

EXECUTIVE SUMMARY OF THE DISCUSSION DRAFT

Chairman Boucher's and Chairman Dingell's draft climate change legislation would amend the Clean Air Act to establish an economy-wide cap-and-trade program to reduce greenhouse gas emissions. By putting a price on carbon emissions and spurring the development of new and efficient technologies, the discussion draft would lower heat-trapping gases and set the Nation on a path towards a low-carbon economy.

Reducing U.S. Greenhouse Gas Emissions

The discussion draft cap-and-trade program covers approximately 88 percent of U.S. greenhouse gas emissions, and would reduce covered emissions to six percent below 2005 levels by 2020, 44 percent below 2005 levels by 2030, and 80 percent below 2005 levels by 2050. Hydrofluorocarbons are covered separately from other gases by amending Title VI of the Clean Air Act.

Sources "covered" by the cap include: power plants, producers and importers of petroleum and other fossil-based fuels, large industrial facilities, producers and importers of other bulk gases, natural gas local distribution companies, and geologic sequestration sites. Rather than including smaller sources (those that emit less than 25,000 tons per year) under the cap, the draft would provide the Environmental Protection Agency (EPA) with authority to establish industry-specific emission standards. The discussion draft also establishes performance standards for new coal-fired power plants, requiring the capture and sequestration of a portion of their carbon dioxide emissions within a set timeframe based on the time when it is projected that carbon capture and sequestration technologies will become available.

Managing Costs

The draft's cap-and-trade system would help reduce costs by providing flexibility to emitters, creating incentives for sources to use low-cost compliance strategies, and encouraging technological innovation. Emission caps in the program's early years are set to provide a reasonable transition into a carbon-constrained environment, which will also help keep costs contained. The draft's energy efficiency programs are also an important component of limiting the cost of the climate change program.

Entities covered by the cap could bank and borrow emission allowances. If allowance prices reach a predetermined level, emitters would also have access to a "strategic reserve" of allowances that would be auctioned periodically.

In addition, covered entities would be able to purchase EPA-approved domestic and international offset credits to meet a portion of their compliance obligation. All offset projects must meet strict quality criteria. As the cap gets tighter, covered entities could meet a greater percentage of their allowance obligation with offsets (starting at 5 percent of the compliance obligation for the first five years and growing to 35 percent by 2024). The draft makes international deforestation projects eligible for generating offset credits.

Carbon market oversight responsibilities, including prevention of fraud and manipulation, would reside with the Federal Energy Regulatory Commission.

Increasing Energy Efficiency

The discussion draft contains numerous provisions to improve energy efficiency. The draft would establish and allocate allowances to State Energy Efficiency Development (SEED) Funds. Individuals and businesses could obtain low, or no, interest loans from SEED Funds to upgrade the efficiency of buildings, appliances, industrial processes, or vehicles. States are encouraged by the draft to implement efficiency gains by conditioning the receipt of allowances on changes in electricity ratemaking and building codes. In later years, States also would receive allowances based on improvements in consumer, residential, industrial, and transportation system energy efficiency.

The discussion draft would increase building code energy efficiency standards by 30 percent by 2010 and 50 percent by 2020, and includes provisions to assess and advertise the energy efficiency of residential and commercial buildings in the marketplace.

Spurring the Deployment of Clean Technologies

The discussion draft would establish a bonus allowance system in which power plants and other large emitters would be rewarded for carbon capture and storage, but at the same time would limit excess subsidies to emitters and provide greater certainty for project financing. Generators of electricity from renewable energy sources, including wind and solar, would also be rewarded through a separate bonus allowance pool. Incentives would also be provided for the deployment of clean technologies in the transportation sector.

Allocating Emission Allowances

The discussion draft presents four options for allocating allowance value. The first option focuses on minimizing compliance costs for regulated entities by allocating allowances without charge, following the model of the sulfur dioxide control program. The second option would provide fewer allowances to entities in covered sectors and direct more allowance value towards complementary programs that would help reduce greenhouse gas emissions; the third option would also direct allowance value to adaptation programs and international programs. A final option would use the majority of allowance value for a rebate to consumers. There are three key constants across all four options: support is given to energy efficiency and clean technology initiatives; allowance value is used for low-income protection; and unless Congress reauthorizes the bill, all allowances are auctioned from 2026 on and proceeds are returned to taxpayers on a per capita basis. This last provision is designed to encourage a Congressional program reauthorization prior to 2026.

Implementing the Climate Change Program

Various provisions were crafted to simplify administration of, and compliance with, the program. Particular attention was given to minimizing the creation of new institutions, streamlining regulatory development and program implementation, and building upon existing institutional expertise. In addition, rather than layering a program to reduce greenhouse gases on top of the existing Clean Air Act, the draft bill would directly modify existing authority so there would be one sensible, comprehensive Federal program.

International Linkages

To avoid jobs and emissions moving overseas as a result of a mandatory U.S. climate change program, the discussion draft relies on various combinations of allocations to industry and border adjustments for carbon-intensive products.