MEMORANDUM

March 12, 2008

To: **COG Board of Directors**

From: **Naomi Friedman**
Assistant Executive Director

Through: **Stuart A. Freudberg, Director**
Dept. of Environmental Programs

Subject: **Resolution R13-08: "Resolution in Support of Federal and State Climate Legislation"**

Background

On April 11, 2007, COG's Board of Directors established a Climate Change Steering Committee (CCSC) to advise the Board on the development of regional climate change policies, best practices, and potential advocacy positions on federal, state and local climate change proposals.

The federal government has demonstrated increased interest in developing comprehensive climate change legislation. S. 2191 *America's Climate Security Act*, proposed by Senator John Warner and Senator Joseph Lieberman, passed the Senate Environment and Public Works Committee in late 2007, and is expected to be taken up by the full Senate this spring. Representative John Dingell is developing a companion bill in the U.S. House. The State of Maryland also is considering a comprehensive climate change bill.

While it is unclear exactly when the U.S. Congress, or the States of Maryland, Virginia or the District of Columbia will pass comprehensive climate change legislation, at its February 27, 2008 meeting, the Climate Change Steering Committee agreed that it is advantageous for the COG Board to establish climate change advocacy positions early in the process of development of federal climate change policy and regulation. The CCSC concluded that this is particularly important given the fact that current federal proposals do not include a role for local governments or regional entities, and do not provide localities or regions funding to carry out their responsibilities related to this problem.

Federal Climate Change Legislation – Key Components

The key federal proposal to mitigate greenhouse gases and reduce the risks of climate change is the "Warner/Lieberman bill," aka *America's Climate Security Act* (S2191) The goal of this bill is to reduce greenhouse gases "substantially enough to avert catastrophic impacts of climate change while also preserving the health of the economy and avoiding the hardship of citizens."

The Warner/Lieberman bill establishes a limit on greenhouse gas emissions – i.e., carbon dioxide, methane, nitrous oxide, sulfur hexafluoride, and perfluorocarbons – from major sources throughout the economy using a combination of regulatory and market-based incentives.

Drawing on recommendations from the scientific community (e.g. the Intergovernmental Panel on Climate Change), the bill establishes a cap on emissions of greenhouse gases to achieve a 62 to 70 percent emissions reduction below 2005 levels by 2050. It provides industry flexibility in determining how to meet the emissions limit – and aims to pull together a growing patchwork of state and local climate change policies.

What Are the Mechanisms of the Federal Program? What is "Cap and Trade"?

The Warner/Lieberman bill sets an economy wide cap on emissions to achieve reductions of 62 to 70 percent below 2005 levels, by 2050. It allocates allowances to sources (emitters) of greenhouse gases which establish how much can be emitted. These allowances decline over time, with fewer allowances distributed to emitters, gradually lowering the overall cap. For example, in 2012, 5,775 allowances are distributed; in 2050, only 1,732 allowances will be distributed. Some allowances are given away for free, and others would be purchased in an auction or from other emitters or nonemitters. In 2015, only 29.5% of allowances are auctioned; in 2031, 69.5% of allowances are auctioned. The bill establishes a market for greenhouse gases, giving carbon an economic value. A Climate Change Credit Corporation would be established to oversee the auction process.

A "cap and trade" program for reducing unwanted emissions is not new. Cap and trade mechanisms are used to regulate pollutants that cause acid rain, such as sulfur dioxide and nitrogen oxides. This program has reduced the emissions of sulfur dioxide by 35 percent from 1990 levels, and, according to the EPA, compliance has cost utilities far less than what was originally forecast. Maryland is currently participating in a cap and trade program known as RGGI –Regional Greenhouse Gas Initiative – a cooperative effort of nine Northeastern and Midwestern states to reduce greenhouse gases from electric power plants. There are also cap and trade programs for nitrogen oxides which are precursors to ground-level ozone formation.

