

Update on Federal Climate Legislation

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Overview

- Political context for legislation in the U.S.
 - What has changed?
 - What hasn't changed?
- Key design elements of legislative proposals
- Conclusions

Political context: What has changed?

- Increased public awareness
- Changes in Congress
- State greenhouse gas programs
- New players at the table: evangelicals, farmers, hunters/fishermen, security hawks
- Political tipping point for some industry groups/companies

Political context: What hasn't changed?

- Federal policy
- Regional differences (coal vs. non-coal)
- Competitiveness concerns
- Need 60 votes in Senate
- Learning curve for legislative complexities

Key design elements

- Targets
- Scope and point of regulation
- Allowance distribution
- Mechanisms to limit price uncertainty (safety valve)
- Additional incentives for R&D, technology deployment
- International and competitiveness issues

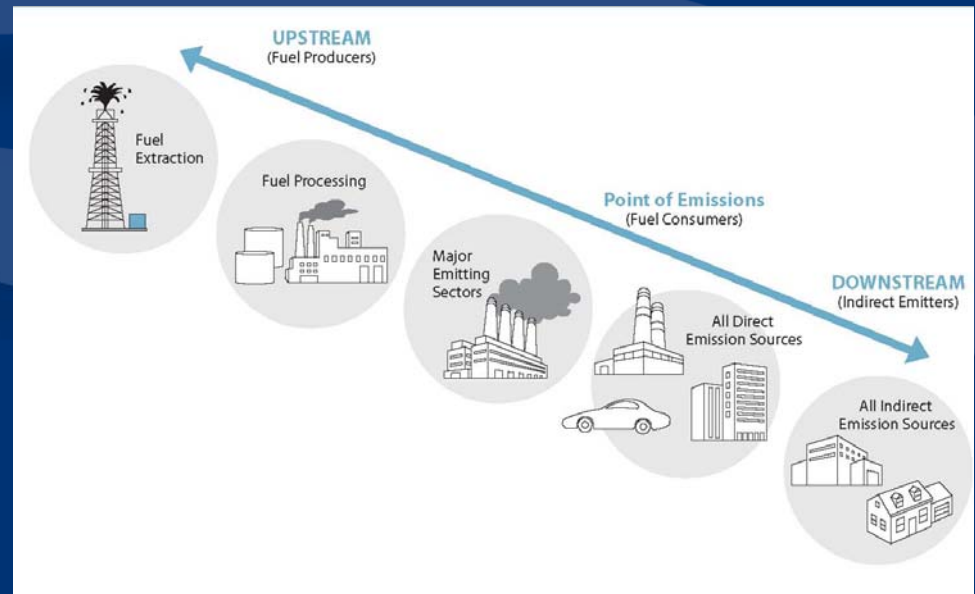
Emission Reduction Targets

(From BAU)

	2020	2030
Sanders-Boxer	42.0%	63.0%
Kerry-Snowe	42.0%	61.0%
McCain-Lieberman	39.0%	59.0%
Feinstein-Carper (electricity only)	25.0%	45.0%
Bingaman-Specter	7.6%	21.9%

Scope & Point of Regulation

- Some proposals are economy-wide, others are just the power sector
- Economy-wide
 - some have regulation only upstream
 - others are a hybrid of upstream and downstream



