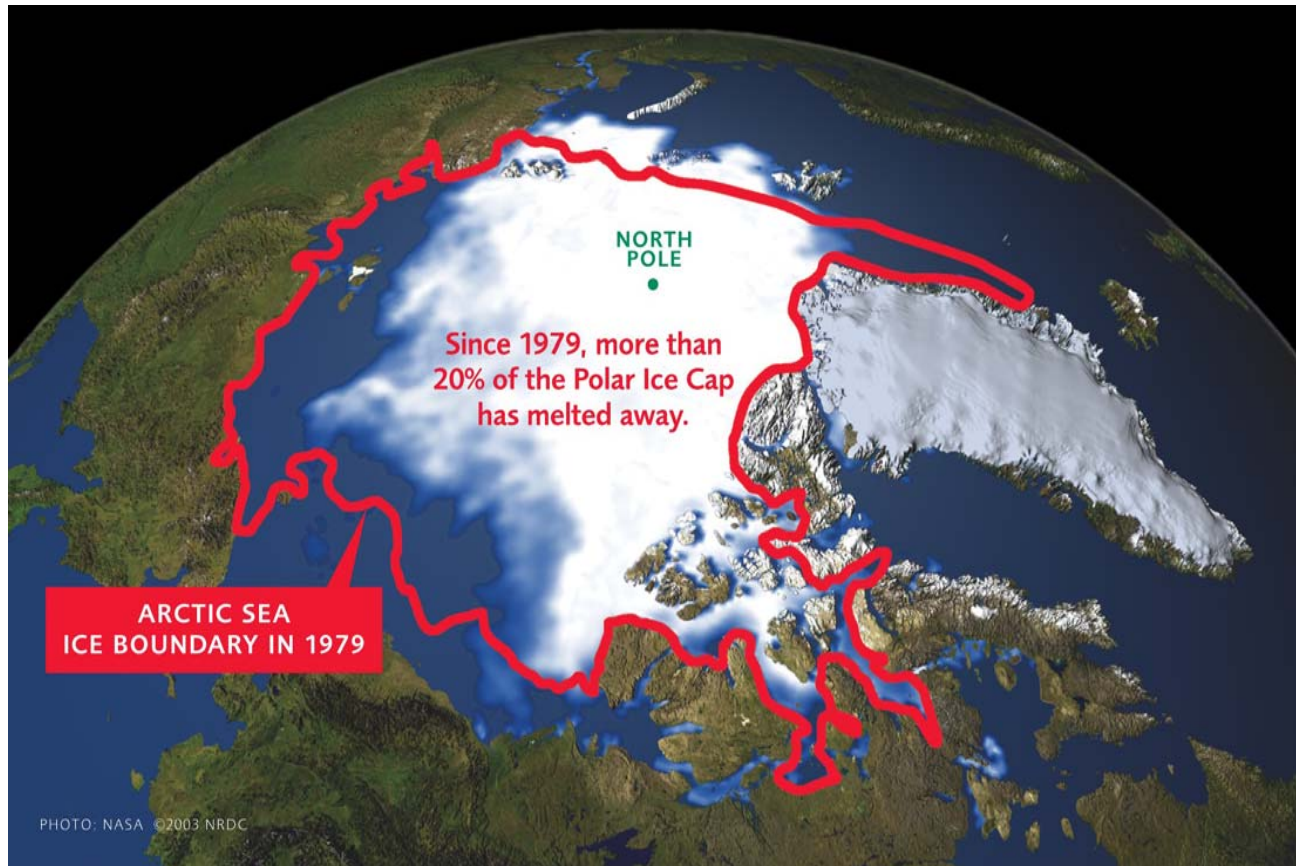


# Is There a More Ambitious Centrist Formula for Climate Legislation?



David Doniger, NRDC

March 10, 2006

# Bingaman-Specter Resolution

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- Landmark Senate vote for mandatory market-based limits to “slow, stop, and reverse” the growth of global warming pollution
- Science debate is over. It’s now about how to act, not whether
- Leadership debate is over. It’s now about encouraging, not waiting for, comparable action by other nations

