

To: The California Air Resources Board

Regarding: BCSE Comments on Climate Change Draft Scoping Plan, a *Framework for Change*, June 2008 Discussion Draft

Submitted Via the California Air Resources Board Website

The Business Council for Sustainable Energy (the Council) appreciates the opportunity to provide comments on the state of California's Climate Change Draft Scoping Plan, *A Framework for Change*, dated June 2008. The Council views California's Draft Scoping Plan as an important vehicle to reduce greenhouse gas emissions in the western region and we congratulate the state for its leadership and action. While there may be a number of areas where the Draft Scoping Plan needs some additional clarification and detail, we view the plan as an important first step. We also recognize the Air Resources Board statement that the "Scoping Plan, even after Board approval will remain a *plan*."¹

The Council appreciates the opportunity to provide comments at this initial stage and we look forward to providing additional comments upon the release of the Proposed Plan in October 2008, when it is reviewed by the California Air Resources Board in November 2008 and throughout the regulatory process in 2009 and beyond.

In brief, the Council offers the following comments on the Scoping Plan:

- We support the development of a California cap-and-trade program that links with other compatible regional, national and international cap-and-trade programs. This would ensure lowest-cost compliance and increase global market liquidity;
- We applaud policies that build upon California's success in implementing energy efficiency measures;
- We encourage better definition and clarification on the use and implementation of an offsets program;
- We encourage the state to work aggressively to remove barriers that hinder the use and development of renewable energy, or to advocate for the removal of such barriers that are not under the state's control;
- We support the Voluntary Renewable Market; and
- We feel that it would be helpful for CARB to provide more specifics in the Scoping Plan to enable stakeholders to provide more focused input.

Introduction

The Business Council for Sustainable Energy is an industry coalition that includes businesses and trade associations representing the suite of currently available technology options for reducing emissions of greenhouse gases that contribute to global climate change. They include: advanced batteries, biomass, biogas, fuel cells, geothermal, hydropower (including new waterpower resources such as ocean, tidal and in-stream hydrokinetic), solar, wind, and supply-side and demand-side energy efficiency. We have several members who are based in California, as well as others who are very active in the region's markets, including Sempra Energy, PG&E

¹ Climate Change Draft Scoping Plan, *a framework for change*, Executive Summary of the June 2008 Discussion Draft, page ES-2

Corporation, Iberdrola Renewables, SMUD, First Environment, Inc., Calpine, 3 Degrees, Enel North America, EcoSecurities, and Solar Turbines.

The Council and its members have been working consistently with state, federal and international policymakers on market-based measures to reduce greenhouse gas emissions since its inception in the early 1990s. The Council was the first industry coalition to support a binding multilateral regime to address climate change; we have been actively involved in the congressional debate over climate change legislation and have been invited to provide testimony to congressional committees; we have also been active in the Regional Greenhouse Gas Initiative (RGGI) and in the development of the Western Climate Initiative.

In all the areas of our work, the Council focuses on the development of efficient market design that recognizes past investments, and provides forward signals to investors in clean energy technologies. We also emphasize the vital role of energy policy in the development of climate change programs.

Throughout the RGGI process the Council has provided extensive industry expertise, centering on how RGGI implementation can expand clean energy investments in the region. We have worked directly with commissioners and key staff, and have offered recommendations on how RGGI allowance value could be best directed to deploy clean energy technologies. The Council has also facilitated several public issue forums in key RGGI states exploring issues of allowance allocation and how to direct auction proceeds to supply-side and demand-side energy efficiency and renewable energy.

California Leadership

The Council congratulates California on its leadership in developing a plan to reduce greenhouse gas emissions to 1990 levels by the year 2020. The Council particularly commends the state for the recognition in the Draft Scoping Plan that significant progress can be made toward the 2020 goal by relying on existing technologies and improving the efficiency of energy use. The Council believes that all technologies at our disposal will be required to tackle the challenge of global climate change. However, between now and 2020, existing clean energy technologies such as renewable energy, energy efficiency and natural gas are the first phase solution for the U.S. to meet increasing energy demand and reduce greenhouse gas emissions.

