The Business Council for Sustainable Energy

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

The Business Council for Sustainable Energy
An Energy Agenda for the 21st Century
www.bcse.org
1620 Eye Street NW, Suite 501, Washington, DC 20006 Phone: 202-785-0507 Fax: 202-785-0514

Business Council for Sustainable Energy

Recommendations for a Federal Greenhouse Gas Offset Program

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The ability of entities to generate and purchase emissions offsets[1] is an essential design feature of a market-based approach to reducing greenhouse gas (GHG) emissions. While various clean technologies, such as renewable energy and energy efficiency, are currently available and should be pursued within potentially regulated sectors, an offset program provides incentives for and added financial value to project activities that reduce GHG emissions outside regulated sectors and activities. This in turn widens the scope of environmental benefits and lowers the overall costs of compliance for society as a whole.

Under an offset program, regulated entities are permitted to help meet their compliance obligation by purchasing GHG emission reduction credits generated from project activities that fall outside the scope of an emissions cap. This flexibility provides regulated entities with the ability to invest in the most cost-effective emission reduction activities. While the Council encourages regulated entities to undertake internal emission reduction activities early and to the greatest extent possible, we recognize offset purchases as an important complementary tool to help companies manage compliance costs and promote GHG reductions throughout a wider scope of the economy.

Facilitating emissions reductions that are cost-effective and efficient can help promote technological innovation, encourage participation of non-capped sectors and activities, lower costs for consumers, and generate immediate environmental benefits. For this reason, offset programs have been included in existing climate change programs inside and outside the U.S., and should be valued as an important design feature of federal climate change legislation.

As with other aspects of market-based initiatives to address climate change, the details and structure of a federal offset program will play a critical role in determining successful implementation, as well as achieving desired GHG emission reductions. The Council urges adoption of an economy-wide, market-based approach that provides real and measurable emission reductions through clean energy technology deployment and innovation.

The Business Council for Sustainable Energy offers the following recommendations for consideration with respect to the design of a federal offset program:

Emissions offsets must be real[2], additional[3], permanent[4], independently verifiable[5], enforceable[6], measurable[7], and transparent[8] – Ensuring the environmental integrity of offsets is essential to meeting desired emissions reductions levels. Verifiable and surplus offsets must be the standard for program integrity. In addition, independent, third-party monitoring and verification requirements must be in place to ensure that GHG emissions reductions are delivered.

Promote broad sector and activity eligibility for offsets – To the widest extent possible, all sectors and activities not covered by an emissions cap should be eligible to generate offsets insofar as they meet the criteria established above. This will encourage the most significant and immediate reductions in GHG emissions, especially in initial phases before some uncovered sectors and activities are incorporated under a cap.

Permit broad use of emissions offsets – Offsets provide incentives for GHG emission reduction activities outside capped sectors and activities, expanding the reach of the program and minimizing

overall compliance costs. The Council recommends eligibility for broad use of offsets to achieve compliance under a federal climate change program, and to promote a robust and liquid carbon offset market for a wide range of activities that offer readily available, low cost GHG emission reductions.

Reward early action to reduce greenhouse gas emissions – Rewarding the efforts of entities that purchase offsets prior to implementation of a federal program sends clear market signals to facilitate development of projects that reduce GHG emissions, and serves as an incentive for entities to reduce emissions as soon as possible. Companies will have the opportunity to learn from such activities and prepare themselves for federally mandated GHG regulations. Early action can be recognized by adjusting the emissions baseline of regulated entities to reflect offset purchases or by granting allowances under the regulatory program to recognize early offset purchases. Offsets that should be considered as eligible for early action credit include those that are recognized by state and regional compliance programs, as well as those that meet an established minimum standard, as defined by Congress. Only offsets that are real, additional, permanent, independently verifiable, enforceable, measurable and transparent should be recognized for early action credit.

Promote linkages with other domestic and international offset programs, and permit fungible use of eligible offsets generated from within such programs – A federal market-based approach to addressing climate change should be linked to other domestic and international market-based programs that incorporate offsets, provided they are of high quality and integrity. Addressing climate change is a global challenge and emission reduction activities that occur within and outside the U.S. generate valuable environmental benefits. Fungibility of carbon offsets is a crucial component of international emissions trading. Compliance costs can substantially be further reduced if regulated entities are given access to offset credits that are compatible with domestic credits from within other market-based programs around the globe, thereby benefiting from valuable compliance flexibility and access to lowest-cost emission reductions.

Utilize a standards-based approach for offset projects while allowing for case-by-case review of projects without pre-approved methodologies – The Council supports implementation of pre-approved standards for projects and activities that will promote certainty for offset project developers, as well as administrative efficiency, cost effectiveness and transparency within the regulatory system. In addition, the Council also supports the use of performance-based standards, where appropriate, which should require projects or activities to be evaluated by their individual circumstances to ensure additionality. Provisions should be included that from the onset avoid artificial restriction on project activities. Rather, incentives should be provided by allowing for case-by-case review of projects without pre-approved standards to promote technological innovation, emission reductions within new project sectors and activities, and development of new standards for project sectors and activities that may eventually be included. The Council encourages a federal program to draw upon existing work to date within U.S. state and international cap-and-trade programs to develop project baseline methodologies and performance standards.