# Do Bills Match the Resolution?

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- Bingaman proposal:
  - Intensity target and safety valve slow emissions growth, but no stop or reverse
- McCain-Lieberman:
  - A bit more ambitious – stops emissions growth at 2010 levels, but does not reverse
- Both bills premised on taking small first step now, second step in 10-15 years

# Do We Have Time?

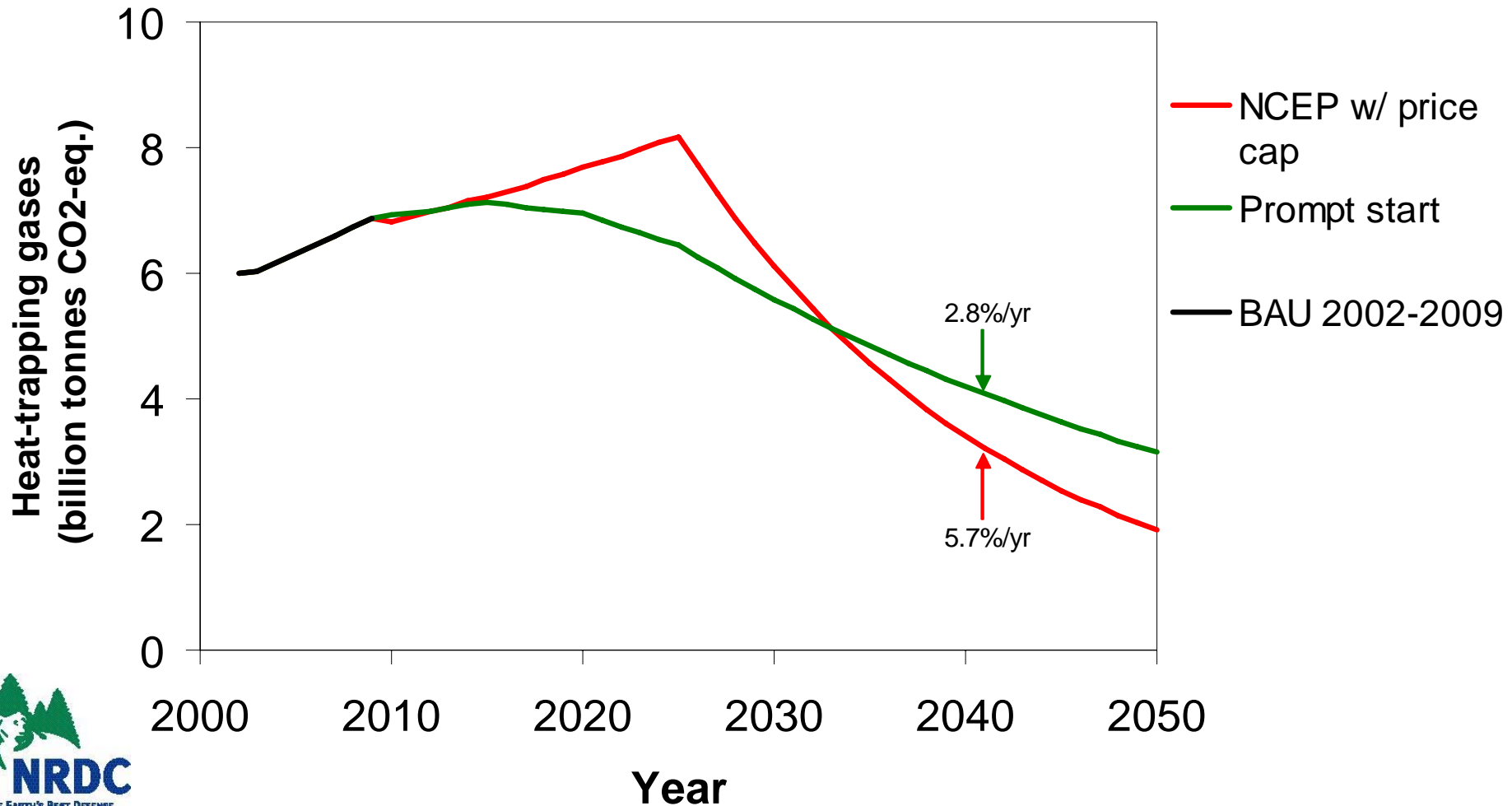
- Short window for action to avoid truly dangerous impacts
- Delay only makes the job harder

