The Business Council For Sustainable Energy

An Energy Agenda for the 21st Century

March 9, 2007

To: Connecticut Department of Environmental Protection

Regarding: BCSE Recommendations for CT RGGI Pre-Proposal

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The Business Council for Sustainable Energy (BCSE) is pleased to provide the following recommendations as Connecticut prepares to issue a Pre-Proposal for its draft state rule for the Regional Greenhouse Gas Initiative (RGGI).

Background

The Council was created in 1992 by companies in the energy efficiency, renewable energy, natural gas, electric utility and independent power industries. Our membership has a broad base and includes companies such as NiSource, PG&E, PPM Energy, PSEG, Plug Power, Sempra Energy, Brookfield Power, Enel North America, Inc., Sun Edison LLC, 3 Phases Energy Services 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.

The Council has taken an active role in the RGGI process and has been working with RGGI leaders to recommend ways to effectively implement RGGI and how to direct its Public Benefit Set-Aside resources. The Council has held Issue Forums in multiple states over the past few months, including an Issue Forum focused on using the RGGI Public Benefit Set-Aside to drive clean energy investments in Connecticut on August 1, 2006. As Connecticut is in the initial stages of developing its RGGI Pre-Proposal, the Council would like to emphasize several areas that our members feel are important to successful achievement of the RGGI cap-and-trade program.

BCSE Recommendations for CT RGGI Pre-Proposal

Our recommendations to Connecticut focus on the incorporation of clean energy generation and energy efficiency into its RGGI implementation plan. Specifically, we recommend that Connecticut's RGGI Pre-Proposal include:

1. Output-based allowance allocation policy, should allowances be distributed to generators under Connecticut's RGGI program
2. Avoid undue economic hardship on affected sources, especially clean generators, should allowances be distributed at a prescribed cost or by auction
3. Expansion of the minimum 25 percent Public Benefit Set-Aside program

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4. Designation of any Public Benefit Set-Aside resources in Connecticut to energy efficiency and clean generation, such as renewable energy and combined heat and power (CHP)

We hope Connecticut will develop a RGGI Pre-Proposal that is very consistent with these recommendations. As agreed upon in the MOU, significant allocation to a Public Benefit program will create a large funding pool that can be used to promote carbon dioxide emissions reductions and reduce program costs through the promotion of clean energy and energy efficiency resources. In addition, the increased state and regional power capacity that can result from the combination of demand efficiency and new clean generation under this program will help prevent leakage and reduce pricing pressures caused by inefficient natural gas usage by the power sector. Given electric congestion in Connecticut, reducing demand and increasing local generation will also reduce stress on the grid and improve reliability. The Council strongly supports this focus on clean energy and energy efficiency resources.

To ensure that Public Benefit program resources most effectively support project development and financing, allowance value under the program should be granted as directly and simply as possible to clean energy generators and investors in energy efficiency, based on megawatt hours generated or reduced consumption. *The Council offers the following recommendations for the application of any resulting Connecticut Public Benefit program resources.*

Output-Based Allocations

The Council believes that any allowances distributed under RGGI should be allocated by using an output-based methodology. An output-based approach defines carbon-energy efficiency and promotes clean generation – including renewable energy – since distribution is based on the amount of electricity generated not on the amount of fuel used or a facility's historic emissions. The Council recommends a fuel-neutral, updating output-based allocation that focuses on in-state generation. Updating, output-based allocation rewards greater efficiency and encourages investment in new generating technologies. Output-based policies send a clear signal to the marketplace – lower carbon emitting energy options receive direct, clear, consistent and bankable value.

In addition, output-based allowance allocation accommodates the carbon dioxide emission reduction claims associated with renewable energy generation, allowing Connecticut to encourage the voluntary markets for renewable energy.

Avoid Undue Economic Hardship on Affected Sources, Especially Clean Generators

As RGGI states give consideration to significant auctions as a means of distributing emissions allowances -- such as New York's Pre-Proposal, which suggests a 100 percent auction of allowances -- the Council urges consideration of the possible dramatic economic impacts such an auction approach might have on affected sources, especially clean generators.

While the Council is supportive of an expanded (greater than 25 percent) Public Benefit Set-Aside (see below) as a goal, provided that the resources are directed to clean generation and energy efficiency, the Council is aware of the issue of disproportionately affected sources. We also recognize that the auction of a significant number of allowances as agreed to in the MOU has not been exercised in any other allowance-based program. To prevent undue economic consequences, hybrid allocation approaches could be employed, especially in the initial phases of the program. As previously stated, for allowances that are not auctioned, the Council urges the adoption of an updating, output-based allocation.

