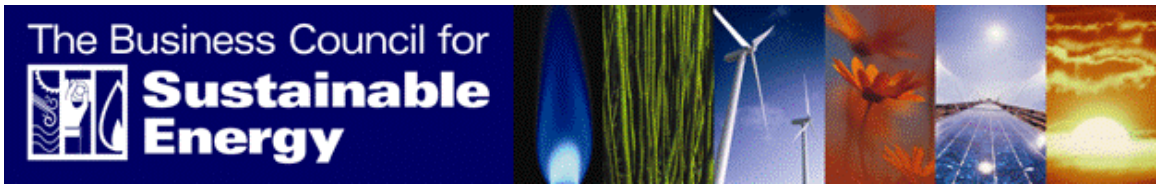

To: **The Honorable John D. Dingell**
Chairman, House Committee on Energy and Commerce

The Honorable Rick Boucher
Chairman, Subcommittee on Energy and Air Quality

Regarding: **BCSE COMMENTS ON COMMITTEE WHITE PAPER ON COST CONTAINMENT**

Submitted Via Email: **Rachel.Bleshman@mail.house.gov**

On behalf of the members of the Business Council for Sustainable Energy (the Council), we appreciate the opportunity to respond to your May 2008 white paper regarding economic impact concerns and the need to develop cost containment measures as the House Committee on Energy and Commerce and the Subcommittee on Energy and Air Quality seek to develop a national mandatory greenhouse gas emissions control program. The Council is pleased to submit the following responses to the questions put forth by the Chairs. We are available to share our views in greater detail during any future Committee or Subcommittee-sponsored hearings or conferences on this topic.

Introduction

The Business Council for Sustainable Energy is a broad-based industry coalition of energy efficiency, natural gas and renewable energy interests that advocates energy and environmental policies that promote markets for clean, efficient and sustainable energy products and services. Its coalition includes power developers, equipment manufacturers, independent generators, green power marketers, gas and electric utilities and the world's largest retail company, as well as several of the primary trade associations in these sectors.

The Council recognizes the importance of an approach to climate change policy that reaches across sectors and links together programs at the state, regional, national and international levels. This will promote consistent price signals that will, in turn, drive markets for clean energy technology innovation, providing economic efficiency, environmental benefits and enhanced energy security at a lower cost. Rapid and aggressive deployment of existing technologies – energy efficiency, renewable energy and natural gas – will ensure energy reliability and security, mitigate natural gas and electricity price increases, address global climate change and create new, high quality jobs at home.

The Council and its members have advised policymakers on the development of domestic and international clean energy, clean air and climate change initiatives for over a decade. It is proud to have been an active business participant in international negotiations under the United Nations Framework Convention on Climate Change (UNFCCC) since the Council's inception in 1992.

The Council is also taking a leading role in creating international networks of support for a global response to climate change. The Business Council for Sustainable Energy was proud to announce the formation of the International Council for Sustainable Energy at the 2007 UNFCCC meetings in Bali, Indonesia. This is a global alliance with the Australian Clean Energy Council and the EU and UK Business Councils for Sustainable Energy. Combined, the organizations represent more than 750 businesses and industry trade associations on five continents. The International Council for Sustainable Energy supports a legally-binding international agreement to reduce emissions and spur capital investments in existing clean technology markets.

With such a diverse coalition, our comments represent positions of general consensus within our membership. However, not all members are active or take positions on all of the issues addressed in this submission.

BCSE Orientation on Cost Containment

Cost containment is an important issue that Congress will need to address in the development of a cap-and-trade emissions reduction program. Measures designed to reduce costs and add flexibility are important to our members, some of whom may be regulated under the program, as well as to households and the economy as a whole. However, lower compliance costs should be balanced with the need to maintain the strong and credible market signals that a cap on emissions will create. Depending on the design, some cost-containment measures, such as safety valves and hard allowance-price caps risk diluting these market signals and market-based programs function most efficiently when market signals are clear and reliable. Moreover, a weakened cap may compromise the environmental integrity of the program and the transition to a low-carbon economy.

