



# BCSE 2009 Clean Energy & Economy Forum

## Greenhouse Gas Market Trading Program Design

Federal climate change legislation should be designed to send predictable medium- and long-term signals to capital markets about the price of carbon that will direct new investments in low and zero-carbon emitting generation and technologies.

The various elements in the design of a market trading program cannot be viewed in a stand alone fashion, but must be viewed comprehensively with a benchmark focused on immediate and long-lasting clean energy deployment signals. Key indicators of whether the program will drive existing technology deployment between now and 2020 include the scale of allowance value directed to existing clean energy technologies, and energy efficiency, and whether the legislation includes a broad package of complementary energy policies to increase investment and deployment in these sectors. The Council strongly believes the program must include the following:

- Allocations of greenhouse gas emission allowances and/or proceeds from the auction of greenhouse gas emission allowances should be directed to clean energy and energy efficiency investments in order to reduce costs of the greenhouse gas emission reduction program
- Entities which have a large impact in deploying clean energy technologies and energy efficiency should receive allowances or auction proceeds directly
- The adoption of a package of complementary energy policies to enable rapid market expansion, including tax incentives, a national Renewable Electricity Standard, a national Energy Efficiency Resource Standard, better building codes, expansion and modernization of the transmission grid
- A robust, high-quality carbon offset program to drive new technology investments in uncapped sectors and to contain costs
- Recognition and credit for businesses and other entities which make early emission reductions
- Voluntary purchases of renewable energy should result in retirement of greenhouse gas allowances so that voluntary purchases remain effective in lowering greenhouse gas emissions

## Key Messages and Recommendations

The Business Council for Sustainable Energy has offered the following recommendations on various options for the distribution of allowances and auction proceeds that have been considered in previous legislative proposals. The Council is willing to work with Congress and the Administration throughout the legislative process to develop a program using these, or other, design elements to ensure immediate greenhouse gas reductions through the deployment of existing clean energy technologies and energy efficiency.

1. *Output-based Allocations*—Any free allowances under a federal cap-and-trade program should be distributed to covered entities in the power sector based on the efficiency of their total power generation (both electrical power and heat) through output-based approaches. An output-based approach focuses on carbon-energy efficiency and promotes clean generation – including renewable energy – since distribution of allowances is based on the amount of electricity generated, not on the amount of fuel used or a facility's historic emissions.

- A fuel-neutral (rather than fuel-weighted), updating, output-based allocation would reward greater efficiency and would encourage investment in new renewable energy generating technologies.

2. *Set-Aside Allowance Allocation Pools*—Another mechanism to direct allowance allocations to new, clean energy generation is through set-aside allowances pools. The Council supports the following:

- Allocation of allowances should be directed to renewable energy and energy efficiency. With this approach voluntary purchases of renewable energy could continue to lower greenhouse gas

- emissions below the level of the cap. The Dingell-Boucher discussion draft from the 110<sup>th</sup> Congress set a precedent for allocating allowances to renewable generators and energy efficiency.
- Energy efficiency (as well as other existing technology options) must be eligible for allowances under the design of a greenhouse gas emission reduction program, given its important role in helping to meet emission reduction targets.
- Provisions aimed at increasing investments in energy efficiency must be front-loaded and clearly defined.
- Legislation should include a set-aside for new entrants. This provides the opportunity to encourage new, lower-emitting resources to come on line.

### 3. *Auctions and Use of Auction Proceeds*

The Council does not have specific recommendations on the scale and phase-in of auction programs, but the Council recommends:

- A hybrid allocation approach with a phase-in period for the auction. The Council believes this will minimize possible dramatic economic impacts that a large-scale auction might have on affected sources in the initial phases of the program.
- Should an auction be pursued, legislation should provide targeted, and front-loaded, auction proceeds to energy efficiency programs, and to existing clean energy technology investment and deployment. At a minimum, the distribution of auction proceeds to efficiency and existing clean energy technologies should be on par with the other auction revenue priorities.

### 4. *Program Compatibility*

The federal program should be designed to permit trading with compatible cap-and-trade programs and project-based initiatives elsewhere in the United States at the state, regional or federal level, as well as in other parts of the world.

## About the Business Council for Sustainable Energy

The Business Council for Sustainable Energy is an industry coalition that includes businesses and trade associations representing a suite of currently available technology options for strengthening domestic energy security while also reducing emissions of greenhouse gases that contribute to global climate change. These technologies include: advanced batteries, biomass, biogas, fuel cells, geothermal, hydropower (including new waterpower resources such as ocean, tidal and in-stream hydrokinetic), solar (including solar energy equipment such as solar hot water heating and solar light pipe technology), wind, natural gas, and supply-side and demand-side energy efficiency (including combined heat & power systems, oxy-fuel combustion systems, and others).

Note: As a diverse business coalition, not all Council members endorse or take positions on the set of recommendations provided.



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