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U.S. Climate Policy

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Topics

- **Waxman-Markey (WM): The Dominating Feature**
 - Serious politics fully engaged
- **Domestic Policy**
 - Approach depends on WM outcome
- **International Posture**
 - Involved but also dependent on WM outcome

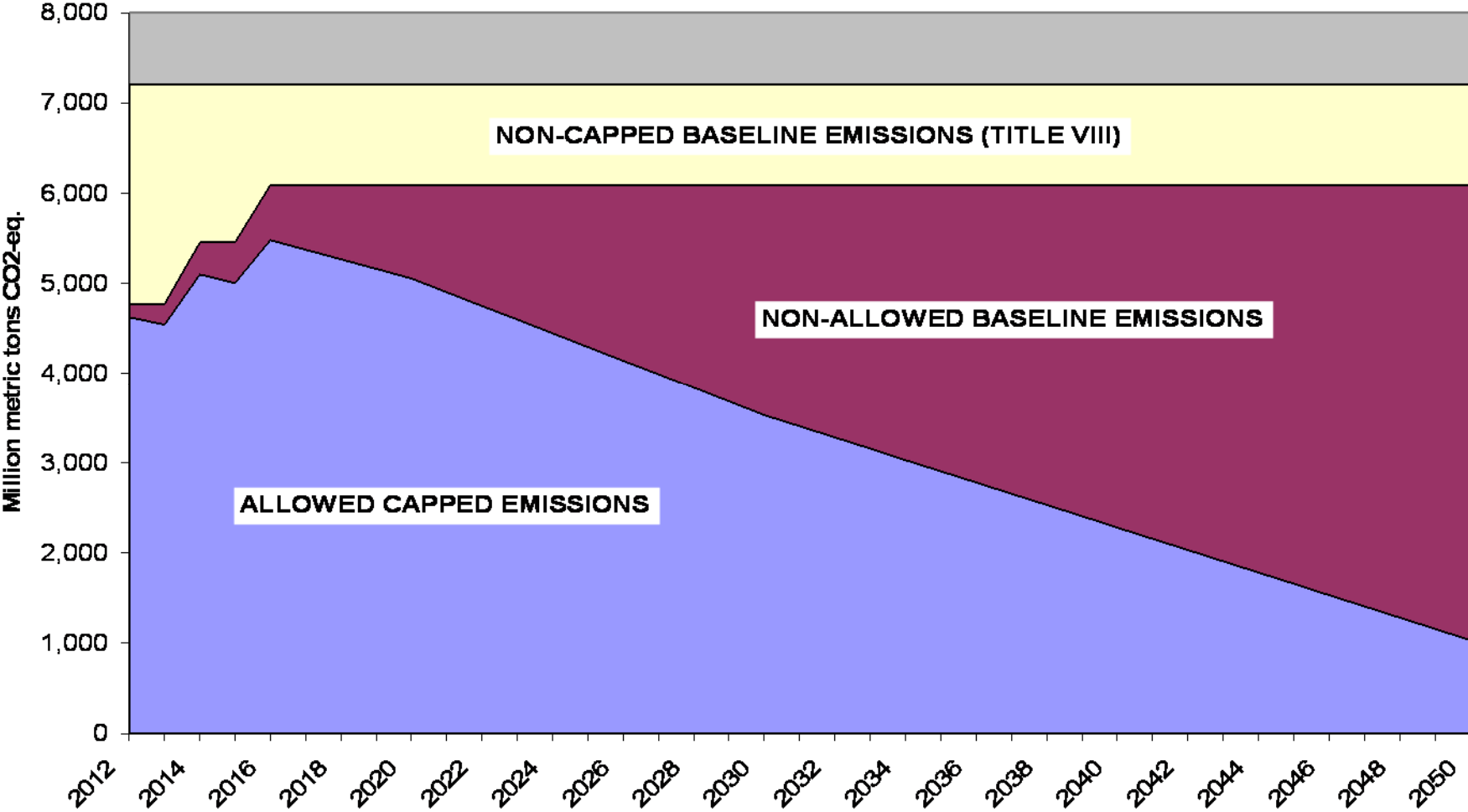
WM: Main Provisions

- **Cap & Trade Program (more to come)**
- **Efficiency and Renewable Electricity Standard**
 - Standard tradable obligation form (like Texas, UK, etc.)
 - 6% of MWh distributed in 2012 rising to 15% in 2020
 - 25% (up to 40%) can be met by efficiency measures
 - \$25/credit(MWh) ceiling by default payment
- **Energy Efficiency & Technology Programs**
 - Buildings, appliances, transportation, CCS.
 - Cash-for-clunkers

