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## Before the
## Committee on Energy and Commerce and the Subcommittee on Energy and Environment
## U.S. House of Representatives

## Hearing On
## "The American Clean Energy and Security Act of 2009"
## April 22, 2009

Mr. Chairman and Members of the Committee:

Thank you for your invitation to testify today as a member of the United States Climate Action Partnership (USCAP), regarding the American Clean Energy and Security Act of 2009. My name is Frances Beinecke. I am the President of the Natural Resources Defense Council (NRDC). NRDC is a national, nonprofit organization of scientists, lawyers and environmental specialists dedicated to protecting public health and the environment. Founded in 1970, NRDC has more than 1.2 million members and online activists nationwide, served from offices in New York, Washington, Los Angeles and San Francisco, Chicago and Beijing.

Chairmen Waxman and Markey, Ranking Members Barton and Upton, thank you for holding this hearing on The American Clean Energy and Security Act (ACES) legislative proposal. The ACES "discussion draft" recently circulated by Chairmen Waxman and Markey, is an excellent starting point for enacting comprehensive energy and climate legislation this year. The draft bill draws heavily on recommendations of the U.S. Climate Action Partnership. We recognize the challenge facing this Committee in crafting comprehensive legislation and we very much hope that the Committee will continue to draw upon our partnership.

Passing effective climate legislation is NRDC's highest priority. It is vital to enact legislation this year. As President Obama said last week, the foundation for growth and prosperity in the 21st Century must be built on solid pillars. Clean, sustainable energy is one of those pillars, and promptly enacting comprehensive energy and climate legislation is the way to put that pillar in place. Rather than being a reason for delay, the current recession amplifies the importance of acting swiftly. If the American Clean Energy and Security Act were enacted tomorrow millions of clean energy jobs would be created, starting right away. There will be no impact on energy costs in the near term, however, since limits on carbon emissions would not go into effect until 2012. By that time the current recession should be in the rear view mirror.

The stimulus package enacted earlier this year will jump-start significant clean energy investments, but it is necessarily a temporary measure. In the absence of a long-term policy framework many investment decisions and projects are currently on hold due to uncertainty about future carbon emission rules. By clarifying those future rules, this legislation will unlock large-scale private sector capital investments starting today, saving companies money in the short and long term and boosting the recovery.

Inaction is simply not an option. Not only would the economic and environmental consequences be untenable, inaction is also illegal. Reversing years of denial and delay by the previous administration, last week EPA acted in accordance with what the law and science require, formally finding what we have known for many years: carbon dioxide emissions endanger public health and the environment.

Action on global warming has already been delayed too long. Every day we learn more about the ways in which global warming is already affecting our planet. This is most evident today in the Arctic, which I had an extraordinary opportunity to witness first hand last summer. In contrast to some claims in the media, earlier this month the National Snow and Ice Data Center confirmed that the alarming arctic melting trend is continuing. The scientists found that the fraction of arctic ice made up of stable ice that is more than two years old reached its lowest point in 2009 since reliable data became available in 1979. The impacts of rising carbon dioxide levels and global warming are also beginning to hit home in the form of more intense storms and droughts, deadly heat waves, and disrupted ecosystems.

We must act now to begin making serious emission reductions if we are to avoid truly dangerous levels of global warming pollution. Climate scientists warn us that we face extreme dangers if global average temperatures are allowed to increase by more than 2 degrees Fahrenheit from today's levels (equivalent to 2 degrees Celsius over pre-industrial levels). The Intergovernmental Panel on Climate Change reports that it is still possible to stay below this temperature increase if atmospheric concentrations of $CO_2$ and other global warming gases are kept from exceeding 450 ppm $CO_2$- equivalent and then rapidly reduced. This will require us to halt U.S. emissions growth almost immediately and then achieve significant cuts continuously for the next several decades. In view of the grave risks we are running, NRDC supports the proposed targets in the draft legislation before the Committee as the minimum we can responsibly undertake. These targets are equivalent to the more stringent end of the range contained in the USCAP Blueprint. We need to get on that path as soon as possible to maintain a reasonable chance of avoiding the worst effects of global warming.

