Introductory Statement on Key Climate Cap & Trade Issues

House of Commons, Standing Committee on
Environment and Sustainable Development
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Mr. Chair - thank you for the invitation to speak with you today.

My name is Derek Murrow – I am the energy and climate policy director at ENE. ENE is a regional non-profit environmental research and advocacy group headquartered in the state of Maine and working at the state, provincial, and federal levels with staff based throughout the northeastern U.S. ENE also has a cross-border mission and maintains staff and an office in eastern Canada.

I lead our energy and climate work; was our representative as an official stakeholder in the development of the Regional Greenhouse Gas Initiative, known as RGGI, the first and only mandatory CO_2 cap and trade program in the U.S., and I was a lead author on our policy report a *Climate Change Roadmap for New England and Eastern Canada*. I also oversee our energy policy work at the state level, including promoting policies that now require utilities to invest in all cost-effective efficiency and which are leading to historic new levels of efficiency investment in New England.; I have also been working closely with policy makers in Washington D.C. on elements of federal climate and energy legislation.

I think it's true that all politics is local, and we have had the good fortune of working closely in Washington D.C. with Massachusetts Representative Markey on the House climate and energy bill; many members of the Senate environment committee from the northeast; Senators Kerry from Massachusetts and Lieberman from Connecticut as they craft what will be the final leadership bill in the Senate; as well as critical swing voters like Senators Snowe and Collins from Maine and Senator Gregg from New Hampshire.

The recent announcement to delay the Senate timeline until later this winter or early spring is not ideal. However, ENE believes there is a significant level of support for action in the U.S. Congress, as many stakeholders, including business and labor interests, prefer a negotiated legislative outcome rather than facing a patchwork of regional and state rules as well as federal EPA regulations under existing Clean Air Act authority.

The legislation being considered by Congress is complicated and massive. Congress is trying to include almost all of the details of a carbon cap and trade program in legislation and thus there is a lot to debate. Designing and passing legislation of this scope and complexity is extremely hard. It is my sense that members of Congress are focused primarily on addressing the concerns of their constituents and it

is challenging to focus their attention on issues such as linking or how a North American system can be created or integrated. ENE would like to see strong collaboration to develop a North American system, and we are raising issues of cross-border energy trading, offset systems and the carbon content of fuels in our work.

While the details of how a U.S. system will play out are not known, we do know what the major U.S. cap and trade design elements will be. ENE believes U.S. and Canadian programs could be linked, assuming the following: 1) both have fixed caps with similar emissions reduction trajectories; 2) all gases, major industrial sectors, and fossil fuels are covered; 3) rigorous offsets standards are established; 4) if necessary they have similar price control mechanisms; and 5), probably of most importance, they produce similar carbon price outcomes. However, until both countries have detailed policy proposals on the table it is hard to fully judge how likely linkage is, for reasons that are both technical and political in nature.

I wanted to draw your attention to two issues that have been key lessons learned from RGGI and that we have been emphasizing in our work in D.C. Both are highlighted in our policy brief, which we hope you have a copy of.

First, we in the northeast and other policy analysts and researchers have reached an essential finding that applies to any cap and trade program – energy efficiency should be the primary cost containment tool. I repeat, because we think this is critical – energy efficiency is the primary cost containment tool. When a cap is imposed on carbon emissions and energy consumption rises, the program can lead to higher energy costs. However, when the program invests in measures that make buildings and industry more efficient, it helps level demand for energy, putting money back in consumers' pockets for a net savings and driving down the cost of the cap and trade program significantly. You will see on Page 6 of our policy brief a graph that illustrates the benefits of increased efficiency investments as modeled for the RGGI program. The figure shows projected increases in electric prices under the RGGI cap with and without expanded energy efficiency investments. The doubling of efficiency programs has the effect of offsetting most of the carbon price increase.

The RGGI states have chosen to auction almost 100% of allowances and the economic and jobs benefits of efficiency have led the states to invest a majority of the revenue from auctioning allowances in expanded energy efficiency programs – not just a small percentage but a huge 65% of revenue.

ENE just completed a report examining the macroeconomic impacts of expanded energy efficiency investments for the six states in New England. This report, *Energy Efficiency: Engine of Economic Growth*, looks at the three dollars consumers save for every dollar invested in energy efficiency programs, and

finds that as these savings are re-circulated and invested in the local economy the result is a 6 to 9 times increase in state GDP for every dollar invested. A summary of this report can be found on Page 9 of our policy brief.

Federal climate bills in the U.S. are recognizing the benefits of energy efficiency and making similar commitments to use CO_2 allowance value through the states and through natural gas and potentially electric distribution companies to expand investments in energy efficiency. Efficiency investments are an essential way to contain costs and make your economy more competitive in a carbon constrained world.

A second lesson learned is that modeling and forecasting is almost always wrong, and, in the case of cap and trade programs, it often over predicts costs. RGGI again offers a good illustration of this, which is also consistent with previous experience with the U.S. acid rain and ozone cap and trade programs. When RGGI participants debated how the underlying modeling should be conducted, and what level the emissions cap should be set at, all were in agreement that emissions – all else being equal – were likely to stay stable or rise over time, with carbon prices doing the same. In fact, a change in the relative price of natural gas in relation to coal and oil has driven emissions from northeast power plants down dramatically – as much as a 19 percent decline. This can be seen in the figures on Page 5 of our briefing, which show the decline in RGGI emissions versus the cap and also the change in natural gas prices in relation to other fuels. If these kinds of market changes and expanded access to lower carbon fossil resources can occur so quickly with a corresponding decline in emissions, just think what the combined effect would be if additional breakthroughs occur in building insulation, solar power, or electric batteries for cars. Modeling is based on what we know today, but it can't predict the kinds of breakthroughs that will occur if there is a carbon market that spurs new discoveries and innovation.

Thank you for your time. My colleague Leslie Malone – who some of you may know and who is based in her native Prince Edward Island – and I look forward to being a resource to you today and down the road as you tackle this essential issue.

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