The use of cap and trade for greenhouse gases is more complicated than for acid rain pollutants, regulating more gases from more sources – and setting ambitious reduction goals. Nonetheless, it is supported by major industries, businesses, government officials, scientists and is the mechanism used in Europe. Other mechanisms, such as a carbon tax (without a cap), have (thus far) been examined and rejected by legislators, for various reasons.

How Will Allocations and Auction Benefits be Distributed- Who Will Benefit?

The federal climate proposal will affect about 85 percent of U.S. greenhouse gas emissions. Owners and operators of the following facilities will be regulated, and will receive allowances to emit greenhouse gases, which will shrink over time. Some non-emitters, such as states, also will receive allowances – which can be used, or traded/sold. Staff analysis of the bill appears to indicate that waste-to-energy plants also will be regulated; whether there is a size threshold requires further analysis.

Emissions Allocations in the Warner/Lieberman Cap and Trade Bill

Recipient (Emitters)	**Percentage of Total Allowances - 2012**	**Recipient (Non-regulated)**	**Percentage of Total Allowances - 2012**
Fossil Fuel Power Plants (e.g. coal)	19%	Annual and Early Auction	26.5%
Energy Intensive Manufacturing	10%	States	10.5%
Companies that Took Early Action	5%	Electricity Consumers	9%
C02 Sequestering Bonus	4%	U.S. Farmers/Foresters	5%
Petroleum Importers/Refiners	2%	International Forest Protection	2.5%
Hydro fluorocarbon Producers/Importers	2%	Natural Gas Consumers	2%
Rural Electric Cooperatives	1%	Reducing Coal Mine, Landfill Methane	1%
		Tribal Governments	0.5%
TOTAL	**43%**	**TOTAL**	**57%**

Source: Climate Communities

A growing percentage of allowances will be auctioned. The revenue earned from the auction sale of carbon allowances will be used to develop new 'climate-friendly' technologies and to assist the economy in making the transition to cleaner energy technologies and sources (please see below). EPA grants for restoring special habitats, such as the Chesapeake Bay, also are included.

<u>Action Allowances in the Warner/Lieberman Bill</u>

- Technology deployment – 52%
- Low-Income Energy Consumers – 18%
- Wildlife and Habitat Adaptation – 18%
- International Adaptation – 5%
- Worker Training/Retraining – 5%
- Advanced Energy Research – 2%

<u>Limitations of Federal Policy for the COG Region</u>

On examination of this "cap and trade" proposal, it is evident there are a few limitations of particular concern to the COG Climate Change Steering Committee. These are:

- Local governments and regional entities <u>do not directly receive allocations or auction benefits in the federal proposal.</u> While states are to receive 10% of total allowances (of which 1% is to be used on mass transit), there is no specific fund to support local government or regional activities. States receive allowances for building efficiency, exceeding federal reduction targets, and for low income residents -- estimated to be worth at least $10 billion year (depending on the price of carbon). However, municipalities and regions do not receive allocations or proceeds from the auction sale of carbon allowances to help support their efforts. Through changes in their own operations and facilities, land-use planning improvements, and through their influence over the activities of local businesses and citizens, local governments have been leaders in voluntarily reducing greenhouse gases, yet are currently omitted from federal proposals to support emissions reduction activities.

- There is no separate local government/regional adaptation fund. Local governments and regions are on the front lines in responding to anticipated consequences of climate change – including more frequent and serious storms, droughts, floods, and extreme heat events. While there is a separate fund established to protect wildlife and habitat, there is no local government adaptation fund. Support for the local and regional role in addressing such challenges is needed. It is worth noting funding is available to protect delicate ecosystems, such as the Chesapeake Bay.

- Reducing vehicle miles traveled is not included in this bill. Transportation emissions comprise about one-third of total greenhouse gas emissions in our region. Yet, the distribution of allocations does not reflect this reality, as most allocations are provided to stationery power plants. The bill does not provide support for local and regional/Metropolitan Planning Organization programs to reduce vehicle miles traveled – and does not provide sufficient support for mass transit or transit oriented development.