WM: Cap & Trade Provisions

- **Coverage: Kyoto GHGs + NF3**
 - CO2 emissions from large stationary sources > 25000 t/yr
 - CO2 content for petroleum products and natural gas distribution
 - Producers of fluorinated gases (SF6, PFCs, by-product HFCs, & NF3)
 - Methane and Nitrous oxides as feasible
- **The Cap and Total GHG Targets**
 - 85% of 2005 baseline emissions are capped
 - 3% reduction by 2012, 17% by 2020, 42% by 2030, 83% by 2050
- **Phase-in Schedule:**
 - 2012: electricity, petroleum products, and fluorinated gases
 - 2014: industrial installations (including refinery emissions)
 - 2016: natural gas distribution companies

Baseline, Capped, and Allowed Emissions



WM: Offset Provisions

- **Up to 2.0 billion tons/annually**

- 50:50 domestic-international split (possible 25:75)
- 1:1 basis for all through 2016; 5:4 for international after 2016

- **Also, % installation limit**

- Increasing over time

$$\frac{2 \text{ billion}}{2 \text{ billion} + \text{Annual cap}}$$

- **Certified by EPA or by delegation**

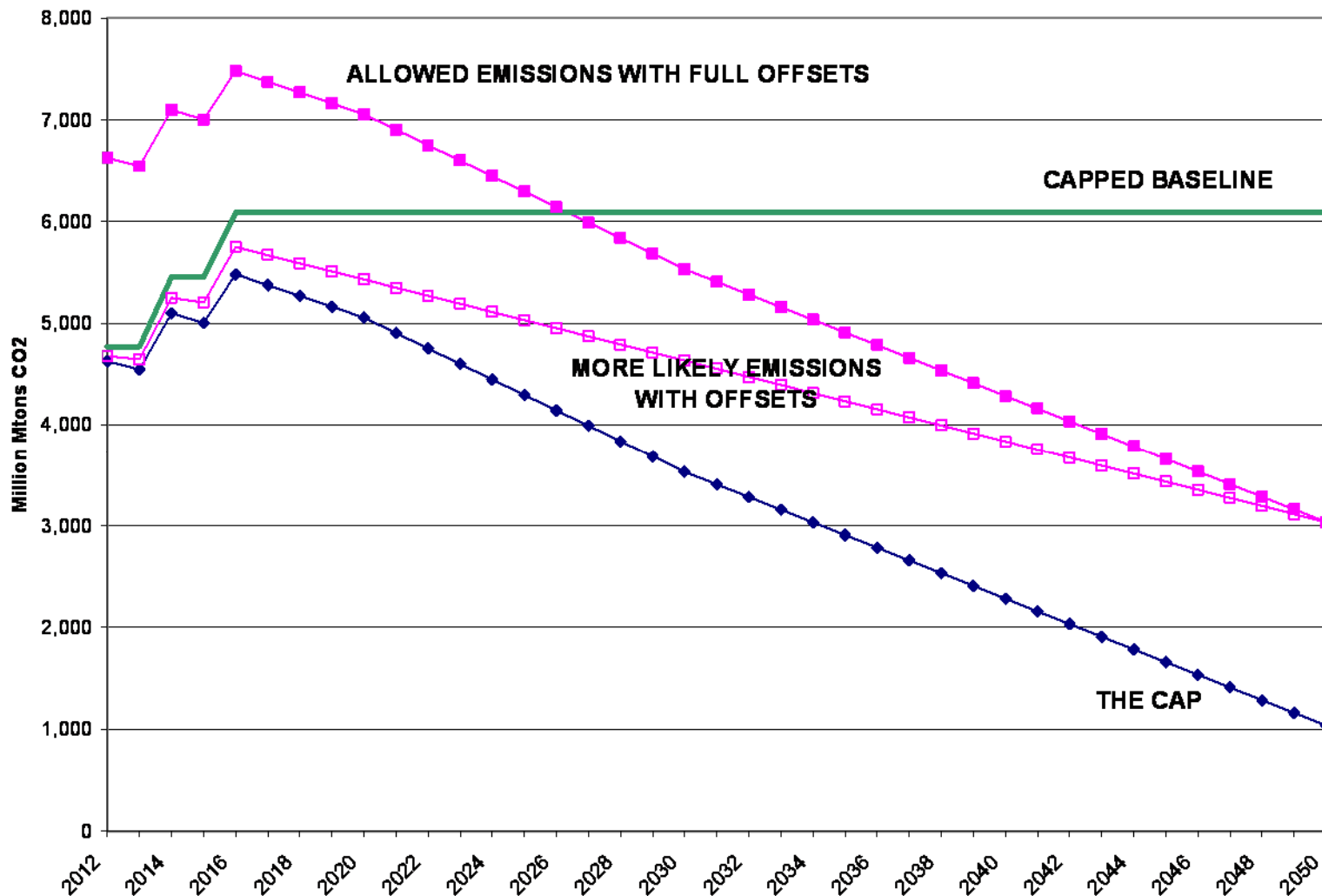
- Dept of Agriculture has lead on agricultural credits