As a general principle, the Council supports cost containment policies that create greater flexibility for regulated entities and reduce the economic impacts of the program. However, it is important that these policies ensure clear signals to the market, begin to influence investment behavior and drive rapid deployment of existing clean energy technologies. Early deployment of renewable energy and energy efficiency technologies, both on the supply and demand sides, is vital to lowering long-term compliance costs. Such technologies may displace the need to install future high-emission power generation.

Renewable energy deployment is critical to a long-term cost-reduction strategy. A recent report from the Department of Energy, entitled *20% Wind Energy by 2030: Increasing Wind Energy's Contribution to U.S. Electricity Supply*, demonstrated that increasing wind power to 20 percent of U.S. electricity supply would displace 50 percent of electricity generated from natural gas and 18 percent generated from coal.[i] An NREL analysis of this goal demonstrated how such an approach under a moderate carbon pricing model might yield a net savings of between $50 billion and $145 billion.[ii]

Efficiency improvements are also required for any long-term cost reduction plan to be successful. A recent study by McKinsey & Company, entitled "Reducing U.S. Greenhouse Gas Emissions: How Much at What Cost?" demonstrated that improving energy efficiency in buildings and appliances represents one of the largest "negative" marginal costs for carbon abatement.[iii] The cumulative savings created by energy efficiency could substantially offset the additional spending required for the options with positive marginal costs. In particular, working to improve building efficiency could achieve great cost savings. The building sector represents approximately 40 percent of all greenhouse gas emissions. Supporting consumer incentives for energy efficient buildings provides reliable, cost-effective emission reductions.[iv]

BCSE Views on Flexibility Mechanisms

The Council supports various legislative mechanisms to control the program costs and provide flexibility to regulated entities.

Offsets

The Council's preferred mechanism for cost containment is the development of a robust offset program which will allow regulated entities to seek out opportunities for lower cost compliance in uncapped sectors, while maintaining a strong price signal within the cap-and-trade program. As

analysis from EPA has shown, offsets can have a tremendous influence on the price of the system. In analyzing the Lieberman-Warner bill, EPA determined that if no opportunities for emission offsets were available, allowance prices would increase by 93 percent.[v] Moreover, offsets further the goals of the cap-and-trade program since real and additional offsets represent further emission reductions. (Please see attached Principles on Offsets document - Appendix A)

Multi-Year Compliance Periods

Multi-year compliance periods may be helpful in reducing costs on both an individual and system-wide basis. Compliance periods of up to three years would allow regulated entities a measure of flexibility in complying with emissions caps while ensuring that overall emission reduction rates are maintained.

However, compliance periods should not be so long that they undermine the market signals created by the market cap and delay the deployment of existing clean energy technologies. Currently available renewable energy and energy efficiency technologies can be implemented to bring regulated entities into compliance with a cap-and-trade system. Compliance periods should be of a duration which maintains an incentive for organizations to make early investments in these technologies. Maintaining a consistent approach to compliance periods which encourages rapid deployment of existing technologies will ensure that costs are effectively reduced while emission caps are enforced.

Banking of Allowances

Banking of emission allowances may provide regulated entities with greater flexibility if they can take advantage of additional benefits by making early reductions. It may even lower costs of compliance in cases where it is more economically efficient to take early action. If such early action is incentivized, deployment of existing clean energy technology will be advanced.

The Council thanks the Committee on Energy and Commerce and its Subcommittee on Energy and Air Quality for the opportunity to comment. We welcome any further questions from the Chairs and hope that we can continue to be of assistance in the development of greenhouse gas control legislation.

Sincerely,

Lisa Jacobson
Executive Director

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[i] Department of Energy, National Renewable Energy Laboratory, '20% Wind Energy: Increasing Wind Energy's Contribution to U.S. Electricity Supply', May 2008

[ii] National Renewable Energy Laboratory, 'Power System Modeling of 20% Wind-Generated Electricity by 2030', June 2008

[iii] McKinsey & Company, 'Reducing US Greenhouse Gas Emissions: How Much at What Cost?', US Greenhouse Gas Abatement Mapping Initiative, December 2007

[iv] For an example of how allowance value can be directed towards building efficiency, please see the Efficient Buildings Allowance Program included in S.3036, Title VIII, Subtitle A, Sec. 801

[v] Environmental Protection Agency, "EPA Analysis of the Lieberman-Warner Climate Security Act of 2008, S.2191 in 110th Congress", March 14, 2008