Regional Greenhouse Gas Initiative
Comments on the Proposed Draft Model Rules

Written Comments by
Conservation Services Group Inc.

Conservation Services Group Inc. ("CSG") submits these written comments in response to the "Requests for Comments" concerning the Regional Greenhouse Gas Initiative ("RGGI") Proposed Draft Model Rules ("Model Rules"). CSG applauds the Staff Working Group in all its extensive efforts in negotiating and drafting the Model Rules.

1. Offset Additionality Issues

a. Systems Benefit Charge Funds

While CSG appreciates the intent of the proposed exclusion of the use of System Benefit Charge ("SBC") funds as criteria for additionality, it is inherently problematic both because of the numerous other financial mechanisms and the disparity of SBC programs among RGGI states.

Individual offset projects as well as the technologies they depend on may be or have been recipients of significant public sector support through programs as varied as tax incentives to technical assistance. It is difficult to rationalize singling out SBC funds as the one form of public sector support that disqualifies a project for offset eligibility.

More specifically, since the programs offered by SBC funds vary so significantly, projects with widely varying percentages of private sector investment, whether 5% or 85%, would be treated the same.

b. Renewable Portfolio Standards (RPS)

While CSG appreciates the intent of the blank proposal to disallow offsets from any project that also sells RECs, we believe this strategy is problematic. We believe it is problematic for two reasons: one because it assumes that all renewable resources have the same climate impact, and two it assumes that all RPS's treat renewable resources in the same manner.

In the case of landfill gas, a facility that both destroys methane and generates electricity is clearly preferable to a facility that just flares methane—both for the economy and for the environment. However, the proposed rule would mandate that the preferred project could not receive any greater incentive than the less preferred project. This strategy sends a very weak and incomplete market signal to project developers. Similarly a landfill gas project that both destroys methane and generates electricity provides additional public benefits of significant GHG emissions reductions when compared to electricity generation from another renewable resource such as wind.

Although the rational that the projects are business as usual, CSG would like to suggest an alternative. Allowing projects that successfully achieve multiple objectives to receive compensation from multiple programs, will send a strong signal to the marketplace as to which types of projects are the best to develop. Overall, it is a societal benefit to have more projects develop that address multiple public objectives.

1.2 <u>Potential Alternatives</u>

Standard Financial Additionality Test

CSG believes this test is too burdensome on the regulatory agency and difficult to verify. They are also burdensome on the applicants and present significant uncertainty that will delay the investment in desirable projects.

Size Threshold

CSG sees this threshold requirement as having a serious unintended consequence. If larger projects are more economically efficient, which is often the case, then this approach would be counter-productive by promoting multiple, small, inefficient investments. Again, this would not promote the desired effect of the various programs to get economically efficient and environmentally friendly projects built.

Market Penetration Threshold

CSG believes this threshold requirement as very burdensome on the regulatory agencies, which are likely to vary in different states, resulting in inequities in which projects receive funding. Since Market Penetration is a moving target, this approach would present particular implementation challenges for the regulatory agencies and would create uncertainty for investors.

Other Criteria:

While less than perfect, CSG supports the use of benchmarks that serve as proxy or indicators. This approach is clear and transparent, is easy to implement from the perspective of the regulatory agency, and provides clear guidance to investors.

1.4 <u>Specific Questions</u>

Should program allow for the capture of incentives from other programs?

CSG strongly answers YES! If a project achieves the goals of multiple programs, it is likely to be more desirable than a project that only achieves the goals of one program. As a society, we should be sending the strongest possible message to the marketplace: we want more projects that will achieve multiple public benefits as they are defined by the individual programs' eligibility criteria.

If so, are further additionality requirement warranted?

CSG's answer to this question is No. RGGI should determine the criteria for offset projects to meet its goals and objectives. If a project also meets the goals and objectives of another publicly supported program, then that is an added benefit.

Are there practical alternatives that would allow the regulatory agency to adequately screen the eligibility of projects and determine whether it is warranted to allow a project to receive financing, incentives, or attributes credits from other programs, while also retaining eligibility as a RGGI Offset?

Benchmarks such as those offered in the comments document, Date of Landfill closure etc…, would allow RGGI to focus on the types of offset projects that best achieve its goals and objectives. Such benchmarks will narrow the pool of potentially eligible projects and will also limit the number of projects that also receive other public incentives. Focusing the attention of the development community on the most beneficial projects will achieve the goals of RGGI, as well as other public programs that benefit the environmental and the development community.

Natural Gas, Oil, Propane End-Use Energy Efficiency Offset Standard Provisions

CSG has been delivering energy efficiency services for over 22 years. We are experts in both retrofit and new construction. CSG has been designing and implementing residential conservation / energy efficiency programs since 1984 and has delivered services to more than 1 million homeowners in numerous regions nationwide. We also implement utility-sponsored energy efficiency programs for apartment and condominium complexes, along with large residential facilities. In 1990, CSG developed and began administering a new residential construction program, Energy Crafted Homes, for New England utilities. In 1995, CSG introduced ENERGY STAR Homes to New England. The program was fully operational by 1998 and by 2005 oversaw the certification of 52% of all new housing starts in Rhode Island and 20% in Massachusetts. CSG currently plays a key role in similar programs in the Pacific Northwest, New Jersey, and New York State. Based on this experience we can say with certainty that it is always more cost effective to build a building correctly rather than to retrofit energy efficiency afterwards. The proposal to restrict offset projects exclusively to retrofits is short sighted and sends a very bad message to the marketplace.

CSG strongly urges RGGI to incorporate the existing Energy Star building programs into its offset program. The Energy Star Program has been utilized since 1992 to aid commercial and residential buildings in becoming more energy efficient. The EPA's national performance energy rating system will provide regulatory agency with a well established system to determine offset quality and quantity. The Energy Star Label is well recognized as well as utilized, resulting in thousands of buildings receiving ratings for their energy performances.

Furthermore, CSG understands the intent of having allowances sold to projects or actions that reduce or avoid CO_2 emissions from natural gas, oil, or propane end-use combustion due to end-use energy efficiency. However, CSG suggests that in this offset provision, companies that reduce the amount of electricity that is drawn from the grid--thus reducing load and avoiding further CO2 emissions--should also be eligible to receive allowances.

<u>Comments on Section 8.8 Additional requirements to provide net output date</u>

Section 8.8 requires that regulated entities provide the same data for generation output to RGGI, and where applicable, has been reported to the ISO. Under the NEPOOL Generation Information System (NE-GIS) and the PJM Generation Attribute Tracking System (GATS) regulated entities are also required to report CO_2 emissions. It is critical that the model rule require that the quantities of CO_2 emissions reported by regulated entities be consistent with those reported to the attribute tracking systems. RGGI states can quickly and easily access the accounting system databases to verify data consistency.

Respectfully Submitted by:

Patricia Stanton
Director of Renewable Energy Markets
Conservation Services Group