The Council supports the establishment of market-based programs for clean energy technology innovation, economic efficiency and enhanced energy security. We are encouraged that the Draft Scoping Plan envisions development of a California cap-and-trade program that links with other Western Climate Initiative (WCI) partner programs to create a regional market system. The Council encourages linkages to other state greenhouse gas initiatives, as well as international greenhouse gas initiatives. From an industry perspective, regulatory certainty and consistency are essential to effectively tackle the challenge presented by global climate change.

Depending on the design, a market-based program can spur unprecedented levels of energy efficiency and use of clean renewable energy. While the Council believes that many of the more traditional command and control-type elements in the Draft Scoping Plan will provide needed direction, we encourage a greater emphasis on, and use of, market-based policies.

Market-based approaches to reduce greenhouse gas emissions – such as green pricing programs, allowance trading, and emissions or renewable energy credit trading – consist of voluntary or mandatory efforts that affect supply and demand for environmental commodities through price, regulation, or information. In contrast to traditional regulatory models that mandate specific control technologies for compliance, market-based programs internalize the environmental costs of a given activity and create a financial value for over-compliance. Market-

based programs take advantage of economic efficiencies and provide flexibility that permits entities to choose the best control option to achieve results – in many cases at a lower cost than traditional methods. Further, market-based programs can lead to technological innovation because of the function over-performance plays in creating financial incentives.

Leveraging the experience of our members in renewable and low-carbon energy generation, clean energy technology, and project development, the Council respectfully submits the following comments on specific provisions of the Draft Scoping Plan.

Of note, as a diverse business coalition, not all Council members endorse or take positions on the set of recommendations listed below.

Expansion and Strengthening of Existing Energy Efficiency Programs and Building Standards

Greater use of energy efficiency, focused on both supply-side and demand-side applications, can play a substantial role in reducing greenhouse gas emissions – especially in the early years of a climate change program. As a recent McKinsey & Company report shows (attachment A), improving energy efficiency in buildings and appliances represents the most cost effective cluster of greenhouse gas emissions abatement potential. This report reconfirms that the efforts California has made in the past to improve energy efficiency have been a success, and the Council commends the state for continuing to make energy efficiency a priority in the Scoping Plan.

The Council supports policies, such as those outlined in the Draft Scoping Plan that would:

- Create a strong price signal to reduce emissions and invest in energy efficiency;
- Recognize, reward and provide incentives for energy efficiency investments; and
- Establish policies that will increase the efficiency of our buildings and our economy through successful existing programs and new innovative measures at the state and federal level.

Given the vital role that energy efficiency will play in reducing emissions and lowering compliance costs, any financial incentives for energy efficiency should be large-scale and front-loaded.

Addressing the multiple challenges to deployment of energy efficiency is complex and requires a diverse set of measures, including coordinated market transformation initiatives, use of a variety of private sector service providers, procurement policies and utility programs. The Council has taken an active role in identifying and promoting the types of measures that would increase energy efficiency through building codes and market measures, and we welcome the opportunity to share these ideas with the state of California as energy efficiency measures outlined in the Draft Scoping Plan are further developed.

Offsets

There is little in the Draft Scoping Plan that provides information about the use of offsets under the California program. The Council encourages the Air Resources Board to revise the Scoping Plan to better define and clarify the use and implementation of an offsets program.

