

# Climate Change – Federal Update

***The New England Council Summer Energy Briefing***

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## Federal Climate Change Approach

- Review of issues of importance in federal climate change program
- Brief overview of pending/introduced legislation
- Issues of concern for New England Council members



## Climate Change – Type of Approach

- Cap and Trade
  - Cap and Trade with Safety Valve Price
- Performance Standard/Emission Rate
- Carbon Fee
- Combination



## Scope of Program – Covered Sources

- Energy sector
- Industrial sector
- Transportation sector
- Commercial/buildings
- Comparisons to EU system



## Elements of Cap and Trade

- Setting and decreasing the cap
  - Baseline and targets
  - Tons of carbon equivalents
  - Carbon intensity
  
- Allocation of allowances
  - Upstream (fuel suppliers) vs. downstream (emitters)
  - Existing vs. new sources
  - Periodic updating
  - Auction or grandfather (or combination)



## Elements of Cap and Trade

- Emission trading rules
  - Eligibility to participate
  - Offsets
  - Credit for early action
  - Registry/enforcement/penalties
  
- Point of compliance
  - Who has to hold the allowances



## Federal Legislation

- S.280 (McCain-Lieberman)
- S.309 (Sanders-Boxer)
- S.317 (Carper-Feinstein)
- S.485 (Kerry-Snowe)
- Bingaman Bill (not yet introduced)
- H.R. 620 (Olver)
- H.R. 1590 (Waxman)



## Climate Change -- New England Council

- 2003 Climate Change Declaration and Summit
- RGGI Stakeholder
- Favor comprehensive national program over fragmented regional/state approaches
  - Addresses leakage
  - Spreads to overall cost of compliance
  - Realize efficiencies in achieving GHG reductions
  - Compliance less costly and easier to achieve





## Climate Change – New England Council

- Economy wide program
- Flexible approach
  - Consider market based for energy and industrial sector; performance standards for transportation and commercial/buildings sector
  - Recognition of current technological limitations (carbon capture/control)



# Climate Change – New England Council

## Cap and Trade Program

- Realistic cap that reduces over time
- Full banking and trading, including credit for early reduction
- Safety valve plus periodic “reality checks”
- Recognize offsets from outside of program
- Minimize volatility in allowance allocation scheme
- Registry must be consistent with current national registry program elements



## S.280 McCain-Lieberman

- Electric generation, transportation, industrial and commercial sectors
- 2012 cap at 2004 level; 2020 cap at 1990 level; 2050 cap at 60% below 1990 level
- EPA determines parameters of trading program
- Allowances allocated upstream to refiners/importers of transportation fuels; downstream to electric generation, industrial and commercial entities (free); EPA determines auction level
- Recognize offsets from outside covered sectors (limited to 30%)



## S.309 Sanders-Boxer

- Economy wide
- 2% annual reduction beginning in 2010; 2020 cap at 1990 levels; 2050 cap at 20% of 1990 levels
- Discretion to EPA to set up cap and trade or other “cost-effective emission reduction strategies,” including auction
- Early reductions credited
- Renewable portfolio standard, emission standards for vehicles, and energy efficiency performance standards



## S.317 Carper-Feinstein

- Electric generators only (>25 MW)
- 2011 cap at 2006 levels; 2015 cap at 2001 levels; 1% annual reductions 2015-2020; 1.5% annual reductions 2020
- Allowances initially allocated based on historical electricity output; auction beginning in 2011 with auction % increasing per year to 100% by 2036
- “Economic harm” safety valve allows limited borrowing against future allowances
- Recognize offsets from outside covered sectors (max. 25%) and early reductions



## S.485 Kerry-Snowe

- Economy wide
- Cap in 2010 with goal of 2020 cap at 1990 levels; 2.5% per year reduction 2020-2031; 3.5% per year reduction 2032-2050
- EPA establishes trading program; allocation scheme includes auction (unspecified level); credit for offsets from outside program and early reductions
- Renewable portfolio standard, emission standards for vehicles, and energy efficiency performance standards



## Bingaman Legislation

- Still being developed; expected introduction summer 2007
- Economy-wide; upstream (refineries, coal mines, importers)
- Use emissions intensity measurement; cap in 2012; 2.6%/year reduction through 2021; 3%/year reduction 2026-2050
  - \$7/ton safety valve price (price projected to hit \$7/ton in 2026)
- Allowances to electric generating facilities
  - 10% of allowances auctioned in 2012; 20% in 2021; increase by 2%/year to 65% in 2044
  - 29-30% of allowances allocated to states



## H.R. 620 Olver

- Electric generation, transportation (refiners/importers of fuel), industrial and commercial sectors
- 2012 cap at 2004 levels; decreasing caps 2020, 2030 and 2050
- Allowances allocated upstream to transportation sector (refiners/importers) and downstream to electric generation, industrial and commercial sectors (free); EPA can establish auction process
- Recognize offsets from outside covered sectors (limited to 15%), early reductions





## H.R. 1590 Waxman

- Economy-wide
- 2010 cap with 2% annual reductions to 2020 cap at 1990 levels; 5% per year reduction to 2050 (80% below 1990 levels)
- EPA rule establishes trading program, including coverage and allocation; auction some allowances (unspecified)
- Recognize early reductions
- Renewable portfolio standard, emission standards for vehicles, and energy efficiency performance standards