

Climate Change Briefing

CLIMATE POLICY NEWS & ANALYSIS

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Happy Holidays

MJB&A wishes all readers of *The Climate Change Briefing*
a happy Thanksgiving Holiday

State/Regional Activity

RGGI MOU Under Discussion

The RGGI Commissioners participated in another conference call on November 18 to discuss the RGGI draft MOU. Massachusetts asked for two additional weeks to evaluate the RGGI MOU and propose any changes that they view as necessary. The next RGGI Commissioner conference call is scheduled for December 2.

Massachusetts Governor Mitt Romney is interested in at least three elements: 1) establishing a price cap for CO₂ allowances, 2) eliminating the restrictions on the generation and use of offsets, and 3) more prescriptive guidelines for the consumer benefit allocation set aside.

The RGGI MOU will not likely be signed by December 1, instead December 15th is the new target date. Also, the RGGI states are facing renewed calls from stakeholders for the public release of the draft MOU language.

RGGI Modeling Summary

The RGGI Staff Working Group retained ICF Consulting to conduct electricity sector modeling using its Integrated Planning Model (IPM) in support of the development of the RGGI program proposal. The RGGI SWG also retained the Economic Development Research Group (EDRG) to conduct Regional Economic Modeling (REMI) to model the impacts RGGI may have to the regional economy.

Over the past two years, ICF and the RGGI SWG conducted more than 15 IPM runs. For some of the IPM runs, the RGGI SWG utilized what many have characterized as optimistic assumptions while for other runs, more conservative assumptions were used. These optimistic assumptions include natural gas prices that are much lower than current prices, natural gas capacity additions that would require significant natural gas infrastructure improvements in the region, and substantial renewable energy capacity additions. The REMI modeling utilizes the IPM results as inputs, therefore the assumptions made for the IPM modeling directly influence the results of the REMI modeling. REMI forecasts economic changes for gross regional product (GRP); employment; and personal income.

Based on the more optimistic scenarios that were evaluated, the IPM modeling indicates that the RGGI program could result in an increase in wholesale energy prices of less than 1%, which translates into a 0.5% to 1% increase in retail electricity prices. Using the optimistic IPM scenario results, REMI modeling indicates small negative economic impacts - generally below two-hundredths of 1% for GRP, employment, and personal income. The inclusion of additional energy efficiency funding creates overall positive economic impacts across the RGGI region - on the order of two- to three-hundredths of 1%.

BI-WEEKLY UPDATE

The Climate Change Briefing

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When more conservative assumptions are used, the IPM modeling indicates that the RGGI program could increase wholesale energy prices by at least 5%, which translates into a 3% to 4% increase in retail electricity prices. Using the more conservative IPM scenario results, REMI modeling indicates moderate negative economic impacts - generally below eight-hundredths of 1% for GRP, employment, and personal income. The inclusion of additional energy efficiency funding creates overall positive economic impacts across the RGGI region - on the order of five-hundredths to one-tenth of 1%.

Finally, the RGGI SWG did not model the RGGI program using even more conservative, yet realistic, assumptions including high sustained natural gas prices and restricted coal builds in the region, which would result in even higher wholesale energy prices than found in the more optimistic assumptions noted above. Without this modeling, we do not know how high RGGI could increase energy prices and the degree to which the regional economy would be impacted. One thing is clear from the body of energy and economic modeling, the likely impacts of the RGGI program are anything but certain - ranging from minimal to significant.

California PUC Releases GHG Policy Statement

On October 6, the California Public Utilities Commission (PUC) adopted a policy statement on Greenhouse Gas Performance Standards. The policy statement

directs the PUC to investigate a GHG emissions performance standard for energy procurement by the state's Investor-Owned Utilities (IOUs). The policy statement indicates that the performance standard would likely be no higher than the GHG emissions levels of a combined-cycle natural gas turbine and that the performance standards would affect all energy procurement contracts that exceed three years in length and for all new IOU owned generation.

CA PUC will be investigating how to integrate the GHG performance standard into the PUC's existing policies regarding GHG emissions including the CO₂ adder when evaluating procurement bids in their long-term procurement plans, the procurement incentives framework and the ongoing work of the Climate Action Team and the CEC.

California Registry Develops Cement Industry Protocols

The California Climate Action Registry has developed another new industry specific GHG reporting and certification protocol- this time for the Cement Sector. The Registry's Cement Reporting Protocol provides guidance on accounting and reporting GHG emissions for cement companies.

Although cement companies produce GHG emissions from multiple sources - e.g., trucks, heaters, kilns - the Cement Reporting Protocol focuses on calculating *process* CO₂ emissions associated with manufacturing cement: the calcination of raw materials.

It adopts the process-emissions calculation methodology in The Cement CO₂ Protocol from the World Business Council for Sustainable Development's (WBCSD) Cement Sustainability Initiative. The Cement Reporting Protocol is an appendix to the Registry's General Reporting Protocol (GRP).

In addition to assisting cement companies in calculating their absolute emissions (in tons of CO₂ equivalent per year), the Cement Reporting Protocol supports the reporting of GHG emission metrics, which allow reporters to normalize emissions over a common unit of measurement (i.e. ton of CO₂ per ton of product).