The ability for entities to generate and purchase offset allowances is an essential feature of a market-based approach to reducing greenhouse gas emissions, due to its cost containment

characteristic. Under a compliance offset program, covered entities are permitted to help meet some portion of their GHG emissions reduction obligations by purchasing offset allowances generated by projects or activities that fall outside the scope of an emissions cap. This flexibility provides covered entities with the ability to achieve needed emission reductions at the lowest cost given their individual economic situations. While the Council encourages covered entities to undertake internal emission reduction activities such as deploying renewable energy and energy efficiency to the greatest extent possible, our members recognize offset purchases as an important complementary tool to help covered entities manage compliance costs, widen the scope of environmental benefits, deploy existing and new clean technologies that have not yet achieved market penetration and lower economic costs for energy consumers.

As with other aspects of market-based initiatives to address climate change, the details and structure of a compliance offset program will play a critical role in determining successful implementation, as well as achieving desired greenhouse gas emission reductions. The Council believes that ensuring the environmental integrity of offset allowances is essential in order to meet desired emission reduction levels. Real and additional offsets must be the standard for program integrity. Independent, third-party monitoring and verification requirements are also necessary to ensure that greenhouse gas emission reductions are delivered.

The Council offers the following recommendations to ensure the utmost integrity with respect to the design and implementation of an offsets program:

- Emissions offsets must be real, additional, permanent, independently verifiable, enforceable, measurable and transparent
- Promote broad eligibility for offsets across project types, sectors and activities
- Permit broad use of emissions offsets by entities with compliance obligations
- Reward early action to reduce greenhouse gas emissions with offsets
- Promote linkages with other domestic and international offset programs, and permit fungible use of eligible offsets generated from within such programs
- Utilize a standards-based approach for offset projects while allowing for case-by-case review of projects without pre-approved methodologies²
- Employ multiple tests for demonstration of offset “additionality”³
- Utilize standardized emission factors

While many offset projects deliver co-benefits (such as reductions in conventional air pollutants, improvements in sustainability and biodiversity, and economic development for disadvantaged communities), the focus of climate change policy should remain on reducing greenhouse gas emission. Co-benefits therefore should not be required for the approval of offset projects.

² The Council supports using a standards-based offsets program in lieu of a case-by-case review of individual offsets projects, which has caused issues with efficiency and consistency in the case law approach used by the Clean Development Mechanism.

³ In developing standards for additionality, the Council wishes to caution against the use of pure financial additionality tests in determining offset project eligibility. Financial additionality can be part of a range of factors, but it 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. Instead, we recommend practical application of a number of “barriers tests,” as is recommended by the World Resource Institute’s Greenhouse Gas Protocol for Project Accounting at:

http://www.ghgprotocol.org/DocRoot/m1Tv5lnUuFTjYZx3x1ev/GHG_Project_Protocol.pdf

Offset Project Types and Protocols

The Council recommends that every effort should be made to decide upon an initial list of approved project types, possibly including approved baseline and monitoring methodologies. The Air Resources Board should draw upon existing methodologies utilized by the Regional Greenhouse Gas Initiative (RGGI), the California Climate Action Registry (CCAR), EPA's Climate Leaders Program, and the Clean Development Mechanism (CDM), which should allow for the timely development of an offset system. The Council supports using a standards-based offsets program in lieu of a case-by-case review of individual offsets projects, which has caused issues with administrative efficiency and consistency in the case law approach used by the CDM.

Overly Restrictive Limits on the Use of Offsets as Compliance Tool Should be Avoided

BCSE supports policies which encourage regulated entities to directly reduce emissions. However, the Council does not believe that the Scoping Plan should place overly restrictive limits on the use of offsets for compliance by regulated entities. Regulated entities should be able to supplement and control costs in achieving GHG emission reduction requirements through the reasonable use of offsets.

Geographic limitations on offsets could significantly affect the availability of low-cost offsets within the region. This would ultimately threaten to increase compliance costs, hinder the development of the offset market, limit opportunities for offset developers to invest in the deployment of clean technologies and possibly put the region's affected entities at a competitive disadvantage to affected sources in other offset markets.

Additionally, a banking feature should be included, allowing entities to "bank" unused credits for future years.