We also strongly support the integrated approach to energy and climate legislation embodied in the American Clean Energy and Security Act discussion draft. Combining a comprehensive cap on carbon pollution with effective measures to accelerate investments in energy efficiency and clean energy innovations is the best way to get our economy moving again and build a foundation for sustainable economic growth for years to come. Only a framework that addresses large scale energy development in the context of a

declining cap on carbon pollution will avoid policy conflicts and mobilize clean energy capital to build the energy infrastructure we need to thrive in the 21st Century.

If we delay and emissions continue to grow, it will become much harder to avoid the worst impacts of a climate gone haywire. In short, a slow start means a crash finish, with steeper and more disruptive emission cuts required for each year of delay or insufficient action.

## The Role of USCAP

As a leading environmental organization, NRDC believes Congressional action will be facilitated if we can find common ground among differing interests on as many controversial issues as possible. We joined USCAP two years ago in recognition of this reality. USCAP demonstrates the ability of very diverse interests to come together to act for the common good while recognizing and addressing the complicated set of issues posed by global warming legislation.

USCAP is united in the belief that we can and must take prompt action to establish a coordinated, economy-wide, market-driven approach to climate protection. The members of USCAP believe that properly constructed policy can be economically viable, environmentally responsible, and politically achievable. We support enactment of an economy-wide, market-driven approach which includes a well-crafted cap-and-trade program as its core element. In addition to specified limits on global warming emissions, USCAP supports robust cost-containment measures, complementary policies and measures to supplement the cap, and a fully funded federal technology research, development, demonstration, and deployment program for climate-friendly technologies. Properly designed legislation will encourage innovation, enhance America's energy security, foster economic growth, improve our balance of trade, and provide critically needed U.S. leadership on this vital global challenge.

Swift legislative action will encourage innovation and provide needed U.S. leadership on this global challenge. Given that USCAP includes major environmental groups, fossil energy producers and users, and leading members of the manufacturing sector, we believe that we have achieved a remarkable level of consensus regarding global warming legislation and we hope that this level of consensus will be helpful to the Committee and the Congress as it moves forward in crafting legislation.

## Policy Solutions for Curbing Global Warming and Building the Clean Energy Economy

As the Administration and Congress grapple with climate, energy, and economic policy this year, they should focus on driving investment that will increase efficiency and reduce global warming pollution at the lowest possible cost. The following policy tools will be needed to curb global warming and secure a clean energy future:

1. A gradually declining mandatory limit or “cap” on pollution.
2. Codes and standards that rid the marketplace of the worst-performing products and technologies.
3. Performance-based incentives to drive investment in energy efficiency and clean energy solutions (funded through targeted use of the value from pollution permits or allowances).
4. Targeted financing support to enable clean infrastructure investment.

Strong American leadership in these areas will not only help strengthen our long-term economic, national, and environmental security, but it will also bolster our position during international negotiations toward reaching a global solution to this global problem.

The American Clean Energy and Security Act discussion draft includes these key policies by combining standards and incentives for rapidly deploying clean energy and energy efficiency technologies with firm economy-wide limits on the carbon pollution that is driving global warming.

USCAP Blueprint

The discussion draft is consistent with the USCAP *Blueprint* in a number of key areas including: emissions targets and timetables; scope of coverage and point of regulation; incentives and performance standards for deploying carbon capture and sequestration technologies; the use of cost containment mechanisms that preserve the integrity of the emissions cap; principles for allocating allowance value (discussed in more detail below); and the importance of international action (discussed in more detail below).

***Allocation of Allowance Value:***

While the ACES discussion draft provides detailed proposals on most issues, it is deliberately open-ended on how to distribute the valuable emissions "allowances" that polluters must have at the end of each year to cover their global warming emissions. How many will be given away, and with what performance conditions? How many will be auctioned, and how will the revenue be used? These are key questions for this committee.

The diverse membership of USCAP believes that the approach for distributing emission allowances must lead to achieving public objectives, not private windfalls. The discussion draft opens the door to using the value of the allowances for a wide range of critical needs - supporting investments in the clean energy economy, protecting consumers (especially low-income consumers), dealing with unavoidable climate change impacts, and doing our part to achieve international cooperation against global warming.

