


## States Tackle Global Warming

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# STATES TACKLE GLOBAL WARMING

by Dale Bryk\*

## INTRODUCTION

Despite widespread support for federal action to limit global warming pollution,<sup>1</sup> the White House and many in Congress continue to sit on their hands, swayed by the Washington naysayers who claim that a safe, sustainable energy system is too expensive, especially now when fuel prices are at record highs. But as is so frequently the case in the environmental arena, the States are demonstrating that quite the opposite is true. This article provides an overview of State initiatives in the Northeast and California to combat global warming that can serve as a roadmap for federal policy-makers.

## STATES CONTEND CARBON CONTROLS GOOD FOR LOCAL ECONOMY

In August 2006, California adopted the first economy-wide cap on global warming pollution after concluding that doing so would increase State revenues by four billion dollars and bring eighty thousand new jobs to the Golden State.<sup>2</sup> The Northeast Governors<sup>3</sup> came to a similar conclusion in December 2005, adopting a cap on carbon dioxide emissions from power plants — the Regional Greenhouse Gas Initiative (“RGGI”) — after economic modeling showed they could reduce pollution by ten percent from current levels while lowering energy bills for the average homeowner by over \$100 per year.<sup>4</sup> And its not just the “tree-huggers” on the coasts who are gearing up to tackle the most pressing environmental problem of our time: Governors in Arizona, New Mexico, Washington, and Oregon have just announced a plan to collaborate with California on mandatory pollution caps; their counterparts in Montana, North Carolina, and Illinois are also rolling up their sleeves to tackle global warming,<sup>5</sup> as are over three hundred mayors nationwide.<sup>6</sup>

How have these leaders come to conclude that they can reduce global warming pollution in a smart way that is good for the local economy and will bring new clean energy businesses — and jobs — to their States? By focusing on finding solutions and recognizing that we need well-designed policies in order to bring these solutions to market in a big way. States are taking a fresh look at cap-and-trade program design, developing innovative features, and avoiding some of the flaws that have plagued precursor programs. They are approaching global warming in the context of a comprehensive review of energy policy, targeting the perverse incentives of current regulation, as well as the market barriers that hinder investment in the cheapest zero-emission resource — energy efficiency.

## CARBON AUCTION PROCEEDS TO SUPPORT CLEAN ENERGY

With respect to cap-and-trade design, the most exciting innovation is the agreement among RGGI States to use at least

25 percent of the value of allowances (pollution permits) to benefit consumers and promote clean energy. To date New York, Massachusetts, Vermont, Connecticut and Maine have announced plans to use one hundred percent of their allowances to benefit consumers, most likely by distributing allowances to an entity that will auction them to the owners of regulated power plants and use the proceeds to invest in energy efficiency. This is a huge shift from existing practices. In the Acid Rain Program, the NOx Budget Program, and the European Emissions Allowance Trading Scheme for greenhouse gases, governments established mandatory caps and allowed trading, but provided almost all of the allowances to the polluting sources free of charge.

In the electric sector giving away carbon allowances serves no legitimate public policy purpose and will result in windfall profits to power plant owners. Because allowances are tradable, they carry an opportunity cost, and therefore power plant owners will pass the cost of allowances onto customers regardless of whether or not they pay for them.<sup>7</sup> In Europe, free distribution of allowances has already resulted in hundreds of millions of dollars in windfall profits to owners of polluting plants.<sup>8</sup> These dollars could have been used to reduce the cost of the program for energy consumers, for example, by promoting investment in energy efficiency or sustainable power generation technologies. Granted, the Northeastern States have only committed to use 25 percent of the allowances in a wise fashion, but if one follows the logic behind this commitment (as all States that have decided this issue have done), there is no public policy justification to use less than one hundred percent of the allowances for public benefit purposes, and as the States head into their individual rulemakings they have the opportunity to do just that.<sup>9</sup>

## ADDITIONAL ENERGY EFFICIENCY SAVINGS POSSIBLE

The Northeastern States conducted extensive modeling of the emissions cap under different scenarios and determined that by increasing end-use efficiency for customers they could actually reduce energy bills while implementing the cap.<sup>10</sup> Despite the fact that the Northeast States are among the most energy efficient in the nation, their analyses showed that they could triple investment in efforts to speed the adoption of high-efficiency heating and cooling systems, more efficient lighting, and energy-saving “green” building design without running out of opportunities to save energy for less than it costs to generate additional electricity.

Proceeds from the sale of allowances will enable the Northeastern States to increase the number and size of the programs

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those States are implementing to transform markets for energy intensive products, but they will not be sufficient to promote investment in all cost-effective energy efficiency opportunities. To accomplish the latter, the States must also adopt more rigorous building energy codes, which effectively require developers to consider the occupants' energy bills when they design buildings and choose materials. In addition, the States must adopt increasingly stringent efficiency standards for energy-using appliances and equipment. The reduced demand for energy from such efforts would translate into sizable cuts in energy prices — for example, a five percent reduction in demand for natural gas would reduce the price of gas by a whopping twenty percent.<sup>11</sup> It's a simple application of the law of supply and demand, yet our nation's myopic focus on supply-side solutions has prevented us from taking advantage of it.

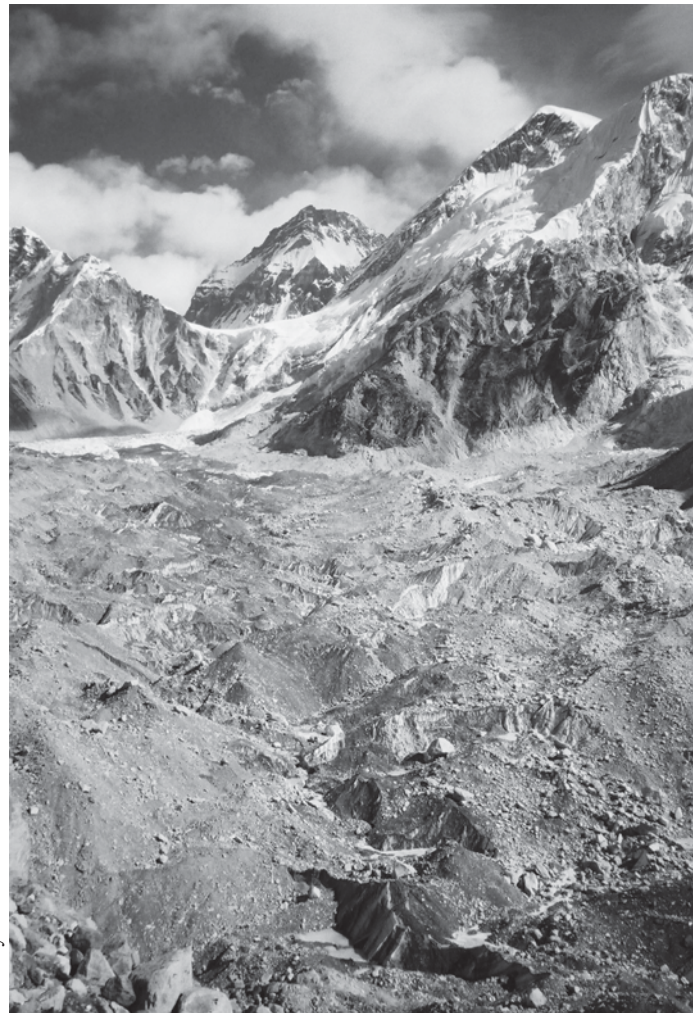
#### STATES MUST CREATE REGULATORY FRAMEWORKS THAT REWARD INVESTMENT IN ENERGY EFFICIENCY

One of the main reasons for this perspective is that few utilities have any incentive to aggressively promote energy efficiency, because their profits are entirely dependent on how much power they sell, instead of on how well they meet their customers' energy service needs. From the utilities' perspective, even the most cost-effective investments in high efficiency heating systems, advanced industrial motors, or fuel cells produce the same effect: a reduction in utility sales and, as a result, reduced revenues and profits. The utilities' interest in high volume energy sales makes it unwise for their industry to invest in energy efficiency or clean distributed energy technologies which would enable them to play a central role in efforts to reduce global warming pollution.

If we change the way we regulate the industry and allow utilities to profit from energy-saving as well as energy-making investments — regardless of how much power they sell — we will quickly find many more ways to cut waste and lower customer bills. These kinds of reforms are good for customers, good for shareholders, and good for the environment. They are just the sort of innovative answers that the Northeastern States will be counting on to deliver global warming pollution cuts at minimal or no cost to consumers.

California is already leading the way on this front. In the aftermath of the State's 2001 energy crisis, utilities, regulators, and environmental advocates worked to reform a regulatory framework that had utterly failed to deliver low-cost, environmentally sound energy services to customers. The State's Public Utilities Commission adopted a regulatory structure and procurement rules that require the utilities to act as "portfolio managers" for their customers by investing in all cost-effective energy efficiency resources, promoting rational, economically efficient consumption decisions by customers, and assembling a diverse portfolio of supply resources through a combination of short-and long-term contracts that are designed to minimize electric bills, the volatility of electric prices, and environmental impacts.

During this period, California also enacted the most ambitious appliance efficiency standards in the nation, ridding the



Courtesy of Jessica Wiles

The Everest Base Camp Valley is an example of the natural landscape at risk due to climate change.

local marketplace of the worst performing products. By the time the California legislature passed Assembly Bill 32, its global warming bill last year, the State was already well on its way to meeting the law's pollution reduction requirements in the cheapest, fastest way possible.

#### CONCLUSION

The United States has quite a long way to go before reaching a truly sustainable energy future, but the States are moving the country in the right direction. They are demonstrating how to reduce pollution in much smarter ways by adopting policies that foster long-term investment in least-cost, sustainable energy resources, promote technological innovation and economic development, and avoid subsidies for mature, polluting industries. It is a pretty good start.



## Endnotes: States Tackle Global Warming

<sup>1</sup> See *Conference Before the Committee on Energy and Natural Resources, United States Senate, on Climate Change*, 109th Congress (2006) (statement of Exelon, Public Service Electric & Gas, Pacific Gas & Electric, PNM, Walmart,

## ENDNOTES: STATES TACKLE GLOBAL WARMING

*continued from page 54*

Citigroup, and Goldman Sachs, among others), *available at* [http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=109\\_senate\\_hearings&docid=f:28095.wais](http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=109_senate_hearings&docid=f:28095.wais) (last visited Feb. 10, 2007).

<sup>2</sup> See Assemb. B. 32, 2006 Cal ALS 488; *see also* CALIFORNIA ENVIRONMENTAL PROTECTION AGENCY, CLIMATE ACTION TEAM REPORT TO GOVERNOR SCHWARZENEGGER AND THE LEGISLATURE (Apr. 2006), *available at* [http://www.climatechange.ca.gov/climate\\_action\\_team/reports/2006-04-03\\_FINAL\\_CAT\\_REPORT.PDF](http://www.climatechange.ca.gov/climate_action_team/reports/2006-04-03_FINAL_CAT_REPORT.PDF) (last visited Feb. 10, 2007).

<sup>3</sup> The governors of Maine, Vermont, New Hampshire, Connecticut, New York, New Jersey, and Delaware signed a Memorandum of Understanding committing them to participate in a regional cap-and-trade program governing carbon dioxide emissions from power plants. *See* REGIONAL GREENHOUSE GAS INITIATIVE, MEMORANDUM OF UNDERSTANDING, *available at* [http://www.rggi.org/docs/mou\\_12\\_20\\_05.pdf](http://www.rggi.org/docs/mou_12_20_05.pdf) (last visited Feb. 10, 2006).

<sup>4</sup> ICF Consulting, RGGI Electricity Sector Modeling Results, Updated Reference, RGGI Package and Sensitivities (Sept. 21, 2005), *available at* [http://www.rggi.org/docs/ipm\\_modeling\\_results\\_9\\_21\\_05.ppt](http://www.rggi.org/docs/ipm_modeling_results_9_21_05.ppt) (last visited Feb. 10, 2007); Economic Development Research Group, “Economic Impacts of RGGI Under Proposed SWG Package Scenarios” (Sept. 21, 2005), *available at* [http://www.rggi.org/docs/remi\\_stakeholder\\_presentation\\_11\\_17\\_05-final.ppt#492,1](http://www.rggi.org/docs/remi_stakeholder_presentation_11_17_05-final.ppt#492,1) (last visited Feb. 10, 2007).

<sup>5</sup> *See* Press Release, Governor Bill Richardson Leads Regional Climate Change Initiative (Feb. 26, 2007). Each of these governors has launched a statewide stakeholder process to develop recommendations for specific policies to reduce global warming pollution.

<sup>6</sup> *See* The U.S. Conference of Mayors Climate Protection Page, <http://www.usmayors.org/climateprotection/> (last visited Feb. 10, 2007) (stating that mayors have pledged to reduce global warming pollution in their cities to a seven percent reduction of 1990 levels by 2012).

<sup>7</sup> David Doniger, Response to Bingaman/Domenici White Paper on Cap-and-Trade Design Choices, Submitted to U.S. Senate Committee on Energy and

Natural Resources, *available at* [http://docs.nrdc.org/globalWarming/glo\\_06031401A.pdf](http://docs.nrdc.org/globalWarming/glo_06031401A.pdf) (last visited Feb. 10, 2007).

<sup>8</sup> See, e.g., *The Greening of America; Climate change*, ECONOMIST, Jan. 27, 2007.

<sup>9</sup> As a practical matter, a state would likely do this by giving allowances to a trustee on behalf of customers. The trustee would auction the allowances to power plant owners and use the sale proceeds to promote efficiency or for other

public purposes as directed by a state agency.

<sup>10</sup> ICF Consulting, *supra* note 4.

<sup>11</sup> R. Neal Elliot et al., *Impacts of Energy Efficiency and Renewable Energy on Natural Gas Markets*, American Council for an Energy Efficient Economy, Sept. 2003, *available at* <http://www.aceee.org/energy/natgassummaryreport.pdf> (last visited Feb. 10, 2007).

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