Offset Program Administrative Structure and Function

The Council recommends selecting or developing a centralized offset registry to ensure integration with the emissions reporting and allowance tracking system of the cap-and-trade system. To ensure the integrity of the carbon markets and prevent double-counting, the Council believes each greenhouse gas emission credit should be uniquely identified and registered in one or more registries that have adequate measures to ensure transparency and accountability.

The Scoping Plan should establish linkages with other state and international greenhouse gas initiatives. These linkages should demonstrate comparability, and should be verifiable and transparent. The program should be designed to permit trading with compatible cap-and-trade programs and project-based initiatives elsewhere in the U.S. at the state, regional or federal level as well as in other parts of the world.

Further, the Council encourages the Air Resources Board to consider an early action program, which may include offsets from other regulatory offset schemes and/or high-quality voluntary schemes.⁴

⁴ Early action programs such as those supported by state public utility commissions and other regulatory agencies (i.e., The Climate Trust in Oregon).

Expansion of the Renewables Portfolio Standard to 33 Percent

The Council supports the Draft Scoping Plan's intention to increase the use of clean, renewable energy and expand the Renewables Portfolio Standard to include both investor owned utilities and public utilities.⁵ The Council believes that to succeed in expanding the Renewables Portfolio Standard to 33 percent, however, the state of California must take an active role to remove barriers that hinder the use and development of renewable energy, and should advocate for the removal of such barriers that are not under the state's control. These barriers include, but are not limited to: permitting issues, long-term extension of the production and investment tax credits, financing mechanisms and the need to expand and modernize the transmission grid.

Aggressive State Effort Needed to Meet Renewables Portfolio Standard

Current electricity infrastructure requires significant expansion and upgrading to meet growing U.S. energy demand and to improve efficiency. An expanded and improved transmission system could cut energy costs (by lowering line losses and improving system peak efficiency) and better deliver power from more remote areas which hold significant potential low- or zero-carbon energy resources. An improved grid could also provide greater reliability, flexibility for distributed generation and demand side management, including the realization of 'smart grid' applications.

In order to meet the expanded Renewable Portfolio Standard the state should facilitate the transition to smarter, more efficient transmission and distribution grids, which allow a broad portfolio of technologies that are cleaner as well as more reliable and agile. Increased use of distributed generation (DG) will: potentially improve electric power quality for customers with DG; support the Energy Security Initiative; potentially increase power reliability for customers with DG by allowing options for virtually uninterrupted power; and level out peaks, thus lowering energy costs. In addition, the use of time-based electricity pricing or "smart metering" technologies should be encouraged to save consumers money in avoided electricity costs and significantly reduce greenhouse gas emissions through avoided electricity use.

Benefits of Anaerobic Digestion and Biogas in Meeting the Renewable Portfolio Standard

The Council applauds the recognition in the Draft Scoping Plan of the benefits of anaerobic digestion and biogas. Methane is a potent greenhouse gas and methane emissions from agricultural livestock and organic waste contribute to global climate change. By creating incentives for changes in manure management practices, wastewater treatment processes, increased source separation of organics from methane-producing activities and encouraging the capture and beneficial use of biogas as a renewable resource, the state can achieve greenhouse gas emission reductions.

Biogas produced from livestock-based anaerobic digesters is already an important contributor to the state's eligible renewable resource content. Efforts to increase the Renewable Portfolio Standard to 33 percent will require an even greater contribution from this resource. However, anaerobic digestion is only one of a broad range of options to encourage reductions from this sector. The Council supports the conclusion in the Scoping Plan that providing economic incentives such as marketable emission reduction credits, favorable utility contracts or renewable energy incentives will stimulate the implementation of methane reduction strategies and various methods of gas capture and use, and that efforts to mandate the use of digesters would not be an appropriate path.

⁵ BCSE supports development of all renewable and clean generation resources, including advanced batteries, biomass, biogas, fuel cells, geothermal, hydropower (including new waterpower resources such as ocean, tidal and instream hydrokinetic), solar, and wind. The Council also supports the use of renewable energy credits (RECs) to meet the RPS.