The allocation of the allowance value is a central component of the USCAP *Blueprint for Legislative Action*. Emission allowances in an economy-wide cap-and-trade system will represent trillions of dollars in value over the life of the program. USCAP believes the distribution of allowance value should facilitate the transition to a low-carbon economy for consumers and businesses; provide capital to support new low- and zero-GHG-emitting technologies; and address the need for communities and natural resources to adapt

to climate change. It is critical that a climate bill help to safeguard our water resources, oceans, lands, wildlife, and public health from the harmful impacts of global warming, especially as some serious impacts can no longer be avoided even with strong emission reductions in place.

USCAP recommends facilitating the transition to a clean energy economy by initially distributing a significant portion of allowances to capped entities and economic sectors particularly disadvantaged by the secondary effects of a cap and that this free distribution of allowance value should be phased out over time with a transition to a full auction. The *Blueprint* identifies specific principles to guide the fair and equitable allocation of allowances to:

- End-use consumers of electricity, natural gas, and transportation fuels, with a significant portion of emission allowance value being allocated to regulated electric and natural gas local distribution companies on behalf of their customers, particularly in the early years of the program;
- Energy intensive industries with trade-exposed commodity products that face international competition, to prevent outsourcing of US jobs and emissions overseas to countries that have not committed to commensurate global warming pollution limits;
- Competitive power generators and other non-utility large stationary sources which face substantial compliance costs they cannot pass on to consumers;
- Low-income consumers and worker transition and training;
- Programs to achieve technology transformation such that these investments combined with the cap are sufficient to drive key low-emission technologies to commercial viability;
- Programs to reduce emissions from deforestation and forest degradation;
- Adaptation needs of vulnerable people and ecosystems at home and abroad.

***Cost Containment Measure:***
Previous major environmental initiatives, such as dramatically reducing carbon monoxide emissions from tailpipes and sulfur dioxide emissions from smokestacks, have proved far less costly to accomplish than predicted prior to making the commitment to achieve these goals. Nonetheless, there is considerable uncertainty about the cost of reducing global warming pollution and therefore cost containment measures are a critical component of the USCAP *Blueprint*. Although there are some material differences, the ACES discussion draft reflects many of the cost containment measures included in the *Blueprint*. These include a broadly inclusive cap, emissions trading, unlimited banking of allowances, and effective multi-year compliance periods. The discussion draft also includes a large role for emission offsets, provided that they meet strong environmental quality standards, as recommended in the *Blueprint*. Finally, the discussion draft includes a strategic offset and allowance reserve pool intended to prevent allowance price spikes by releasing additional offsets and/or borrowed allowances into the market in the event of excessively high allowance prices.

***International Action:***
The American Clean Energy and Security Act discussion draft can also help the US and the world secure a strong agreement to address global warming pollution in Copenhagen,

Denmark later this year. US leadership to drive energy solutions and cap our global warming pollution is an essential precondition for securing a strong international agreement that establishes an equitable and effective framework for robust action by all major emitting countries. We need to provide a number of key tools in the legislation to aid our climate negotiators in delivering a strong global solution. This discussion draft includes some of these key tools by:

- designing international carbon market access rules to encourage developing countries to take concrete action to reduce their emissions;
- providing incentives to reduce emissions from international deforestation;
- creating incentives for exporting clean energy technologies which can help generate US jobs and provide leverage for securing a strong agreement from major emitting countries; and
- helping developing countries adapt to global warming, which will reduce threats to our national security as well as ease the burden on vulnerable communities.

The current economic crisis presents enormous challenges for American workers and virtually every sector of our economy. The crisis, however, also provides a tremendous opportunity to address the threat of global warming in a way that ensures long-term environmental and economic sustainability. In the next 20 years, the United States will invest more than $3 trillion in our energy infrastructure—electric power plants, fuel refineries, and transmission and transportation infrastructure—and trillions more on energy consuming buildings, appliances, and vehicles.[1] We can avert the growing climate crisis by redirecting our resources toward cleaner, more energy-efficient technologies that will reduce emissions of global warming pollution, create millions of quality jobs, and bolster our national security.

Chairman Waxman and Markey, you have stepped forward at a key moment in history and you are to be commended for your vision, leadership and courage on this profoundly important issue. We look forward to working closely with you and all the other members of the Subcommittee and the Committee to report a comprehensive and effective energy and global warming bill to the United States House of Representatives by Memorial Day.

Thank you once again for the opportunity to testify and I would be pleased to answer any questions that you may have.

[1] World Energy Outlook 2006, International Energy Agency.