

**THE
NEW ENGLAND
COUNCIL**

**FRAMEWORK FOR
A NATIONAL PROGRAM TO
ADDRESS CLIMATE CHANGE**

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Framework for a National Program to Address Climate Change

*The New England Council Urges the New England Congressional Delegation
To Support a National Climate Change Program*

The New England Council is a region-wide, not-for-profit organization of businesses that for more than 80 years has been New England's voice on Capitol Hill in Washington, D.C. The Council was formed in 1925 by business and government leaders in New England, who recognized the importance of working together to find solutions to common economic challenges and create economic growth opportunities.

Today, The New England Council is the leading voice on the policy issues that shape the region's economy and quality of life -- focusing on key industries that drive economic growth and job creation including energy, education, technology, health care and financial services. Energy is a significant cost driver for employers in New England, and ultimately affects the quality of life in New England. While environmental policies and requirements present important cost considerations for the energy sector, they also serve as vital protectors of the quality of life for generations of New England residents.

The Council has an informed, educated and evolving history with the issue of climate change. In 2003, The Council called for the development of a regional plan to address emissions of CO₂. At the time, a patchwork of single state initiatives was emerging. The Council believed that only a regional approach could respond to the inefficiencies of multiple regulatory systems, and avoid the unintended consequences that would result from different state-based systems applying within a unified regional electricity grid. Now, with widespread recognition of so-called "leakage" impacts and the real potential

for continued regulatory fragmentation to occur at the regional, national, and international levels, The Council believes that a comprehensive national program is necessary to successfully address the issue of global climate change.¹

The New England Council recognizes the importance of addressing climate change, and seeks to help shape the policies that will affect the region for decades to come. The Council acknowledges that greenhouse gas (GHG) emissions are only one of several factors causing climate change (a claim supported by UN research), and believes that a single national program that provides non-discriminatory policy options for reducing GHG emissions, utilizing both supply and demand efficiency technologies, in an effective, cost-conscious manner will both benefit the regional economy and help achieve substantial environmental improvements. A uniform national program will also stimulate the development of new innovative technologies on a national basis, which will provide significant growth opportunities for New England's technology-based economy.

Problem and Program

Across the Northeast, from Pennsylvania and New Jersey northward to Maine, we are seeing signs of a changing climate. Records show that spring is arriving sooner, summers are growing hotter, and winters are becoming warmer and less snowy.² New England businesses will likely be affected both by climate change itself, and by policies and regulations that are adopted to respond to the problem. Of course, the impact of climate change is not isolated to New England; such impacts are indeed being felt around the globe.

¹ State and regional programs at various stages of adoption include the: Massachusetts 310 CMR 7.29 regulations, the Regional Greenhouse Gas Initiative (RGGI) among northeast states (ME, NH, VT, MA, RI, NY, NJ, DE, CT), the Western Regional Climate Action Initiative (CA, OR, WA, AZ and NM), the Midwestern Greenhouse Gas Reduction Accord (IL, IA, KS, MI, MN, MT, UT, and WI, and the Canadian Provinces of Manitoba and British Columbia) and California's AB32 statute.

² Union of Concerned Scientists: <http://www.climatechoices.org/assets/documents/climatechoices/The-Changing-Northeast-Climate.pdf>.

To address a problem of global proportions requires action that is equally global in nature. As the Union of Concerned Scientists and other stakeholders have suggested, actions taken solely in one state or in one region of the United States will not appreciably mitigate the impact of climate change. While individualized, regional regulatory programs are an important first step, they are not adequate to address what is clearly a global issue. Only a nation-wide, multi-sector program, which combines mandatory reductions with adaptable policies and compliance mechanisms, can achieve real results, particularly when combined with similar programs by other countries.

A single national program for the United States will deliver a number of important benefits for New England and the country. For example, a national program will address in large measure the leakage issue, ensuring that the program results in real CO₂ reductions on a nationwide basis without imposing disproportionate costs on any single region.³ That would not be the case with fragmented state or regional programs. By preempting the development of disparate regional and individual state regulatory systems, a national program also will be more efficient and cost effective in achieving the desired results. Private sector compliance will be simpler and less costly with one national program, as it will avoid the use of different definitions, deadlines, accounting, registration, and other requirements that would be present under multiple systems. This is particularly the case for companies that generate electricity, as they operate in integrated multi-state and multi-region networks where different regulatory systems could raise reliability and security concerns, create leakage issues, and lead to higher costs. These costs and complexities will be ameliorated if Congress creates an exclusive national regulatory program. This is not to say however, that states or regions who have acted early should not be rewarded for their early actions. On the contrary, federal policy mechanisms which reward early greenhouse gas policy adopters should recognize the efforts by states and regions who have already invested time, effort, and dollars to reduce GHG emissions.

