The Business Council For Sustainable Energy

September 26, 2005

Submitted via email

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

Regarding: Pending Staff Working Group Proposal

On behalf of the members of the Business Council for Sustainable Energy, we are pleased to provide comments on the pending Regional Greenhouse Gas Initiative (RGGI) Staff Working Group Proposal. We understand that the Agency Heads will be meeting later this week to review the proposal with the aim of considering a Memorandum of Understanding (MoU) that may incorporate some of the proposal's elements.

As you know, the Council was created in 1992 by companies in the energy efficiency, renewable energy, natural gas, electric utility and independent power industries. Our membership spans across the energy spectrum and includes companies such as the NiSource, Green Mountain Energy, Sempra Energy, Enel North America, GE Wind and American Standard/Trane as well as industry trade associations representing 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.

Through our active participation in the RGGI stakeholder process and one-on-one meetings with many working group members and Agency Heads this year, we view RGGI as an important vehicle to reduce greenhouse gas emissions and create a workable national model. Our comments 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.

Overall, the Council is supportive of the draft proposal's approach, and in particular, its potential 25 percent combined allocation to clean energy -- such as renewable energy and energy efficiency -- under the Public Benefits Allocation and the Strategic Carbon Fund. We urge the Agency Heads to retain the open and flexible text that is included in the Staff Working Group Proposal that enables allowances to be allocated to renewable energy and energy efficiency investments, among other options.

Second, while our coalition supports a regional output-based allowance allocation under the RGGI cap-and-trade program, we understand the Working Group's decision to defer this issue to individual states. **We recommend that the Agency Heads consider providing guidance to states on allocation options -- including output-based methods -- in the Model Rule or in supplemental documents that accompany the Model Rule.** Specifically, we encourage working group members and Agency Heads to refer to a memo that was released by STAPPA/ALAPCO this month. This document provides states with alternative regulatory language for NOx allowance allocation that

1400 I Street, NW, Suite 1260, Washington, DC 20005 phone 202.785.0507 fax 202.785.0514 www.bcse.org

promote clean energy technologies. The memo can be downloaded from http://www.4cleanair.org/Bluestein-cairallocation-final.pdf. This is a valuable resource for states implementing the Clean Air Interstate Rule as well as RGGI's cap-and trade program.

Third, the Council urges the MoU and the Model Rule to provide criteria for the Public Benefits Allocation (PBA) to ensure that the program goals are achieved with the greatest benefit to the region. Since the PBA 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. It is important that the PBA focus state flexibility toward program effectiveness that benefits the public. Such criteria could include that:

1- The funds contribute to reducing the carbon intensity of electric generation;
2- The funds reduce energy demand;
3- The funds provide benefit to the region's economy; and
4- The funds promote private investment through partial funding

The public will benefit by maximizing investment in energy demand and supply efficiency that will produce sustainable benefits for future generations.

Fourth, the MoU and Model Rule should provide incentives for local, small, clean generation (under 25MW). Such generation is often customer-owned and utilizes renewable energy or combined heat and power technologies. Small generators can make an important contribution to meeting RGGI targets while expanding economic opportunities and creating jobs in the region. The program should include and encourage smaller renewable and combined heat and power facilities that are not directly affected emitters by the program. This can be achieved in a variety of ways, including:

- Permitting small, clean generation to qualify for PBA funds; or
- Encouraging state allocations/complimentary energy policies that allow affected units to purchase power from small generators that will contribute toward program compliance

Fifth, we recommend that the MoU and Model Rule establish a clear process and 2008 timetable for expanding the list of eligible offsets that are permitted to qualify as compliance options under the RGGI cap-and trade program. Expanding the project list will drive investments in a wider range of clean energy technologies that will speed innovation and deployment in the region. With its extensive expertise in this area, the Council offers itself as a resource as additionality and baselines methodologies for new project types are developed under RGGI.

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,

Lisa Jacobson

Lisa Jacobson
Executive Director