*“Failure to implement significant reductions in net greenhouse gases will make the job much harder in the future – both in terms of stabilizing their atmospheric abundances and in terms of experiencing more significant impacts.”*

National Academy of Sciences (2005)

# Slow Start Means Crash Finish

Two pathways for 450 ppm



# Does This Protect Environment?

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- Slow start risks locking us into dangerous CO<sub>2</sub> levels ...
  - With climate impacts now unfolding, what awaits us at 450 ppm? 550 ppm? Higher?
- Or requiring crash reductions later ...
  - Is it realistic to replace energy capital that fast?
- Or both
  - Getting stuck with bad impacts and high costs

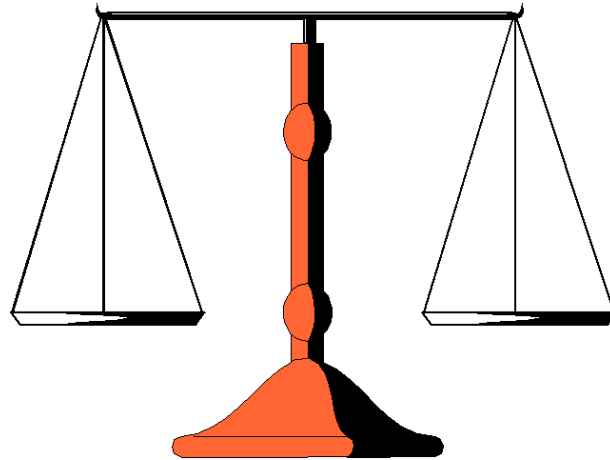
# Does This Protect Business?

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- Small first step doesn't provide certainty ...
  - How do businesses make smart investments in long-lived plants and products?
- Or ensure political stability ...
  - How to manage continued pressure from state, federal, and international levels? From Wall Street, shareholders? Brand risk? Litigation?
- Or erase “crash finish” risk
  - Getting stuck with big cuts and short deadlines

# Four Ambitious, Centrist Ideas

- Long-term declining cap
- “Borrowing” as a new cost-control tool
- Repurpose the safety-valve
- Allocate allowances for strategic goals