³ See *Reducing U.S. Greenhouse Gas Emissions: How Much at What Cost?*, McKinsey & Company (December 2007), at pg xii (“Total abatement available at less than \$50 per ton ranges from 330 megatons in the Northeast to 1,130 megatons in the South (mid-range case). These potentials are roughly proportional to the total GHG emissions from the regions”).

Framework

For several years, The New England Council has worked closely with regional policymakers, regulators and other key stakeholders to address the climate change issue and various regulatory responses. Based on this experience, The Council believes that it is in a unique position to offer suggestions as to how a national program should function. Our overarching goals are: (1) to meaningfully reduce climate change emissions in a cost effective way, and (2) to achieve results that are beneficial to New England's citizens and employers.

In practice, calculations of the optimal price and quantity of reduced greenhouse gas emissions are difficult to make, because of the considerable uncertainty about the scale of climate change and its likely impacts, and the potential costs of alternative levels of abatement or regulation.⁴ Nevertheless, these ideas are worth considering as optimal cost/benefit policies are explored at the national level.

The New England Council suggests there are several ways to achieve meaningful reductions in greenhouse gas emissions:⁵

- Improve energy efficiency;
- Encourage industry to move toward lower carbon technologies;
- Reduce carbon intensity of existing technologies;
- Cut non-fossil fuel related emissions, bearing in mind the critical importance of agriculture for food and energy on a local, national and global scale⁶; and
- Move demand away from carbon intensive goods and services.

⁴ Ibid, page 30.

⁵ Ibid, page 28.

⁶ Agriculture and land-use currently account for around 1/3 of global greenhouse gas emissions (see Cole, C.V., J. Duxbury, J. Freney, O. Heinemeyer, K. Minami, A. Mosier, K. Paustian, N. Rosenberg, N. Sampson, D. Sauerbeck, and Q. Zhao. 1997. *Global Estimates Of Potential Mitigation Of Greenhouse Gas Emissions By Agriculture*. Nutrient Cycling in Agroecosystems 49: p. 221–228; also see Paustian, Keith et al, *Agriculture's Role in Greenhouse Gas Mitigation*, Pew Center on Global Climate Change, September 2006, p. 1.)

Several criteria must be met in designing a workable, national GHG policy:

- **Credibility:** people/businesses have to believe that the policy will endure and be enforced;
- **Predictability and Transparency:** people/businesses must be able to understand the requirements and cost effects, as well as predict the circumstances under which the policy will change;
- **Flexibility:** the policy has to be able to be adjusted rapidly in the event of new information or circumstances;
- **Technological Balance:** the policy should have an equal level of focus on supply and demand opportunities to maximize cost-effectiveness;
- **Fair:** the policy should result in laws and rules that address climate change and related issues, and not other unrelated social, environmental, or political issues and allowances or revenue should be distributed among states in a manner that is fair and equitable and that does not reward pollution; and
- **Cost:** the policy must be reasonable and equitable, and stability must be encouraged to minimize the financial impact on suppliers and consumers.

A national program should be comprehensive in scope and not focus only on one sector. Since climate change is a ubiquitous issue its solutions must be multi-faceted with an economy-wide approach. The types of greenhouse gas abatement policy options include: price-based (tax) schemes; volume-based schemes (such as cap-and-trade); technology forcing regulation; and ‘command and control’ regulation (performance standards).⁷

When developing a comprehensive national economy-wide program, the ideal program would include flexibility mechanisms and cost effective sector-specific approaches. A certain policy approach for one sector may not work well for another sector. For

⁷ Llewellyn, Dr. John, *The Business of Climate Change Challenges and Opportunities*, Lehman Brothers, February 2007, page 34.

example, performance standards may work well for the transportation and building sectors, while a cap-and-trade mechanism may work well for the energy sector.