The initiative undertaken by the Air Resources Board and the California Climate Action Registry to develop a livestock digester protocol already assures that digester projects that are constructed can quantify their emission reductions in a verifiable manner, which ensures the integrity of any offsets that might be used for compliance obligations in other sectors.

BCSE Support for Voluntary Renewable Market

Voluntary renewable energy markets include: *renewable energy* sold directly to customers in restructured electricity markets, renewable energy *certificates* sold to retail customers in both restructured and monopoly markets, renewable energy that is sold to consumers through *utility green pricing programs* and renewable energy *certificates*, which are translated into pounds of carbon dioxide equivalents and sold in voluntary *carbon markets*. Voluntary markets have been important in the development of new renewable facilities. One of the key drivers for these markets is the ability to offset emissions associated with electricity consumption (to reduce a company's greenhouse gas footprint or to help reduce global warming impacts).

These transactions operate without government subsidies, so the environmental benefit of a voluntary renewable energy market is in addition to any benefit that government action produces. Voluntary renewable power markets are growing rapidly in many regions of the country and are expected to be a larger driver for new renewable energy additions and voluntary carbon reductions in the future. As California further develops the cap-and-trade program through the Western Climate Initiative, the Council supports directing allowance value to the voluntary renewable market to preserve the ability of voluntary renewable energy purchasers to make green market claims and contribute to the reduction of greenhouse gas emissions. This can be done through either an output-based allocation that includes renewable energy generators, or through a renewable energy set-aside.

For more information about the voluntary renewable market, please refer to the comments submitted by the Renewable Energy Marketers Association (REMA).

Development of a Cap and Trade Program that Links with Other WCI Partner Programs to Create a Regional Market System

The Council supports the development of a California cap-and-trade program that links with other WCI Partner programs to create a regional market system. The new and existing regulations and other measures outlined in the Draft Scoping Plan will provide needed direction to that regional market. The Council has been involved in the development of the WCI cap-and-trade program, and has submitted comments on specific elements of the program including the allocation design and offset program. We intend to review closely the "Draft Design of the Regional Cap-and-Trade Program" that was released July 23 and will submit more specific comments shortly.

In general, the Council would like to restate its overarching view in support of linking California's greenhouse gas program with other compatible regional, national and international cap-and-trade programs to ensure lowest-cost compliance and increase global market liquidity. The Council supports strong linkages between California's program and the European Union Emissions Trading System and the Regional Greenhouse Gas Initiative, provided such linkages are based on comparable environmental commodities, and based on allowance transactions that are transparent and verifiable.

The WCI cap-and-trade program should use allocation methods to provide value to energy efficiency, renewables and cleaner generation. The Council strongly supports an output-based methodology that would distribute allowances based on the amount of electricity generated, not on the amount of fuel used or historic emissions. With this focus on output over emissions,

energy efficiency, carbon efficiency and cleaner generation sources – including renewable energy – are directly encouraged. The Council recommends a fuel-neutral, updating, output-based allocation. Output-based policies send a clear signal to the marketplace in which lower-carbon emitting energy options receive direct, clear, consistent and bankable value.

Conclusion

The Council views California's Draft Scoping Plan as an important vehicle to reduce greenhouse gas emissions in the western region and we congratulate the state for its leadership and action. The Council appreciates the opportunity to provide comments at this initial stage and we look forward to providing additional comments upon the release of the Proposed Plan in October 2008, when it is reviewed by the California Air Resources Board in November 2008 and throughout the regulatory process in 2009 and beyond.

