The Business Council For Sustainable Energy

May 22, 2006

Submitted via email

To: Regional Greenhouse Gas Initiative Commissioners and Agency Heads
Members of the Regional Greenhouse Gas Initiative Staff Working Group

Regarding: Comments on Draft Model Rule

On behalf of the members of the Business Council for Sustainable Energy, we are pleased to provide comments on the Regional Greenhouse Gas Initiative (RGGI)'s draft Model Rule.

The Council was created in 1992 and its members span the energy spectrum. It represents companies and trade associations in the wind, solar, hydropower, energy efficiency, natural gas and insulation industries. The Council promotes public policies that reduce the environmental footprint of energy production and use, while encouraging economic growth and energy independence for the United States.

The Council continues to be an active participant in the RGGI stakeholder process and has met with many working group members and agency heads over the past two years. Our members view RGGI as an important vehicle to reduce greenhouse gas emissions and create a workable national model to address climate change. Our comments on the draft Model Rule focus on the incorporation of clean energy generation and energy efficiency into the RGGI cap-and-trade program. Inclusion of clean and efficient energy options, both for demand reduction and expansion of local clean generation within the RGGI region, will help reduce greenhouse gas levels while supporting the region's economy.

This can be achieved by providing allowance value to clean energy technologies through the allocation rules and/or the Set Aside provisions. Understanding that the draft Model Rule leaves decisions on allocation to the states, we urge consideration of output-based approaches. Output-based allowance allocation creates clear market signals for clean and efficient energy options through the main allowance pool.

Related to the draft Model Rule, the Council offers the following comments:

Maintain Set Aside Provision on Strategic Energy that Includes Renewable Energy and Energy Efficiency
Our members strongly support the language in the RGGI draft Model Rule that specifically recognizes renewable energy and energy efficiency as eligible for support under the Set Aside program.

Provide Guidance to States on Use of Set Aside
While decisions on the specific use of the Set Aside and its administration are left to individual states, we encourage the Model Rule (and/or supporting documents) to provide guidance to states to ensure that the program goals are achieved with the greatest benefit to the region. Since the Set Aside is the most significant provision to focus funding toward clean energy activities – such as renewable energy and energy efficiency – it has the potential to advance a more sustainable regional energy future.

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It is important that the Set Aside focus state flexibility toward program effectiveness that benefits the public. Such criteria could include that:

1- Set Aside allowances reduce the carbon intensity of electric generation;
2- Set Aside allowances reduce energy demand;
3- Set Aside allowances provide benefit to the region's economy; and
4- Set Aside allowances promote private investment through partial funding of investments.

Provide Incentives for Local, Small, Clean Generation (less than 25 MW).
Small generators can make an important contribution to meeting RGGI targets while expanding economic opportunities and creating jobs in the region. Such generation is often customer-owned and utilizes renewable energy or combined heat and power (CHP) technologies. The program should include and encourage smaller renewable and CHP facilities that are not directly affected emitters by the program. This can be achieved by:

- Allowing small, clean generation to qualify for Set Aside allowances;
- Allowing small, clean generation to qualify under the offset program; or
- Encouraging state allocations/complimentary energy policies that allow affected units to purchase power from small generators that will contribute toward program compliance.

Use Output-Based Metrics to Determine Early Reduction Credit Calculations
The Council is concerned with the formula for calculating early reduction credit, shown on page 41 of the rule. As currently formulated, the only emission reduction action that can receive credit is fuel-switching, while efficiency improvement is systematically excluded from receiving credit under this provision. The reason for this is the input-based formulation of the rule. The problem can be fixed by re-casting the provision on an output-basis. An output-based formula would provide credit for both fuel-switching and efficiency improvement while maintaining RGGI's interest in recognizing only absolute and rate reductions. More importantly, it sets an example of regulation that recognizes and rewards increased efficiency through output-based regulation. This could also be improved by including the efficiency effects of CHP through recognition of the thermal output of CHP retrofit projects during the early reduction period. *(Please refer to the specific comments on this topic made by the Council and the U.S. Combined Heat and Power Association)*

With regard to the offset provisions in the draft Model Rule, RGGI should:

Balance Stringency in Offset Rules with Establishment of a Workable Model
Consistent with RGGI's objectives to attract more state participants and to establish a national model program to reduce carbon emissions, we urge a balance between stringent and complex eligibility rules for offsets with the creation of an effective model for states and the Congress. The RGGI offset rules will establish an important benchmark and should be clear, simple and flexible.

Apply ISO 14064 Standard to RGGI Offset Program
To promote consistency with leading greenhouse gas management protocols and to facilitate linkages with other greenhouse gas offset programs, we recommend that RGGI apply the ISO 14064 greenhouse gas management standard to the offset program. Incorporation of the ISO standard will facilitate best practice and lower transaction costs associated with offset project development and verification.

Avoid Financial Additionality Tests under RGGI Offset Provisions

The Council welcomes RGGI's interest in providing objective and standardized eligibility criteria for offset projects. The Council is opposed to the subjective and case law approach adopted by the Kyoto Protocol's Clean Development Mechanism and several other offset programs. As RGGI considers using performance standards or benchmarks in determining offset eligibility, the Council cautions against the use of financial additionality tests. Financial additionality tests are subject to gaming and cannot reasonably account for market behavior. In our experience, financial additionality tests deter good projects and weaken the credibility and market power of offset programs.

We appreciate this 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,

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