In the energy sector, particularly the electricity-generating sector, market-based mechanisms should be pursued where possible to maximize economically efficient compliance. However, caution must be exercised to ensure appropriate policy incentives for innovative control technologies and measures are developed, since no back-end control systems for CO₂ emissions currently exist. Climate change policy must be developed concurrently with a sound, long-term national energy policy that provides for fuel diversity, a reliable energy supply and affordable electric service, maximizes cost-effective investment in energy efficiency programs that reduce energy demand, and does not damage the U.S. economy.

National energy policies and programs that provide meaningful incentives for long-term financial investments in a full suite of technologies including renewable energy (including hydro-power), energy efficiency, hydrogen, biofuels, nuclear energy, and clean coal technologies, as well as incentives to enhance exploration and production of natural gas supplies, are needed to effectively transition to a less carbon-intensive economy while maintaining the broad portfolio of diversified generation sources and energy supplies needed to ensure energy security and a healthy, growing economy. The U.S. Energy Policy Act of 2005 contains a number of provisions to foster the development of these technologies, and these provisions should be fully funded and implemented. In addition, the Council strongly supports the renewable energy and energy efficiency provisions included in the Energy Independence and Security Act of 2007, a sweeping energy bill that embraces increases in automobile efficiency standards and the use of alternative fuels. The bill includes a 40% increase in corporate average fuel economy standards (the first increase in CAFE regulations in over 30 years) and mandates a significant increase in the use of biofuels over the next 15 years (production of 36 billion gallons a year by 2022). These positive steps, which will reduce GHG emissions and provide long-term economic and environmental benefits to the New

England region, serve as an excellent example of a diversified approach that brings to bear different carbon-reducing strategies on different sectors of the economy

If a cap-and-trade approach for the electric generation sector is considered, the Council believes that the following should be considered in developing a national program:

- realistic and achievable reduction targets with incremental reductions over time;
- borrowing and banking;
- a price control mechanism designed to mitigate adverse effects on cost should be included, provided the overall integrity of the cap is maintained over time;
- “offsets” with clear, predictable criteria that are not restricted artificially by type, geographical location, or amount that can be used;
- compliance periods must be of sufficient length to both incentivize and justify project financing;
- allowances should be allocated or auctioned in a manner that reduces and/or minimizes exposure to cost volatility, unpredictable and adverse market impacts, while at the same time considering impacts on consumers;
- allocation or distribution of allowance revenue should consider both supply and demand side solutions, with a focus on energy efficient investments;
- credit for early action;
- credit for unit curtailment and shutdowns; and
- a registry for emissions which is consistent with the national GHG program requirements.

More broadly, a national program must also include approaches that create incentives and encourage actions by other countries, including large emitting economies in the developing world, to implement GHG emission reduction strategies. The U.S. must take a leadership role in this area, and ensure that the implementation of necessary GHG reduction strategies in the United States does not cause economic activity to shift to countries that do not limit GHG emissions.

As varying sectors of our economy begin to adapt to new carbon-reduction regulations, it is vital that the federal government keep economic activity from emigrating overseas. This goal can be met by developing a robust and well-trained 21st Century workforce that is ready to meet the new demands placed on domestic businesses. In order to meet these needs, the still-fledgling environmentally-friendly jobs sector must continue to grow and expand. As demand continues to increase for non-traditional forms of energy (based on a number of factors, including climate change, the skyrocketing costs of traditional energy sources, and a desire to be more domestically energy independent), the need for “green” jobs will also continue to grow. An ample supply of highly-skilled and highly-trained workers will be needed to meet the demand for further research and development, installation and construction, and maintenance of green energy facilities. However, if companies do not believe the market can provide them with the trained employees they will need to compete, they will almost certainly look to relocate to an economic environment that offers better-trained resources or has fewer regulatory constraints. The New England Region, which already is home to global leaders in research and development of all shapes and sizes, can lead the way in training, preparing, and supplying the “green” jobs that will be so critical to keeping our economy growing while reducing our carbon output. The federal government must package any national climate change strategy with an understanding that a cutting-edge workforce must accompany any significant regulatory changes in this area.

Conclusion

New England will benefit from a single, comprehensive national initiative to address climate change that is multi-sector, credible, predictable, transparent, and flexible. New England’s resources can be brought to bear to provide creative solutions for GHG abatement, as well as adaptive measures that should be implemented. When a national policy is implemented, the U.S. should encourage negotiations with other carbon intensive countries for the implementation of complementary GHG mitigation programs to ensure that climate change is addressed on a global level.