Allowance distribution

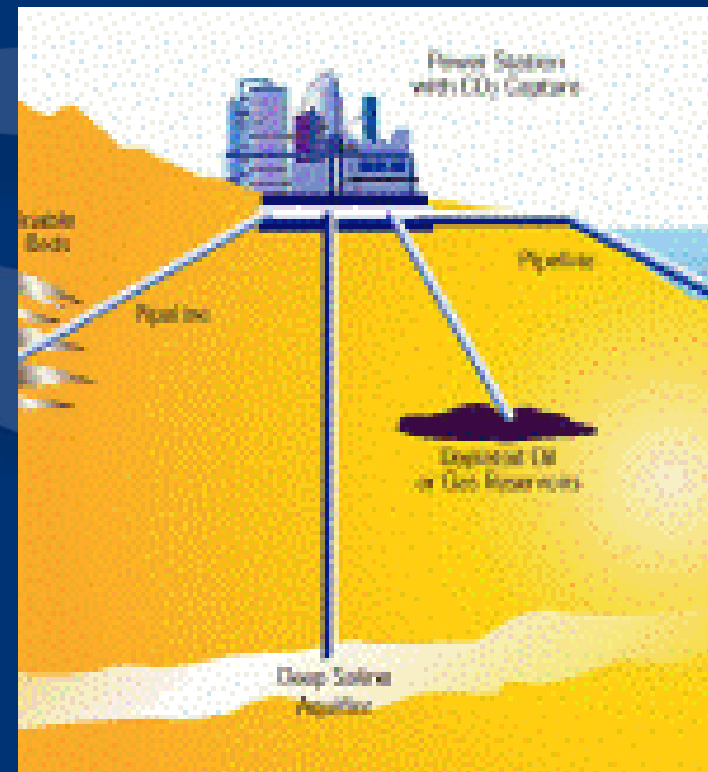
- Some proposals include auctions
 - Bingaman: 10% auction increases to 55% over 30 years
 - McCain-Lieberman: Climate Change Trust fund will auction a portion
- Some proposals use auction proceeds or allowances to compensate groups that aren't at point of regulation
- Some proposals defer to Executive Branch

Cost containment

- Proposals use a variety of measures that address different aspects of costs: e.g., overall costs, price certainty, price volatility
- Proposals:
 - Safety valve
 - Borrowing
 - Circuit breaker
 - Offsets, with varying degrees of restrictions

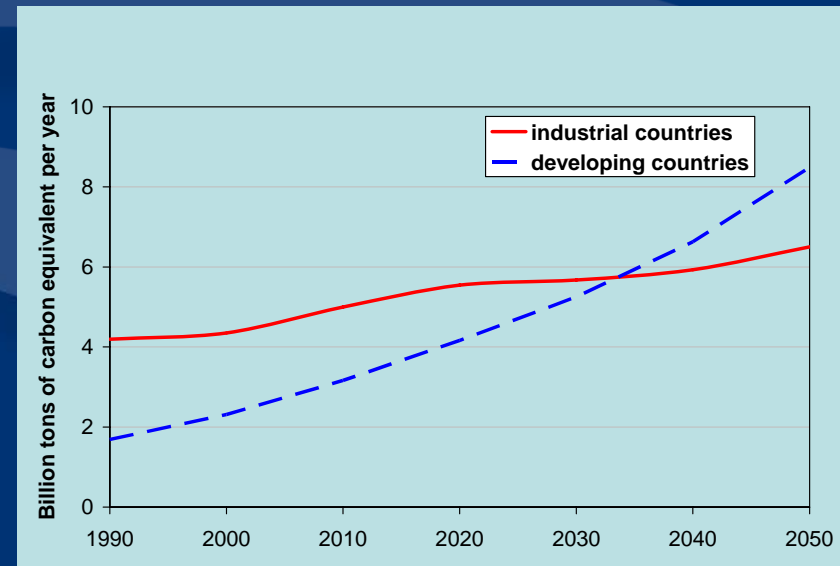
Incentives for R&D, technology deployment

- Most legislative proposals provide additional incentives for R&D, technology deployment
 - Funded through auction revenues or other means



International issues

- Carrots
 - Incentives for developing country projects
- Sticks
 - After first step, further U.S. action would be dependent on actions of large trade partners and emitters
- Even bigger sticks?



Conclusions: Five Things to Watch

- Organized labor
- Key Republican senators
- Influence of state programs
- 2008 Presidential campaign
- Impending economic analysis of bills