Employ multiple tests for demonstration of offset "additionality"[9] – The concept of "additionality" is a fundamental underpinning of a credible offset program. The term refers to the determination of whether an emission reduction activity would have occurred in the absence of the offset program, or, according to a business-as-usual scenario. This is an important part of the offset approval process, as offsets must represent real, measurable and surplus emission reductions. There are a variety of factors that have been used to determine offset additionality, such as tests based on current regulations, technology deployment trends and the financial viability[10] of a project or activity, among others. The Council urges the use of multiple additionality tests such as those recommended by the World Resource Institute's Greenhouse Gas Protocol for Project Accounting and the United Nations Framework Convention on Climate Change's (UNFCCC) Tool for the Demonstration and Assessment of Additionality (Version 03).[11]

Utilize standardized emission factors – The factors used to determine the number of emissions offsets generated by an activity can be altered based on the emissions factors used in the review process. To promote consistency and clarity, a standardized emissions factor for domestic- and internationally-generated offsets should be utilized within a federal program.

The Business Council for Sustainable Energy recognizes existing international and domestic offset programs and protocols that serve as valuable examples to inform development of a federal greenhouse gas offset program:

Clean Development Mechanism – The Clean Development Mechanism (CDM) was created under the auspices of the Kyoto Protocol as a way to allow industrialized countries which have committed to carbon dioxide emissions reductions to invest in emission-reducing projects in non-industrialized countries. This makes it possible for entities in industrialized nations with significant emissions profiles to achieve reduction targets and lower global carbon emissions at a significantly lower cost than such reductions would be in their home countries. To date, 762 projects have been registered by the CDM executive board, with current reductions over business-as-usual of more than 162 million tons of carbon dioxide annually.

http://unfccc.int/kyoto_protocol/mechanisms/clean_development_mechanism/items/2718.php

The Climate Trust – The Climate Trust is a non-profit organization, chartered in 1997, as part of the Oregon Standard, which caps emissions from new power plants constructed in that state. If a new power plant chooses, it may exceed the emissions cap and pay an amount of money proportional to the emissions surplus into a mitigation fund with The Climate Trust. The Climate Trust invests these funds into projects which avoid, displace or sequester carbon dioxide. To date, The Climate Trust has offset more than 2.7 million metric tons of carbon dioxide, and invested $8.9 million into offset projects such as reforestation, wind energy development, efficiency upgrades and co-generation systems.

http://www.climatetrust.org

World Resources Institute (WRI) and World Business Council for Sustainable Development (WBCSD) Project-Based Protocol – This document is a protocol for quantitatively measuring and reporting greenhouse gas emissions from various types of offset projects. The link provides a description of the protocol and access to the protocol itself.

http://www.ghgprotocol.org/templates/GHG5/layout.asp?MenuID=849

ISO 14064 International Standard for Greenhouse Gases – Developed during a four-year process coordinated by the International Organization for Standardization which involved over 175 experts representing 45 countries, this document is a three-part international standard which addresses quantifying, monitoring and reporting of greenhouse gas emissions and reductions at the organizational and project level. In addition, the standard provides a section with guidance on conducting validation and verification of greenhouse gas assertions, which is directly applicable to verifying emission reductions from offset projects. The verification approaches identified in ISO 14064 were derived from established best practices in financial and environmental auditing and thereby provide a strong foundation for development the verification and certification protocols that would be critical for a federal greenhouse gas offsets program.

http://195.141.59.67/iso/en/commcentre/pressreleases/2006/Ref994.html

[1] The act of reducing or avoiding greenhouse gas (GHG) emissions in one place in order to "offset" GHG emissions occurring somewhere else. Carbon offsets are intended to take advantage of the range in costs and practicalities of achieving GHG emissions reductions by sector or activity, and geography. Offsets can be generally separated into two categories: 1) sequestration, and 2) emissions reductions. Sequestration projects pull carbon out of the atmosphere and store it in "sinks." Examples include forestry, tillage, and geological projects. Emission reduction projects either reduce or destroy GHGs in a variety of ways, including fuel switch, energy efficiency/renewable energy, industrial gas destruction, and flaring of agricultural or landfill gas.

[2] Offsets represent actual reductions in GHG emissions.

[3] Emissions reductions are "additional" if they occurred because of the presence of incentives associated with the existence of GHG markets, voluntary or mandatory. A variety of stakeholders have proposed many different additionality "tests," but at its root, demonstrating the additionality of a carbon offset means showing that the emissions reductions being used as offsets are not "business as usual," or baseline.

[4] Reductions should be non-reversible, or backed by guarantees if they are reversed.

[5] Project performance in terms of emission reductions should be easily monitored and verifiable by an independent third-party.

[6] Reductions should be backed by contract, legal instruments, and official registration requirements that define their creation, provide for transparency, and ensure exclusive ownership.

[7] Reductions should be quantifiable, and a reasonable baseline for comparison should be identifiable and measurable.

[8] Information regarding the process of generating, certifying, verifying, and selling offsets should be available and easy to understand.

[9] As noted in endnote #3, additionality generally refers to a situation where a project results in emissions reductions above those that would have occurred in the absence of the project activity.

[10] With regard to financial additionality tests, they should not be the only way of proving additionality, nor should it be weighted more than other additionality tests. In our experience, financial additionality tests alone deter good projects and weaken the credibility and market power of offset programs. Further, financial additionality tests are subject to gaming and cannot reasonably account for market behavior.

[11] See the WRI Greenhouse Gas Protocol for Project Accounting at: http://www.ghgprotocol.org/templates/GHG5/layout.asp?MenuID=849 and the UNFCCC Tool for the Demonstration and Assessment of Additionality at: http://cdm.unfccc.int/methodologies/PAmethodologies/AdditionalityTools/Additionality_tool.pdf