- **Early offset supply**

- State or post-2008 private programs; reductions in 2009-11.

- **Unlikely to be many at start; aimed at 2050**

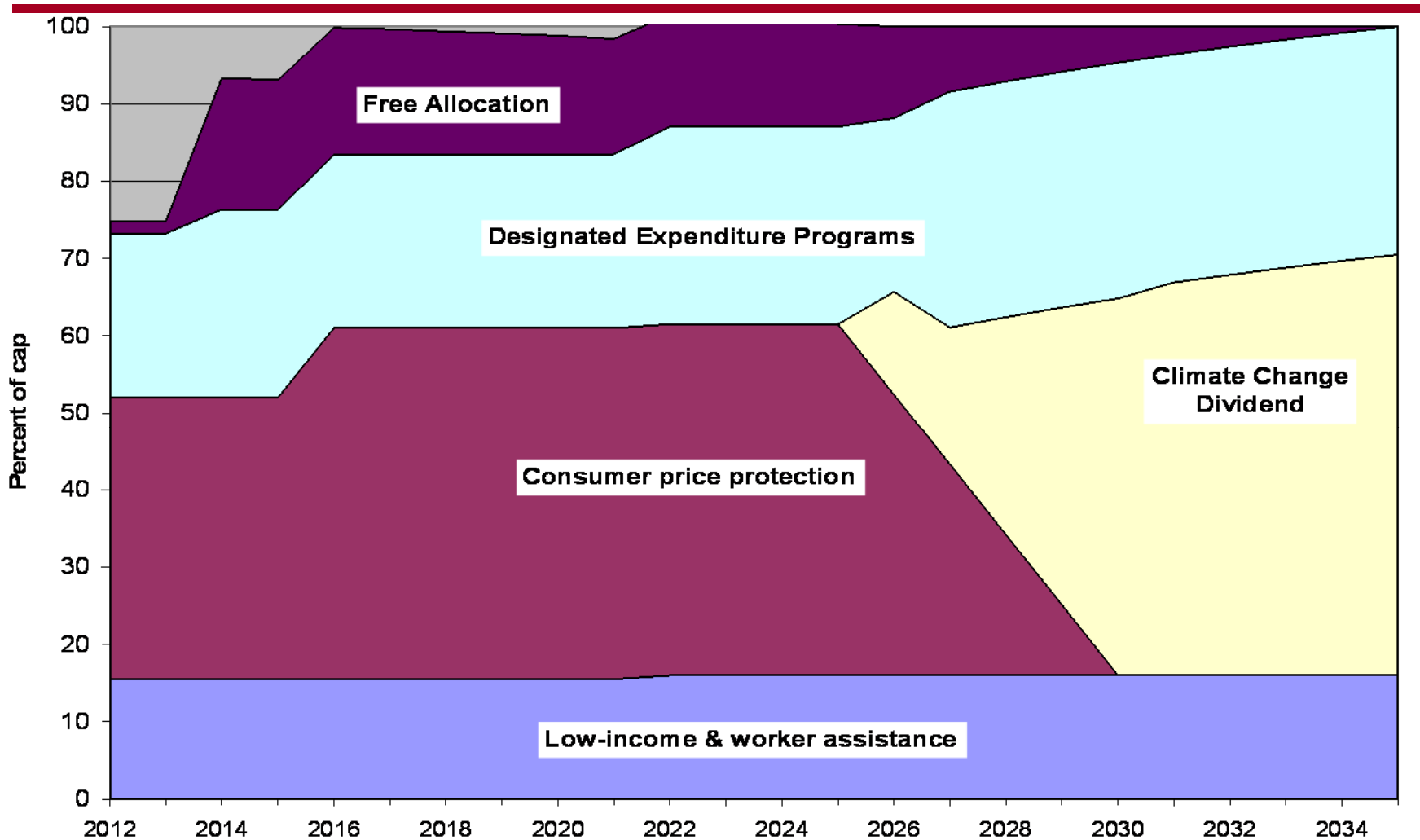
The Effect of Offsets: What is Practically Possible



