

Climate Change

Where We Are and Where We Are Going

An Overview of Critical ACESA Components

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Climate Change

How We've Gotten to Where We Are Now

- Historical Perspective – Earth Summit in Rio, Kyoto, history of domestic legislative efforts
- Current legislative efforts
- EPA Regulatory programs
 - Endangerment finding
 - Mandatory GHG reporting rule
 - California waiver
- International



American Clean Energy and Security Act of 2009

- Passed the House June 26, 2009
 - 219 for, 212 against
 - Last minute changes

- Five Titles
 - Title I – Clean Energy
 - Title II – Energy Efficiency
 - Title III – Cap and Trade
 - Title IV – Transition to a Clean Energy Economy
 - Title V – Agriculture and Forestry Related Offsets



ACESA – Cap and Trade Basics

- Cap on GHG emissions reduced over time
 - Emissions targets: 2005 base year, 83% reduction by 2050

- Covered Sources – handout

- Compliance
 - Two year rolling compliance period
 - Cost containment measures
 - Offsets
 - Unlimited banking
 - Borrowing
 - Trading
 - Strategic reserve



ACESA -- Five Critical Issues

- Allocation of Allowances and Distribution of Revenue
- Offsets – What Can be Used and How
- Preemption – State/Regional programs, CAA programs
- Competitiveness – International Trade Issues
- Carbon Trading – Degree of Regulation



ACESA – Allocation and Distribution

- Allocation – free distribution vs. auction
 - Administration starting point -- 100% auction
 - Key to negotiations to get to 218 votes
 - Initially 15-20% will be auctioned, 80-85% distributed
 - But, distributed with conditions supporting policy goals
 - Offset financial impacts on energy consumers
 - Distribution to states to fund state energy programs
 - Distribute to energy intensive industry exposed to trade competition
 - Transition towards more auction – 70% by 2030

- Distribution of Auction Proceeds
 - Smaller pot than initially contemplated
 - Energy refund to low income consumers, worker adjustment program



Offsets

- Critical compliance tool in early years of program
- Limited number – 2 billion
 - Split between offsets for domestic projects and international
 - Covered source limited in amount that can be used annually
 - No initial discount, but discount on international in 2018
- Two programs will set rules
 - EPA under new Title VII of CAA
 - USDA for agriculture and forestry offsets
- Rules cover eligibility, certification and verification
 - Familiar concepts – baseline, permanence, additionality, leakage
 - Early offsets
- Need for certainty



Preemption

- Of State/Regional Programs
 - Cap and trade programs: suspended until 2018
 - Covered sources under certain state/regional programs can exchange allowances for federal allowances
 - Beginning 2018 there is no prohibition on state cap and trade programs
 - Command and Control Programs – no preemption

- Of Existing/Future CAA Programs
 - NAAQS, HAPs and New Source Review programs preempted
 - No preemption for mobile source programs
 - EPA required to set NSPS for certain sources



Competitiveness/International Trade

- Address concerns about impact on competitiveness
- Allowance rebate program
 - Free allocation of allowances to covered entities in trade-sensitive industry sectors
 - 15% of allowances in 2014, decreasing thereafter
 - High energy, GHG and trade intensity sectors
 - Iron and steel, aluminum, cement, paper, glass, chemicals
- “Border Measures” – conceptual design
 - Triggered by Presidential finding vis a vis importing country GHG control scheme
 - International reserve program applicable to imported covered goods potentially beginning in 2020



International Trade Concerns

- Do border measures run afoul of World Trade Organization provisions and/or obligations established in various international trade agreements?
- Border measures do not necessarily help domestic manufacturers compete in the international marketplace
- Spark retaliatory efforts from other countries



Carbon Trading/Markets

- Current International Market Value = \$126 billion
- US Debate: Need for stringent oversight/control vs. avoid impeding market through over-regulation
- Markets – primary and secondary
- Who regulates what?
- FERC: cash “spot” markets in allowances and offsets
 - Issue regulations within 18 months
- CFTC: derivatives markets
 - Legislation sets forth suite of controls that must be imposed, including prohibition of OTC trading of derivatives



Senate – Process and Timing

- Already passed energy legislation but did not include climate/cap and trade
- Currently 6 different committees have jurisdiction over climate issues that will be in cap and trade bill
 - Finance, Foreign Relations, Agriculture, Commerce, Energy and Natural Resources and Environment and Public Works
 - ENR and EPW have lead
- Committee hearings are ongoing
- Sept. 28th deadline for Committees to complete work
- Comprehensive bill (combine with energy?) in the fall



Senate – Key Issues

- Get to 60 Votes
- Allocation
- Agriculture (key Senators)
 - Use ACESA as starting point
 - USDA offsets program
- Competitiveness/Trade
 - More flexible border measures vs. strong protection for domestic manufacturers (key Senators)
- Carbon Markets – strong push for CFTC as sole regulator
 - Independent CFTC bill introduced



International

- UNFCCC process – series of meetings before Copenhagen
- Series of bi-lateral/multi-lateral/regional meetings separate from UNFCCC process
 - Address discrete issues that feed into Copenhagen
- Prospects for Copenhagen
 - Dependent on status of US legislation?



QUESTIONS?

Thank You

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