



**TO: Western Climate Initiative**

**DATE: June 24, 2010**

**REGARDING: BCSE Comments on WCI Auction Design White Paper**

The Business Council for Sustainable Energy — a broad-based coalition of leading companies and trade associations from clean energy industries — respectfully submits the following comments regarding the Western Climate Initiative (WCI) Auction Design White Paper as posted on the WCI website April 14, 2010.

The Council's perspective is shaped by our members' expertise, which include businesses and trade associations representing the suite of available technology options: advanced batteries, biomass, fuel cells, geothermal, hydropower (including conventional and new waterpower resources), solar, wind, natural gas and supply- and demand-side energy efficiency. The Council's coalition also includes power developers, equipment manufacturers, independent generators, green power marketers, retailers, gas and electric utilities, and several primary trade associations in these sectors.

The establishment of a market-based carbon emissions program is critical in advancing investment in energy efficiency and clean energy and in addressing climate change. The auction for any such program must send predictable medium- and long-term price signals to potential market participants; maintain adequate carbon prices while avoiding price volatility; ensure investor confidence; and take into account the need for continued investment without imposing unreasonable costs on customers. With these comments in mind, the Council broadly approves of the auction design principles put forth in the Auction Design White Paper: Fairness, Efficiency, Effective Oversight, Transparency and Openness, Administrative Simplicity and Cost, Accountability, Conflicts of Interest, and Compatibility with Other Markets.

The Council supports comments already submitted by individual members (roster below). In addition, there are a few key points the Council would like to make related to the principles above and to the design choices described in the White Paper.

- **Auction Participation:** Ensuring market liquidity is a key tool in preventing volatility and ensuring a measure of price stability and market efficiency. A greater number of market participants can contribute to this liquidity, suggesting auction participation should not be limited to entities under obligation of compliance, or subject to other participatory restrictions.
- **Reserve Price:** Establishing an effective reserve price guards against depressed carbon prices due to initial over-allocation of allowances. The Council encourages use of a reasonable reserve price and the application of that price to a substantial proportion of auctioned allowances to ensure price signals that effectively drive investment in clean energy technology.

- **Unsold Allowances:** Prior WCI recommendations direct the Partners to auction at least 10% of allowances from the first compliance period and at least 25% beginning in 2020, with the remainder to be used as Partners see fit; a fraction of unsold allowances will also be returned to Partners for use. The Council encourages the Partners to use such unsold, freely distributed allowances as set-asides for clean and renewable energy generation; for clean energy product manufacturing; and for voluntary clean energy market purchasers, as well as for other programs that boost investment in clean energy and energy efficiency. It will be important to balance the need to support these areas with the need to retire allowances, to avoid a glut.
- **Compatibility:** Compatibility and linkages with other greenhouse gas initiatives at the outset of the WCI program is an important auction design principle, and should particularly be kept in mind when establishing the acceptability of verifiable offset projects devised under other programs and protocols of sufficient environmental integrity.

The Council appreciates the opportunity to provide these comments, and we look forward to working with the WCI and Partners on future program developments. In the meantime, please feel free to contact me in the Council's offices with any questions or comments.

Sincerely,

A handwritten signature in black ink that reads "Lisa Jacobson". The signature is fluid and cursive, with a long horizontal stroke at the end.

Lisa Jacobson  
President

CC: Jim Whitestone, Province of Ontario / WCI Markets Committee

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