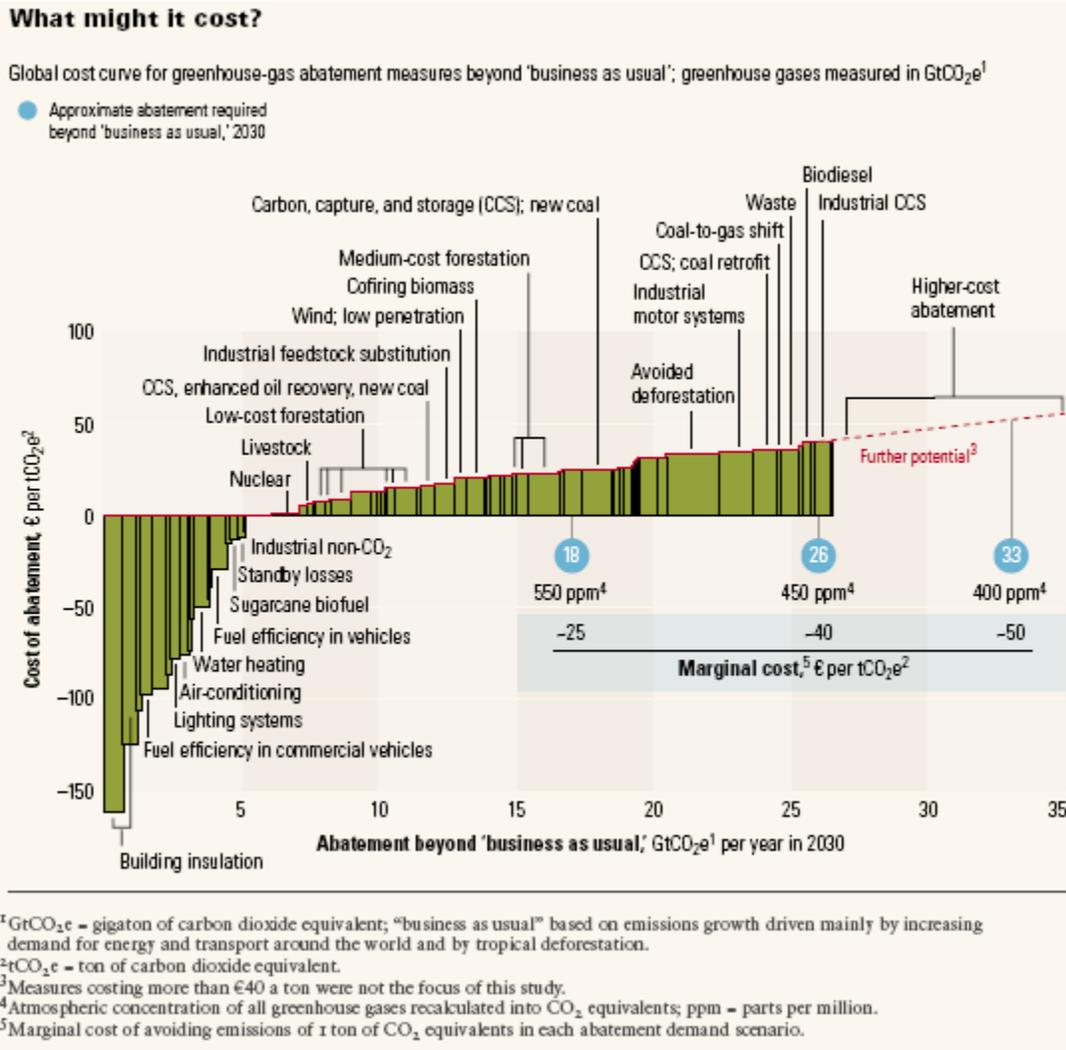
If you have any questions or comments about the BCSE, please feel free to contact me or Ruth McCormick in the Council's offices.

Sincerely,



Lisa Jacobson
Executive Director

Attachment A



6

⁶ Enkvist, Per-Anders, Tomas Nauclér and Jerker Rosander. 2007. “A Cost Curve for Greenhouse Gas Reduction.” *The McKinsey Quarterly* 1: 38.