The Business Council for Sustainable Energy

May 30, 2008

The Honorable Barbara Boxer
Chairman, Senate Environment and Public Works Committee
456 Dirksen Senate Office Building
Washington, D.C. 20510

The Honorable Joseph Lieberman
Chairman, Subcommittee on Private Sector and Consumer Solutions to Global Warming and Wildlife Protection
706 Hart Senate Office Building
Washington, D.C. 20510

The Honorable John Warner
Ranking Member, Subcommittee on Private Sector and Consumer Solutions to Global Warming and Wildlife Protection
225 Russell Senate Office Building
Washington, D.C. 20510

Dear Chairman Boxer, Chairman Lieberman and Ranking Republican Warner:

As Senate consideration of federal, market-based climate change legislation is expected in early June, the Business Council for Sustainable Energy (BCSE or "the Council") commends the release of the substitute amendment to the Climate Security Act, S. 3036 (formerly S. 2191). The Council views floor consideration of the substitute as an important step in determining the nation's approach to climate change and demonstrates U.S. leadership on one of the world's most pressing challenges.

Significant improvements have been made to the legislation since Senate Environment & Public Works Committee consideration of the bill last December. The substitute provides a stronger foundation for existing clean energy technology deployment, which is critical to significantly lowering the cost of compliance with emissions targets for consumers and businesses, enhancing the competitiveness of the U.S. economy and creating millions of new, high quality clean energy jobs.

The Council's industry coalition includes businesses and trade associations representing the suite of currently available technology options – such as advanced batteries, biomass, biogas, fuel cells, geothermal, hydropower (including new waterpower resources such as ocean, tidal and instream hydrokinetic) solar, wind and supply-side and demand-side energy efficiency. Direction is needed from Congress to speed the transition to a clean energy path that increasingly utilizes these technologies. This is especially important in the early phase of program implementation when other emission reduction options are not yet available. To advance the clean energy path, a multi-pronged approach to the design of market-based climate change legislation is required. The Council strongly believes that the design must include:

- Allowance value, in the form of allowance allocations and/or auction proceeds, directed to reduce consumer costs and to clean energy and energy efficiency investments – *especially in the early years of program implementation when these technologies represent the primary emission reduction options;*
- The adoption of a package of complementary energy policies to enable rapid market expansion, such as those included in the Council's *Clean Energy Technology Deployment Path Proposal,* including multi-year extensions of clean energy investment (ITC) and production (PTC) tax credits and a national Renewable Electricity Standard;
- A robust, high quality offset program to drive new technology investments and contain costs; and
- Recognition and credit for early action taken by businesses and other entities to reduce emissions.

S. 3036 makes strides to incorporate this approach in several areas, such as a new set-aside allowance pool for renewable energy, new and better defined provisions for energy efficiency and the recognition of the valuable role that high quality international offsets can play in helping to meet emission targets and containing costs. While further improvements should be considered to the legislation over time, the Council applauds the work of the Senate to date and looks forward to a constructive debate on the bill next week.

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In anticipation of floor consideration of Climate Security Act, the Council offers the following perspectives on S. 3036:

Allocation Polices Should Provide Forward-Looking Signals for Clean and Efficient Power Generation
The Council advocates that any free allowances be distributed to entities based on the efficiency of their total power generation (both electrical power and heat), through output-based approaches. Output-based allocation approaches send needed signals to the marketplace that reward, recognize and drive investment in clean, efficient energy technologies and provide further incentives for renewable energy generation. In contrast, the manager's substitute amendment grants covered entities emission allowances based on their historic emission levels. However, we are pleased that the substitute preserves an output-based approach in the Load Distribution Company allocation on behalf of consumers.

Energy Efficiency The substitute amendment represents some major improvements in the area of energy efficiency, by encouraging early investments in energy efficiency, and better defining and prioritizing energy efficiency's role in reducing emissions. A new energy efficiency title (Title VIII) has been added to the legislation, as well as authorization for existing and new energy efficiency programs. The Council also appreciates the inclusion of programs such as the efficient building programs and the Super-Efficient Equipment and Appliance Deployment (SEAD) programs (Title I, Subtitle B and Title VIII). However, we would like to see the allocation incentives for states to adopt and comply with building energy codes restored.

Renewable Energy The substitute amendment recognizes renewable energy by creating a set-aside allowance pool that allocates 4 percent of the free, unallocated emission allowances to renewable energy programs and generators between the years 2012-2030; renewable energy receives 1% of free allowances from 2031-2050 (Title VIII, Subtitle D). The Council strongly supports the direct allocation of allowances to renewable energy and believes that this is an improvement over the Committee-reported legislation. Of note, we seek opportunities to improve the distribution mechanism under this provision to make it more predictable and more effective at driving investment. Other changes to the legislation, however, such as the elimination of the sustainable energy program, which would have directed revenues from auction proceeds to renewable energy, are less encouraging. The Council believes that the legislation should drive forward-looking investments in renewable energy through the use of direct allowance allocations and auction proceeds. This will maximize deployment and is especially needed in the early years of program implementation.

Offsets The Council supports the inclusion of provisions in the legislation establishing a compliance carbon offset program, which will allow covered entities to achieve needed emission reductions at the lowest cost. The Council is appreciative of language in the substitute that would allow for international project-based offsets – providing greater technology deployment and cost-containment benefits. However, new language was added in the substitute that is concerning and would impact the ability of the offset program to drive project investment, such as language that would subject projects to a strict financial additionality test and language that would permit project disqualification during a previously approved crediting period.

Finally, since offset projects can take years to design and develop, covered entities and consumers would benefit if the federal government can begin establishing the rules, oversight and accounting mechanisms of an offset program prior to the date of enactment. The federal government can learn and build upon significant work accomplished to date internationally under the Clean Development Mechanism; under the federal EPA Climate Leaders Program; from regional programs such as the Regional Greenhouse Gas Initiative and the Western Climate Initiative; and from state programs such as the California Climate Action Registry.

The Council views Senate consideration of the Climate Security Act as a signal of U.S. leadership on climate change and an important step in shaping the nation's approach to reducing greenhouse gas emissions. We look forward to working with Congress to adopt policies that move our nation quickly on to a clean energy path that reduces greenhouse gas emissions and creates millions of high quality clean energy jobs.

Sincerely,

Lisa Jacobson
Executive Director