Free Allocation and Auctioning

- **Conventional distinction has little meaning**
- **Four basic uses of allowance value (% in 2016 to % in 2035)**
 - Free allocation of emitters (20% to 0%)
 - Free allocation for climate-related purposes (20% to 30%)
 - Free allocation/auctioning for consumer rebates (40% to 55%)
 - Auctioning for low income/worker relief (15% throughout)
- **Auctioning**
 - Minimum reservation price of \$10 (inflated) for federal auction
 - Minimum federal auction of 15% rising to 70% in 2030
 - Other designated uses may consign allocated allowances for auction by feds; thus, actual auction amount may be higher.

W-M Allocations by Broad Use



Trade Impact Provisions

- **Purpose to thwart leakage, “ensure real reductions”**
 - US policy to work proactively to establish binding agreements committing all major-emitting countries to equitable contributions
- **Direct, free, ex post allocation, if sector is eligible**
 - Eligible sectors based on GHG and trade intensity (both must be met)
 - Refiners excluded, but fixed 2% allocation from 2014-2026 (no extension)
- **Rebate to eligible industry on a product-output basis x GHG and electricity intensity benchmark**
- **Presidential determination on continuation in 2022 and every 4 years thereafter**
 - Discontinued and phased out over 10 years if 70% of global, sector output meets conditions of low emissions or similar cost burden

Cost Containment Measures

- **Unlimited banking**
- **Two types of borrowing**
 - Unlimited year-ahead borrowing w/o interest
 - Up to 15% of emissions from 2-5 years ahead at 8% annual interest payable in allowances
- **Strategic Reserve Auctions**
 - Only if price more than twice rolling 3-yr average price
 - Max supply is 5% of 2012-16 cap, 10% thereafter
 - Available only to covered facilities for only 10% of emissions
 - Taken from future allocations; proceeds to replenish reserve with reduced deforestation credits at 5:4 ratio
- **International allowances may be recognized**

Outlook from here

- **House vote margin was very thin (219 out of 431 voting)**
 - 44 Democrats (out of 256) voted against (17%) (only 6 from “Coasts”)
 - Only 8 Republicans (out of 178) voted for (4.5%) (7 from “Coasts”)
- **Senate vote will be tougher**
 - Higher hurdle: 60 out of 100 votes (Dem majority is 60)
 - South, Midwest & Mountain West are more strongly represented
 - Ability of majority to impose discipline is much less than in the House
- **Presidential arm-twisting will be required**
 - High but limited political capital; real priorities are not clear
 - Competes with health care reform; also dependent on other events
- **Final passage is not assured**
 - Depends on Democrats’ sustaining a majority with minor Republican support
 - Uncertain new politics of highly partisan (environmental) legislation

Domestic Policy Outlook

- **If WM passes, cap & trade will dominate**
 - May not include efficiency and renewable electricity component
 - State cap & trade programs are pre-empted and will fade away
 - Included installations exempted from Clean Air Act regulation
 - Other efficiency/state programs will continue, but not likely to be important
- **If WM fails, highly regulatory approach will be adopted**
 - Unlikely to take up a new bill; fundamental rethinking of approach
 - State cap & trade programs would continue
 - Current “endangerment” ruling clears way to regulation under the Clean Air Act for all installations
 - Long, highly contentious and uncertain route to GHG emission limitation

International Policy Outlook

- **US will be “engaged” and supportive**
 - But not through treaty approach like Kyoto Protocol
 - Nor exclusively UN approach; G8 and Major Emitters Forum
 - And realistically circumspect in commitments; no more Clinton/Gore commitments that cannot be delivered
 - Prominence of climate policy in Clinton/Pelosi visits to China
- **Fate of WM will likely determine global architecture**
 - If passed, focus on linking with EU ETS and building global system
 - If not, focus on “policies and measures”
 - Also, EU ETS would likely be a stranded trading system