Cement companies that report to the Registry must follow the GHG emission accounting procedures and reporting parameters in both the GRP and the Cement Reporting Protocol. When used together, these protocols form a complete set of guidance documents for cement companies reporting to the Registry.

National Activity

Sense of the Senate Resolution Introduced

On November 15, Senator Richard G. Lugar (R-Indiana) and Senator Joseph R. Biden, Jr. (D-Delaware), the U.S. Senate Foreign Relations Committee's Chairman and Ranking Minority Member, announced the introduction of a joint Sense of the Senate Resolution on climate change.

Senate Resolution 312 directs the United States Government to participate in negotiations under the United Nations Framework Convention on Climate Change (UNFCCC) to establish mitigation commitments by all major GHG-emitting countries.

S. Res. 312 would effectively reverse the Byrd-Hagel Resolution passed by the Senate in 1997, and create a bi-partisan Senate observer group for international negotiations. It is uncertain if this resolution will be addressed by the Senate this year.

PEW Releases Report on Post 2012 Framework

On November 15, the Pew Center on Global Climate Change announced the release of a new report outlining options and recommendations for advancing the international climate change effort post-2012. This report was released to influence the United Nations Climate Change Conference in Montreal from November 28 to December 9, 2005 where the post-2012 framework is scheduled to be discussed.

The PEW report is from the Climate Dialogue at Pocantico, a group of 25 senior policymakers and stakeholders from 15 countries convened by the Pew Center. Six companies were involved in the Pew Center discussions: Toyota, Exelon Corporation, Alcoa, BP, Eskom Enterprises, and DuPont. The aim of this Climate Dialogue was not a definitive blueprint for action, but rather consensus around a set of approaches that the group as a whole believed worthy of consideration by the broader community.

The report indicates that to effectively advance the climate effort beyond 2012, the international framework must:

- Engage Major Economies—The immediate imperative is successfully engaging the world's major economies. Twenty-five countries account for 83 percent of global greenhouse gas emissions. While all should be prepared to commit to stronger action, an equitable approach must be consistent with the principle of "common but differentiated responsibilities."
- Provide Flexibility—Accommodate different types of national strategies by allowing different types of commitments.
- Couple Near-Term Action with a Long-Term Focus—Near-term action is urgently needed on three fronts: achieving immediate, cost-effective emission reductions; fostering the development of breakthrough technologies to achieve deeper reductions in the future; and strengthening resilience to the adverse effects of a changing climate. These efforts should be guided to the degree possible by a common view of the long-term objectives.

- **Integrate Climate and Development**—Countries can contribute to the international effort through actions that serve their development goals while simultaneously delivering climate benefits.
- **Address Adaptation**—The impacts of climate change are being felt already and are certain to intensify, even if immediate steps are taken to dramatically reduce emissions.
- **Be Viewed as Fair**—A new global bargain on climate change will be possible only if each participating country perceives it to be reasonably fair.
- **Policy-Based Approaches**—Countries could commit to broad goals integrating climate and development objectives, then pledge national measures to achieve them and report periodically on implementation and results.
- **Technology Cooperation**—Governments could coordinate and increase support for research and development of long-term technologies. Stronger cooperation also is needed to facilitate the deployment of clean technologies in developing countries.

The report also outlines the approaches that might serve as elements of the future international effort:

- **Aspirational Long-Term Goal**—Rather than attempt to negotiate a quantified long-term target, governments and others should continue to articulate their own visions of a long-term objective.
- **Adaptation**—New assistance could support the development of national adaptation strategies and help highly vulnerable countries cope with urgent adaptation needs.
- **Targets and Trading**—Emission targets coupled with international emissions trading should remain a core element of the multilateral effort. Future targets could vary in time, form, and stringency. In addition to binding absolute targets, other types could include intensity, “no-lose,” or conditional targets. Other market-based approaches could include a mechanism crediting policy-driven emission reductions in developing countries.
- **Sectoral Approaches**—Commitments structured around key sectors such as power, transportation, or land use could take a variety of forms: emission targets, performance- or technology-based standards, or “best practice” agreements.
- **A Dialogue Among Major Economies**—Leaders of the major economies should convene an informal dialogue to seek consensus on the general nature and scope of multilateral efforts post-2012. While this dialogue could be convened within the UNFCCC process, it may be more practical and productive to convene it outside the process, with the understanding that formal agreements would be negotiated under the Framework Convention.
- **Linking Approaches**—Multiple approaches could be pursued in parallel as different groups of countries engage with one another along different tracks. Such efforts could launch action on multiple fronts and yield valuable lessons to guide future steps. But an ad hoc assemblage of initiatives may not produce an overall effort that is sufficiently timely or robust. A more integrated approach could produce a stronger outcome. By linking and negotiating across tracks, governments may arrive at an arrangement flexible enough to accommodate different approaches and reciprocal enough to achieve higher levels of effort. It may help to agree at the outset that certain countries will negotiate within designated tracks appropriate to their circumstances.

The report concludes that forging new approaches that draw on these elements will pose extraordinary political, design, and negotiating challenges. Meeting them may require new forms—and new forums—of engagement: