

The Waxman-Markey Bill: A Giant Leap Forward (or Sideways)

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Overview

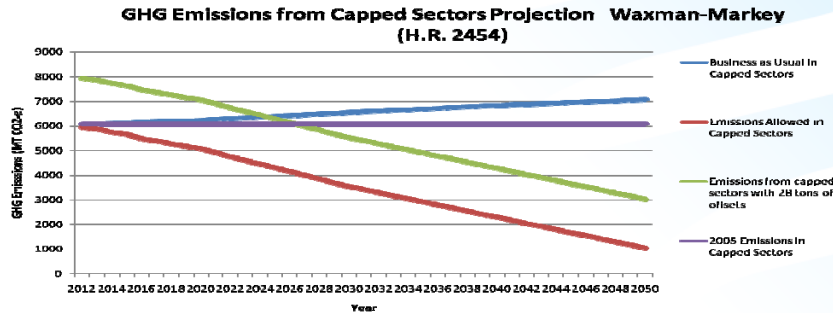
- Cap and price mechanism
 - Impact on energy consumption
 - Cost control measures
 - EE policies and programs
 - Offsets
 - Concerns
-
- Lowell Ungar – Complementary policies
 - Brad Penney – EE funding



Cap is the crown jewel



- **85% of US GHG emissions covered**
 - Could be higher
- **Covered emissions reduced 83% in 2050**
- **Defend and protect the cap!**

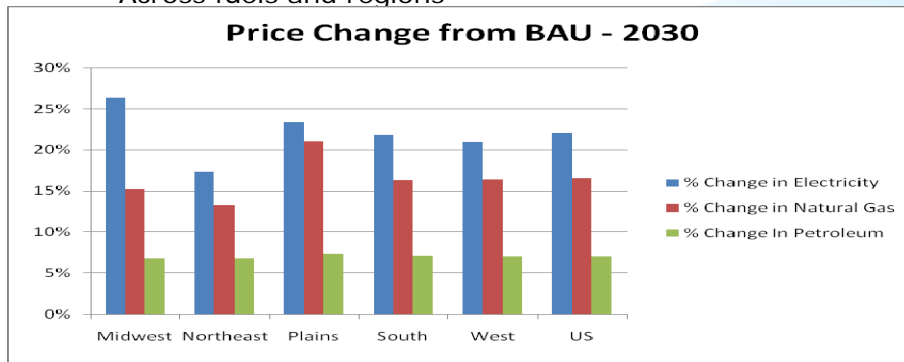


Source: Alliance analysis based on HR 2454 and EPA Preliminary Analysis of the Waxman-Markey Discussion Draft, April 20, 2009

Cap creates a carbon price



- **Allowance price**
 - \$15/ton/CO₂e rising to \$100/ton in 2050
- **Energy price increases vary widely**
 - Across fuels and regions

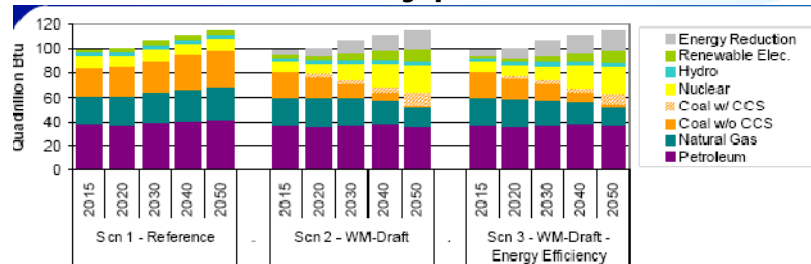


Source: Alliance analysis based on HR 2454 and EPA Preliminary Analysis of the Waxman-Markey Discussion Draft, April 20, 2009

Price reduces energy demand



- Price responses: fuel switching, **EE&C**, curtail
- **17 % decrease in 2050 energy demand**
 - Just from cap and trade
 - 7% in 2030
- **1/3 to 1/2 of McKinsey potential**



Source: EPA Preliminary Analysis of the Waxman-Markey Discussion Draft, April 20, 2009, p.14

Controlling Cost



- **Energy cost increases hurt**
 - Can hurt all -- Need to minimize overall cost
 - Can hurt some -- Need to provide transition assistance
 - Can hurt for a while -- Need to avoid price shocks
 - Note trade-offs
- **Many measures to control cost**
 - Not considered: tax shift
 - Not of concern as done in WM: trading, strategic reserve, borrowing
 - We like a lot: EE policies/programs
 - Of great concern in WM: offsets, muting prices

EE Policies and Programs



- **Address market barriers to EE**
 - Inelastic demand is not in itself a market barrier
- **Reduce overall cost of abatement**
 - As long as EE is cheaper
- **EMV is an issue in some cases**
 - EERS, programs
 - GHG price itself justifies more stringent codes and standards

Complementary EE Programs

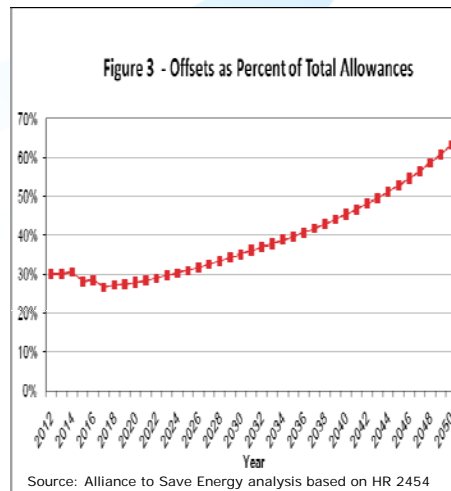


- **Complementary EE policies**
 - Codes, standards, building labeling, electric efficiency resource standards
- **Complementary Programs**
 - **EE in WM is 3-6% of allowance value**
 - \$81 to \$167b over 2012-2050
 - **12.5% of allowance value could get**
 - Allowance prices 10% lower
 - Electric, nat gas and petrol prices 1-3% lower
 - Electric and natural gas demand 3-7% lower
 - according to EPA analysis April 20

That's a lot of offsets!



- **Up to 2 billion tons annually**
- **EE may not fare so well**
 - 1/5 of CDM credits is EE
 - But 90% is power generation



Make them real



- **If offsets are not real**
 - Cap is undermined
 - Cost/ton reduction is higher, not lower
- **EMV critical**
 - WM addresses – EPA, advisory board, random audits
 - Hard decisions deferred
- **Discourage other countries' policies?**
 - BAU policies reduce "additional" potential
 - WM addresses -- int'l clean energy fund, sectoral offsets, int'l reserve allowances

Muting the Price Signal



■ The problem

- Simply transfers burdens to others
- Increases overall cost of abatement

■ Utility free allowances

- Allocation only partially linked to emissions
- But rebates cannot be "solely based" on electric consumption
- Interpretation varies



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Allowance allocations

- Allowance allocations
 - Allocations do not undermine the cap
 - Major concern about allocations is fairness (not emissions levels)
 - Allocations *can* reduce cost of abatement
 - If purchasing least cost abatement resource
 - Justified by market barriers
 - Including program cost
 - But can also *raise* overall abatement cost/price
 - If not purchasing the least cost abatement resource
 - If allowed to mute price signal – e.g., utility allowances

Strategic reserve

- Reduces effective stringency
- Pressure relief varies
 - \$28/ton plus for first 3 years
 - 60% above rolling 3-year average most other years
- Limits
 - 10% of total allowances
 - 20% of a single entity's allowances
- Not a problem