Size and Use of Connecticut's RGGI Set-Aside Funds

Increasing the set-aside above the minimum 25 percent is an excellent way to achieve RGGI targets cost-effectively by providing greater support for energy efficiency and clean generation. The Council suggests that the 25 percent should be considered a floor -- not a ceiling -- and should be used to increase energy efficiency and clean power generation in Connecticut. The Council urges Connecticut to state in its draft RGGI rule that set-aside resources will be used to support increased energy efficiency, renewable energy and small, clean generation (less than 25 MW), including combined heat and power. These technologies will reduce carbon dioxide emissions at the minimum cost to consumers. In addition, the increased state and regional power capacity that can result from the combination of demand efficiency and new clean generation will prevent leakage and reduce pricing pressures caused by inefficient natural gas usage by the power sector.

Furthermore, to ensure that set-aside resources positively impact project development and financing, allowances under the set-aside should be granted as directly and simply as possible to clean energy generators and investors in energy efficiency, based on megawatt hours generated or reduced consumption.

Voluntary Renewable Energy Credit Set-Aside Allocation

Given the strength of Connecticut's voluntary renewable energy credit market and the significant potential for growing this market, the Council recommends that CT DEP also consider adopting an approach that allows the voluntary market to continue to make surplus emission reductions and meet consumer demand. This can be done easily though the output-based allocation approach as recommended by the Council, which allows renewable generators to use allocated allowances to make surplus emission reductions for their consumers. If a free allocation approach is not adopted in the CT RGGI program, a Voluntary Renewable Energy Credit Set-Aside Allocation as part of the CT RGGI Pre-Proposal would serve this purpose as well.[1]

The Council offers the following recommendations for how Connecticut's Public Benefit Set-Aside resources should be directed.

Expansion of Existing Programs

The Council would like to commend Connecticut on its current programs for renewable energy and energy efficiency. The Connecticut Clean Energy Fund's and the Connecticut Department of Public Utility Control's (DPUC) significant and effective portfolios of incentives along with Connecticut's 2005 " An Act Concerning Energy Independence," demonstrate Connecticut's commitment to clean energy and environmental stewardship. The Council offers several recommendations for how these existing programs can be improved through RGGI set-aside resources. Using set-aside funding to enhance effective programs is a simple and efficient approach that will result in more clean energy and energy efficiency projects in the state.

To boost energy efficiency and renewable energy development, the Council suggests channeling set-aside funds into The Connecticut Clean Energy Fund and DPUC programs and helping implement "An Act Concerning Energy Independence." The Clean Energy Fund's On-Site Renewable Distributed Generation Program, Project 100 Initiative, and the Connecticut DPUC's Long-term Loans for Customer-Side DG program, and Grants for Customer-Side DG are all excellent programs. The Council recommends increased funding of these programs to spur further energy efficiency improvements and expansion of these programs to include a variety of CHP technologies.

[1] For example, a Voluntary Renewable Energy Credit Set-Aside Allocation could follow recommendations outlined on pages 47-50 of RGGI Model Rule at: http://www.rggi.org/docs/model_rule_corrected_1_5_07.pdf

The Council also recommends that Connecticut use its set-aside funds to help improve Connecticut's innovative energy efficiency portfolio standard (EPS). We suggest that the total clean energy portfolio standard requirements be increased for renewables and energy efficiency. Other Northeast states such as New York and New Jersey have higher RPS targets. Pennsylvania, one of only a few other states that address energy efficiency projects in this manner, also has a greater overall goal, reaching a maximum level in compliance year 2020-2021 at 18 percent. Connecticut should consider extending the Tier III requirement through the 2018 RGGI period, with review and reset milestones at 2010 and 2014 to determine whether to increase the percentage targets for energy efficiency for the succeeding four-year period. Additionally, Connecticut should allow a broader coverage of renewable, end-use efficiency and supply side efficiency projects not covered by the RGGI cap (such as small distributed generation and CHP units).

Another area that would benefit from further funding is the state's building code training and enforcement program. Code compliance is often uneven and investments in enforcement and training enhance overall compliance. Although codes may require more efficient building techniques, insulation, appliances, and lighting efficiency, such as daylighting, among other actions, these codes are only effective if they are understood and implemented. For example, states like California work closely with industry on daylighting mandates in commercial buildings to substantially reduce energy consumption and greenhouse gas emissions. We recommend that funding be directed to the Department of Public Safety Division of Fire, Emergency and Building Services or a non-profit such as the Building Codes Assistance Project or the Northeast Energy Efficiency Partnership to administer training.

BCSE members also recommend more funding going towards general outreach and education regarding energy efficiency and renewables. If educated about the environmental benefits and potential financial opportunities associated with clean energy and energy efficiency, more people would be willing to undertake these projects. The Council also believes that owners or contractors of larger buildings, in both existing and new construction, should be educated about and then required to assess the feasibility of self-generation.