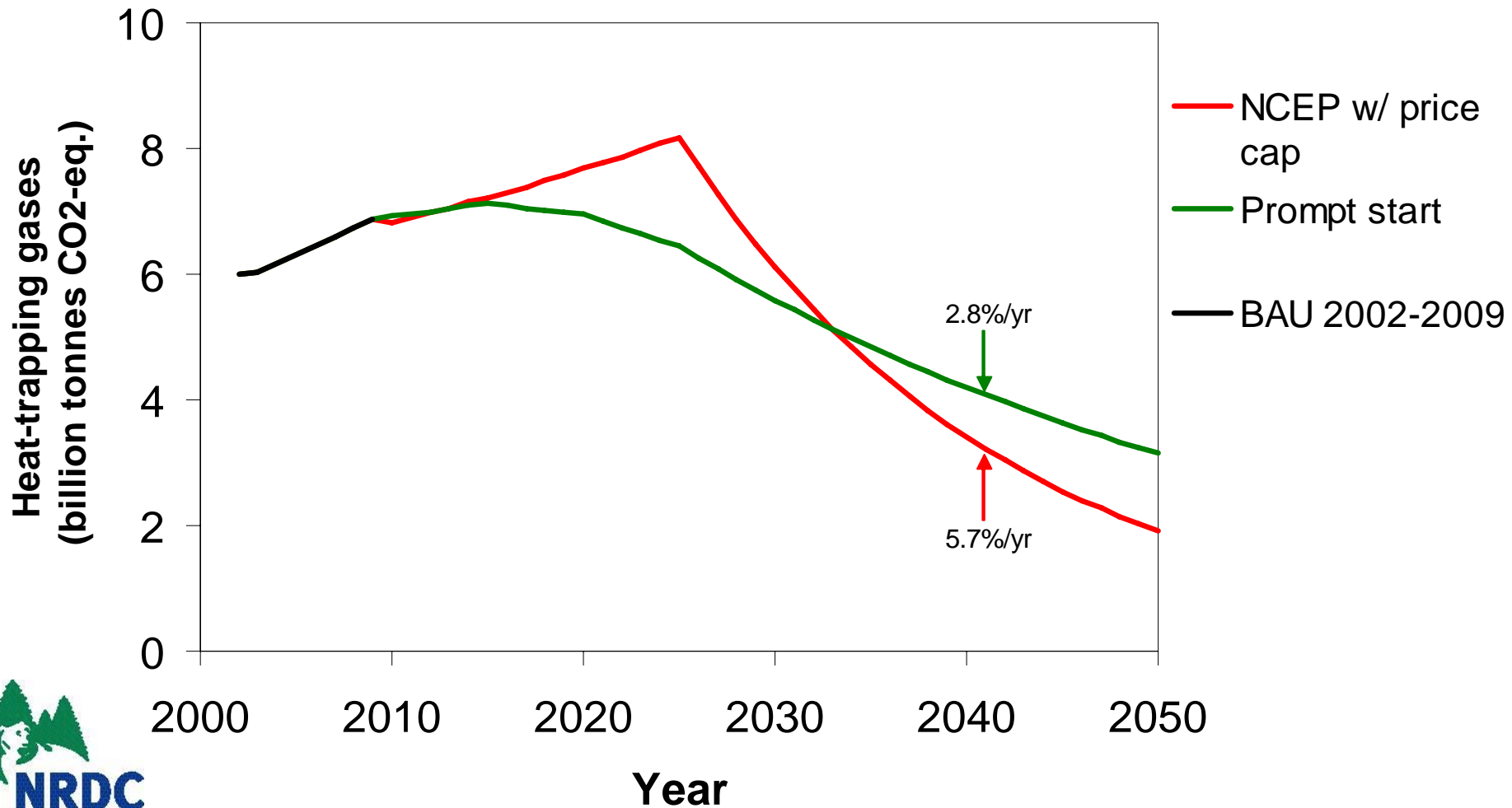


# Long-Term Declining Cap

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- US emissions path through 2050 consistent with 450 ppm
  - Freeze emissions in 2010, hold steady through 2015.
  - 0.5%/yr reduction for 2016-2020
  - 1.5%/yr reduction for 2021-2025
  - 2.8%/yr from 2026 onward

# Declining Cap Sets the Budget



# Borrowing for Cost-Control

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- Long-term target opens door to new cost-control device
  - Environmental integrity: safety valve and offsets both break the cap
  - Price stability: banking and borrowing avoid price spikes
  - Market friendly: each business makes its own decisions
  - Implementation issues: interest, bonding

# A New Job for the Safety Valve

- Repurpose the safety valve as trigger for Presidential/Congressional review
  - Bingaman bill calls for regular reviews based on science, economics, and state of international cooperation
  - Safety valve could trigger early review if price exceeds designated level
  - But ... \$7/ton won't work – by comparison, European CO<sub>2</sub> going for ~\$20/ton

# Strategic Goals for Allocation

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- Who owns the sky? Allowances are a multi-billion dollar public trust
- Avoid windfalls: It takes only a small slice to cover lost profits
- Protect consumers, promote technology, address climate impacts
- Use allocations to advance technologies, build support

# Consumers and Communities

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- Help energy consumers cut costs by investing in energy efficiency
  - Long-term funding for LIHEAP
  - Assist most energy-intensive industries
- Help communities deal with climate impacts (Alaska, Gulf Coast)
- Help for most affected workers
- Help agriculture manage subsidy reform

# Big-Change Technologies

- Mainstreaming low-emission coal
  - IGCC, other technologies
  - Carbon capture and storage (EOR and more)
  - Low emission portfolio standard?
- Retooling Detroit
  - Hybrids and other low-emitting technology
  - Link to California standards?
- Growing our fuels
  - Cellulosic ethanol/Grass guzzlers
  - Link to ending oil addition

# Basis for Dialogue?

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- Does this package – or some variation – have the potential to bridge the gap?
- Can we build a more ambitious, centrist solution?

