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

Voluntary Renewable Energy Account

The Council commends MassDEP for inclusion of a voluntary renewable set-aside provision – the Voluntary Renewable Energy Account (VRE) – under the Massachusetts CO₂ Budget Trading Program (310 CMR 7.70. p.26-27). 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 the Commonwealth and the VRE provision will increase compatibility between the cap-and-trade program and the voluntary market.

To encourage further growth in Massachusetts' voluntary market, the Council recommends that the credits retired through the VRE grow in proportion to the size of the Commonwealth's voluntary market, rather than be capped at a maximum of 200,000 CO₂ allowances to be retired per year. For example, if the voluntary market grows beyond the estimated

300,000 to 400,000 MWh of qualified renewable energy¹ associated with 200,000 credits, MassDEP should reevaluate the allotment to avoid false limitations on consumer choice and market demand. This will ensure that Massachusetts 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.

Conclusion

We appreciate the opportunity to share our perspectives with you. 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

¹ See *Background Information and Technical Support Document for Proposed Adoption of 310 CMR 7.70 "Massachusetts CO₂ Budget Trading Program" and Amendments to: 310 CMR 7.00 et seq.; 310 CMR 7.29 "Emissions Standards for Power Plants" and 310 CMR 7.00: Appendix B(7) "Emission Banking, Trading, and Averaging,"* Section J, p. 11.