The Business Council for Sustainable Energy

June 6, 2008

To: **Western Climate Initiative**

Regarding: **BCSE Comments on the Western Climate Initiative Draft Design Recommendations on Elements of the Cap-and-Trade Program**

Submitted Via: **WCI Website**

On behalf of the members of the Business Council for Sustainable Energy (BCSE or "the Council"), we appreciate the opportunity to provide comments on the Western Climate Initiative (WCI) *Draft Design Recommendations on Elements of the Cap-and-Trade Program.* The Draft Design Recommendations were the subject of a stakeholder workshop in Salt Lake City on May 21, 2008. It is our understanding that the final Draft Recommendations will be available for public review and comment in mid-July. The Council looks forward to working with WCI as you continue to move forward on the design of a regional cap-and-trade program. We remain available to discuss our recommendations in further detail.

Introduction

The Business Council for Sustainable Energy is a broad-based coalition of energy efficiency, natural gas and renewable energy industries that advocates energy and environmental policies that promote markets for clean, efficient and sustainable energy products and services. The Council's coalition includes power developers, equipment manufacturers, independent generators, green power marketers, retailers, and gas and electric utilities, as well as several of the primary trade associations in these sectors. We have several members who are based in the WCI region as well as others that are very active in the region's markets and clean energy activities including Sempra Energy, PG&E, PPM Energy, SMUD, First Environment, Inc., GE Wind, Calpine, 3 Degrees, Enel North America, 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. The coalition supports the establishment of market-based programs for clean energy technology innovation, energy efficiency and enhanced energy security. We view the WCI cap-and-trade program as an important vehicle to reduce greenhouse gas emissions in the western region.

BCSE Recommendations on Allocation Design Issues

The Business Council submitted comments to the WCI Allocations Subcommittee on April 16, 2008 on specific program design questions (see BCSE at http://www.westernclimateinitiative.org/view_comments.cfm). According to the Draft Design Recommendations released at the May 2008 workshop, the subcommittee is still reviewing all of the public comments and has not yet determined whether any of the draft allocations recommendations should be modified in light of the comments. The Council appreciate the WCI's continued consideration of our previous comments, and we remain available to discuss our recommendations in further detail.

BCSE Recommendations on Offsets Design Issues

The following comments address BSCE positions regarding the WCI Draft Offset Design Recommendations, building upon, and reiterating, comments previously provided by the Council to WCI in April 2008 (see BCSE at http://www.westernclimateinitiative.org/view_comments.cfm).

In general the BCSE would like to reaffirm our support for the use of offsets as a compliance mechanism to provide compliance flexibility, lower compliance costs and encourage technology innovation and deployment in the Western

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region.[1] The creation of an offset program will enable non-capped sectors to participate in creating additional reductions beyond levels set by the WCI Partners. The Council respectfully submits the following comments on specific provisions in the WCI Draft Offsets Design Recommendations:

Evaluation Criteria

The Council wishes to reiterate our previously offered recommendations to ensure the utmost integrity with respect to the design and implementation of the WCI offsets program:

- Emissions offsets must be real, additional, permanent, independently verifiable, enforceable, measurable, and transparent
- Promote broad sector and activity eligibility for offsets
- Permit broad use of emissions offsets
- Reward early action to reduce greenhouse gas emissions
- Avoid placing geographical or quantitative restraints on the use of 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 methodologies[2]
- Employ multiple tests for demonstration of offset "additionality"[3]
- Utilize standardized emission factors

Role of the Offset Program

BCSE supports the use of offsets as a compliance mechanism to provide compliance flexibility, lower compliance costs and encourage technology innovation and deployment in the Western region. The creation of an offset program will enable non-capped sectors to participate in creating additional reductions beyond levels set by the WCI Partners.

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 GHG emissions. Co-benefits therefore should not be required for the approval of offset projects.

Offset Project Types and Protocols

WCI should make every endeavor to decide upon an initial list of approved project types, possibly including approved baseline and monitoring methodologies, prior to the release of the WCI Memorandum of Understanding outlining the cap-and-trade program design in August 2008. However, the Council recognizes the short time frame in which WCI Partners have to develop the offsets program, and therefore recommend that WCI, at minimum, set a list of project types by this deadline, leaving additional time to develop baselines and methodologies. WCI should draw upon existing methodologies utilized by the Regional Greenhouse Gas Initiative (RGGI), the California Climate Action Registry, and the Clean

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[1] The Council submitted its position paper on offsets to WCI Partners in November 2007; it can also be found at: *Recommendations for a Federal Greenhouse Gas Offset Program,* BCSE, September 2007, http://www.bcse.org/publications/press_releases/BCSE_Offset_Principles_final_9_5_07.pdf.

[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

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 efficiency and consistency in the case law approach used by the CDM.

Offset Projects Approved Through the WCI Offset Program

The Council recommends that neither quantitative limits nor geographic restraints be placed on offset projects as part of the WCI cap-and-trade program. Quantitative and geographic limitations on offsets could significantly affect the availability of low-cost offsets within the region, ultimately causing an increase in compliance costs, hindering the development of WCI's offset market, and possibly putting the region's affected entities at a competitive disadvantage compared with affected sources in other offset markets.

The WCI should not place geographical restraints on the use of offsets within the WCI cap-and-trade system. Further, the Council strongly recommends designing the WCI cap-and-trade program to link 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 the WCI program and the Regional Greenhouse Gas Initiative (RGGI) and the European Union Emissions Trading System (EU ETS), provided such linkages are based on comparable environmental commodities, and based on allowance transactions that are transparent and verifiable.

Tradable Units from Government Regulated GHG Emission Trading System

WCI should establish linkages with other state and international greenhouse gas initiatives at the outset of the WCI cap-and-trade program. These linkages should demonstrate comparability, and should be verifiable and transparent. The WCI 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 has urged the WCI Partners to consider an early action program that may include offsets from other regulatory offset schemes and/or high-quality voluntary schemes.[4]

Limits

BCSE does not believe that WCI should limit the use of offsets and non-WCI tradable units for compliance by individual regulated entities. Regulated entities should be able to meet their GHG emission reduction requirements through the unrestricted use of offsets. A banking feature should be included allowing entities to "bank" unused credits for use in future years.

Offset Program Administrative Structure and Function

BCSE supports the recommendation to select or develop a centralized offset registry and 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, BCSE believes each GHG emission credit should be uniquely identified and registered in one or more registries that have adequate measures to ensure transparency and accountability.

Conclusion

Thank you for the opportunity to provide comments on the WCI Draft Design Recommendations on Elements of the Cap-and-Trade Program. We look forward to providing additional comment on the final Draft Design Recommendations in July.

If you have any questions or comments please feel free to contact me at (202) 785-0507 or via email at ljacobson@bcse.org.

Sincerely,

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[4] Early action programs such as those supported by state public utility commissions and other regulatory agencies (i.e., The Climate Trust in Oregon and PG&E's Climate Smart™ in California).

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CC: Patrick Cummins, WCI