

COMMENTS OF THE ENVIRONMENTAL MARKETS ASSOCIATION WITH RESPECT TO THE WHITE PAPER ON A CLEAN ENERGY STANDARD

April 11, 2011

Introduction

The Environmental Markets Association (EMA) is pleased to offer its comments on the Clean Energy Standard (“CES”) white paper. EMA is the leading US-based trade association focused on promoting market-based solutions for environmental challenges through sound public policy, industry best practices, effective education and training, and member networking. EMA represents a diverse membership including large utilities, emissions brokers and traders, exchanges, law firms, project developers, consultants, academics, non-governmental organizations and government agencies — the people making environmental markets work.

EMA arose out of the need associated with Title IV of the 1990 Clean Air Act Amendments, the so called "Acid Rain Program." EMA members have decades of experience with this program that has decreased sulfur dioxide (SO₂) emissions by 52% from 1990 levels and abatement costs reduced to an estimated 43%- 55% due to the flexibility inherent in trading. The price signals created by that U.S. initiative have spurred technological innovations to optimize both environmental and economic efficiencies. That program is the most-cited example of the successes of a market-based system, both for environmental results and substantially lower costs than alternative regulatory programs such as "command and control."

This market-based approach has been used around the country in other programs, such as the RECLAIM program in California’s South Coast Air Quality Management District, the Regional Greenhouse Gas Initiative in the northeast, the Chicago-area Emission Reduction Management System, in many state Renewable Portfolio Standard programs, and in several other EPA programs such as the Clean Air Interstate Rule. EMA members have been and are active in all these. We have participated in rulemakings before the EPA, the CFTC, and in the “Section 750 Study” pursuant to the Dodd-Frank bill. We have also developed several resources to aid in the understanding of such market-based programs.¹ EMA would be pleased to provide any requested training or other educational programs to staff of the Committee. We sponsor twice annual programs, open to the public, on the current state of the environmental markets; we are pleased to note that several members of Congress and their staff have attended and spoken at our programs.

Our principal concern in submitting these comments is to offer our expertise to support the use of the most cost-effective program to implement the use of “clean energy,” however that may be defined. By definition, markets are the most demonstrated tool for achieving the greatest emission reductions at the least cost both to society as a whole and to the entities subject to the regulation. Given the broad range of candidate technologies, we believe that development of a crediting system, and allowing those credits to be traded as an environmental commodity, would achieve the best result for the least cost. At the same time, we also believe that there is a risk of

¹ See the EMA's website at <http://www.environmentalmarkets.org>.

well-intentioned concepts actually inhibiting the benefits market-based programs can deliver. Rules and supervision of these markets are welcomed by EMA and its members. Indeed, we have adopted and published several principles for these markets.² We would be pleased to work with the Committee in this regard.

Comments with respect to item 3

Given the broad based nature of EMA, we will focus our comments on item 3, “How should the crediting system and timetables be designed.” This is the issue identified by the White Paper that is germane to EMA and its members.

In submitting these comments, EMA is not endorsing the adoption of a CES or any particular issues in terms of scope or requirements.

1. Market-based cost containment

Economic analyses demonstrate the importance of providing credits for new, innovative technologies that have the effect of modulating and containing the cost of complying with a federal CES. EMA supports the goal of attaching an effective market-driven price on compliance instruments so as to increase the competitiveness of advanced energy technologies and encourage innovation and expanded technology deployment.

2. Market oversight and regulation

EMA supports appropriate regulation and oversight of environmental markets designed to maximize the ability of companies to manage their risks while minimizing systemic risk. Appropriate regulation and oversight should include measures to encourage transparency and broad participation, while guarding against fraud and manipulation. Such measures may include provision of centralized clearing mechanisms for standardized contracts, as well as additional reporting requirements for non-standard clean energy credit agreements.

3. Transparent accounting and measurement systems to provide accurate price discovery

Market design infrastructures have an essential and significant impact on the effectiveness and efficiency of every environmental market. EMA promotes market design infrastructures that create reliable, accurate, and publicly-available price signals capable of facilitating policy and market objectives to channel the clean energy credits to the participants that most highly value them. Design components should ensure that all participants have both an incentive and interest to ensure that efficient price discovery occurs and is revealed to the market in a timely and transparent manner.

4. Economically and scientifically driven targets

The stringency of the CES and its associated portfolio targets should reflect equilibrium between the economic costs of inaction and the economic costs of action, with both sets of costs informed by the latest and most sophisticated scientific and economic evidence and technological development. EMA supports the goal of using the best evidence available to set the clean energy portfolio targets at levels that are reasonably achievable, mandate deployment of clean energy resources and optimize the availability of least-cost solutions that limit sudden economic hardships for energy consumers.

² The EMA Best Practices for Market-Based Systems are available at <http://www.environmentalmarkets.org/galleries/default-file/EMA%20Best%20Practices%20for%20MarketBased%20Systems.pdf>.

5. Clear rules with long-term and consistent policy signals

Long-term regulatory and policy certainty will allow a robust market-based system to evolve with price discovery and liquidity. Constantly changing rules create uncertainty and stifle market development. EMA supports legislative and rulemaking efforts to establish a complete, defined, and transparent clean energy market regime from the outset. Moreover, EMA also promotes the inclusion of experienced market participants at all stages of the policy and market development process. Concerted stakeholder engagement and consultation will have a dramatic impact on the ultimate strength and vibrancy of a market.

6. Recognition for early action

EMA supports maximum recognition of efforts undertaken by entities to increase their use of renewable and other “clean energy” technologies, provided proper documentation of such “early action” is required and observed. Voluntary early action should be rewarded with allocation of fully fungible credits or allowances. Moreover, state and regional programs should be integrated into the federal program and recognized for early action.

7. Harmonize standards with State Renewable Portfolio Standard Programs

EMA supports all CES policymaking efforts to facilitate or engender seamless regulatory infrastructures between national and state-level renewable portfolio standard market regimes. Broad inter-market cooperation will dramatically enhance liquidity, reduce overall market costs, and facilitate achievement of clean energy policy objectives.

8. Encourage market liquidity and broad market participation

EMA supports broad participation in environmental markets, because a competitive market containing a large number of buyers and sellers 1) reduces liquidity risk and 2) ensures that no one entity can influence the market. Any regulation that could potentially increase the cost for participants should be carefully evaluated as to its impact on market liquidity. Furthermore, EMA does not support efforts to limit participation in environmental trading markets to only those confronted with compliance issues.

9. System level fungibility and temporal bankability

EMA supports maximizing banking and borrowing of compliance instruments based on clear and auditable rules. Banking results in technology deployment earlier than expected as well as demonstrable cost savings. The inability to carry-forward credits can act as an added mitigation mechanism against market price volatility.

Conclusion

We appreciate the opportunity to submit these comments and offer our experience if requested by the Committee.

This letter represents a submission of EMA and does not necessarily represent the opinion of any particular member thereof.

ENVIRONMENTAL MARKETS ASSOCIATION

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