Adopt "Beyond Code" Building Standards
The Council recommends that Connecticut and other RGGI states adopt a "beyond code" standard for state funded buildings, including schools, similar to a requirement recently implemented on the federal level. This would be based on the December 2006 DOE energy standard for new federal commercial and residential buildings that adopts by reference ASHRAE 90.1-2004 for commercial buildings and high-rise residential buildings, and the 2004 IECC for low-rise residential buildings. The standard further directs federal agencies to exceed these standards by 30 percent or more, if it is life-cycle cost effective.

CHP Incentives
Connecticut has several sources of funding for CHP, through The Clean Energy Fund's Operational Demonstration Program, and Onsite Renewable Demonstration Program and the DPUC's Grants and Long-term Loans for Customer-side DG. However, these programs could benefit from Public Benefit program funding. The Council recommends directing set-aside funding toward the incremental investment in systems that maximize energy efficiency. This might include financial support for the addition of heat recovery components or other equipment that enable a system to achieve the highest efficiency rates.

The Council also believes a technology verification program aimed at private investors should be created. A verification program administered by the DPUC or Clean Energy Fund in combination with their CHP funding programs could provide a "technology guarantee" that would mitigate the technology risk that can deter private financing of CHP projects and, thus, increase the number of projects Connecticut's CHP programs can support.

In addition, to achieve effective implementation of RGGI, the Connecticut Department of Environmental Protection should work with the DPUC and other stakeholders to pursue "decoupling" legislation. When utilities make their profit from the amount of energy they sell (electricity or gas), it is difficult for these utilities to support energy-efficiency programs that may impact their profits. By understanding this conflict and working with utilities to develop policies and measures that respond to shareholders while separating the sale of BTUs from profits, Connecticut and its utilities will be able to advance energy-efficiency programs together.

Expanding Renewable Energy in Connecticut

To increase renewable energy projects in Connecticut, allowance value should be granted to renewable energy generators in a direct and consistent manner. Further, to maximize effectiveness, Public Benefit program funds should support and expand existing programs that have a proven track record in supporting renewable energy projects. Such programs include the state's RPS and the state government's Green Power Purchase Plan.

Further, Public Benefit program funds could be targeted to provide stability for incentives for renewable energy generation, such as the federal renewable energy Production Tax Credit (PTC). The PTC receives short-term renewals that result in uncertain project financing. Using Public Benefit program funds to smooth out the cyclical renewable energy development process would send a clear and dramatic positive signal to investors and result in more projects in the ground in New York.

Finally, Public Benefit program funds could be used to review and further enhance complimentary energy policies such as Connecticut's net metering rules, RPS, renewable credit discrepancies, and ISO policies that support integration of renewable energy.

Clean Generation Production Incentives

Another vehicle to support clean energy projects in Connecticut is a production incentive program funded with Public Benefit Program resources. Production incentives could either be given through cash from auction proceeds or may come through direct allowance allocations from the Public Benefit program to qualifying facilities based on their generation or energy efficiency benefits (reduced consumption). Such payments or allowance transfers are direct methods of driving clean energy and energy efficiency and are simpler than many other rate-related initiatives that have been used in the past. However, with limited Public Benefit program resources, the Council encourages Connecticut to focus on getting projects in the ground and to avoid heavy administration costs that may be involved with establishing new programs.

Harmonization With a Mandatory National 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 plans to transition to a national program.[2]

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[2] 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.

Summary
As Connecticut embarks upon drafting its RGGI Pre-Proposal, the BCSE would like to emphasize that increased use of energy efficiency and renewable resources will be critical to RGGI's success -- reducing carbon emissions, lowering compliance costs and electricity rates for consumers and reducing leakage.

Connecticut has the opportunity to employ two important vehicles to influence energy related investments in the state – the allocation policy and the size and use of its Public Benefit Set-Aside. To increase clean energy project development in the state, we urge Connecticut to include a greater than 25 percent set-aside as a goal in its RGGI Pre-Proposal, and specifically state in the rule that it be used to support energy efficiency and clean generation projects, such as renewable energy and CHP. Should allowances also be distributed to generators under Connecticut's RGGI rule, we urge that they be allocated to generators based on energy output rather than heat input or historic emissions. This can most effectively be achieved through an output-based allocation policy. Should Connecticut opt for an auction along the lines of New York's Pre-Proposal, the Council urges consideration of the economic impacts on affected sources, especially clean generators.

Thank you for the opportunity to provide input toward the development of Connecticut's RGGI Pre-Proposal. If you have any questions or comments please feel free to contact me at the Council's offices (202-785-0507) or via email at ljacobson@bcse.org.

Sincerely,

Lisa Jacobson
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