Economic Implications

While no study has been completed on the economic implications of these bills to the greater Washington region, the Congressional Budget Office indicates that a cap and trade program could disproportionally affect people at the lower end of the economic scale, and industries that use energy intensively. A Stern Review on the Economics of Climate Change, written by the British Chancellor, indicates that dealing comprehensively with climate change would cost about 1% of the GDP – but the failure to deal with climate change would cost 20% of the GDP, or more. A study commissioned by Ceres concludes that investments in energy efficiency of $17 billion/year would yield a profit of $29 billion a year. Comprehensive climate legislation with mandatory greenhouse gas reduction caps, and market mechanisms that include cap and trade, is supported by many major companies, such as Xerox, Dow, Ford, Chrysler, Alcoa, GE, Shell, BP, Johnson & Johnson, etc. [1]

Other Organizations Advocacy Positions

A growing number of local government and regional associations are expressing support for strong federal climate legislation, noting their concern for the lack of local and regional involvement in the development of such proposals. These include the National Association of Regional Councils, the U.S. Conference of Mayors, the National Association of Clean Air Agencies, the American Planning Association, and Climate Communities – a new local government lobbying effort to promote the role of local governments in climate policy.

Recommendations

In light of climate change legislation on the federal and state levels (e.g. the Warner/Lieberman Bill and the Maryland's proposed Climate Solutions Bill), the COG Climate Change Steering Committee believes it is advantageous for COG to advance climate change advocacy positions that support the efforts of local governments to reduce the risk of climate change.

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[1] Experience from Europe indicates the market mechanisms have worked well and provide incentives to companies to reduce emissions. Europe continues to look for ways to adjust and improve its system. The price of carbon in Europe is about $25 to $35 per ton. Analysts speculate that a ton of carbon in the U.S. may be priced at about $15 in 2012, increasing to close to $70/ton by 2050.

Strong federal legislation is an important and necessary step for protecting our region from the damaging consequences of climate change. Metropolitan regions can and will play leadership roles in mitigating and adapting to climate change, and should be recognized as such. While it is unclear when federal legislation may be passed in the U.S. Congress, proposals are being developed and finalized at this time, and the Climate Change Steering Committee concludes that it is very timely for COG to be involved – as our nation's capital region -- in advocating on behalf of the local and regional roles in this legislation.

The Committee recommends advancing the following recommendations, contained in R-13-08, to the President, U.S. Congress, the Maryland and Virginia Legislatures, the District of Columbia Council, and the Governors of Maryland and Virginia and the Mayor of the District of Columbia:

- Support the goals of comprehensive climate change legislation, consistent with scientific recommendations for climate stability. This includes support for current federal climate legislation under consideration, which includes mechanisms such as "cap and trade."
- Emphasize the need to recognize the important role of local governments and regional entities as partners in meeting climate change challenges.
- Call for support to cushion the adverse effects of climate policies on lower income and vulnerable populations.
- Ask for direct financial support to local governments and regional entities for the role they play and will continue to play in reducing GhGs.
- Ask for funding to support local and regional adaptation activities.
- State that federal climate change goals and strategies should not preempt the ability of states, regions and localities to pursue stricter standards.

The legislative proposal is clearly complex and if passed, will have far-reaching implications for our region and nation. COG is a national leader in developing a regional climate strategy. We have been successful in advocating for federal energy legislation that included adoption of federal fuel efficiency standards, energy efficiency standards, energy efficiency block grants for local governments, and promotion of green jobs. COG's engagement on federal climate legislation, especially to advocate on behalf of the local and regional role, is believed to be essential by the Climate Change Steering Committee.

Should you have any questions or require further information, please feel free to contact me at 202/962-3709 or nfriedman@mwcog.org