

New York State and the Waxman-Markey Bill

August 4, 2009

By: Norris McDonald
President, African American Environmentalist Association

.....

Climate Legislation

In June of 2009, the United States House of Representatives passed landmark energy and climate legislation entitled, The American Clean Energy and Security (ACES) Act. The legislation, commonly known as "Waxman-Markey" after bill sponsors Henry Waxman (D-CA) and Edward Markey (D-MA), contains numerous energy policy initiatives including the implementation of a "cap and trade" system designed to reduce greenhouse gas emissions. The U.S. Senate is expected to advance their own version of this legislation.

Waxman-Markey

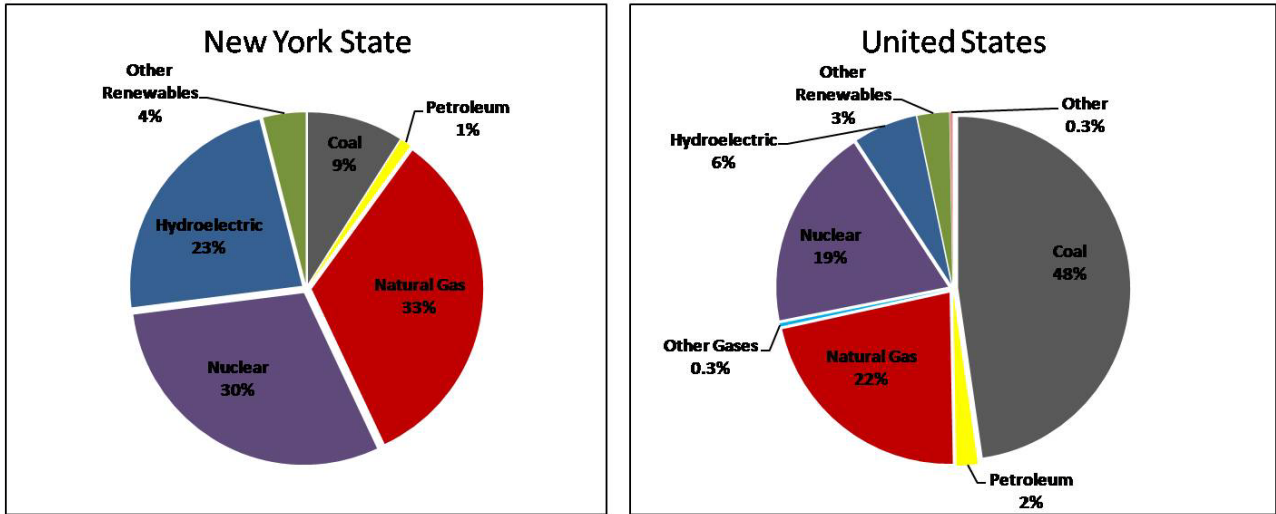
The Waxman-Markey bill exceeds 1,200 pages, and is divided into four sections: *Clean Energy*, *Energy Efficiency*, *Reducing Global Warming Pollution*, and *Transitioning to a Clean Energy Economy*. The landmark portion of the legislation is the *Reducing Global Warming Pollution* section which outlines a market-based trading system (i.e. "cap-and-trade") designed to reduce air pollution and carbon emissions nationwide. Many of the programs in the bill are designed to be funded from cap-and-trade generated revenues. The clean energy and energy efficiency sections of the bill are geared to accomplish their goals through increases in energy efficiency standards as well as through numerous incentive programs.

Each state is impacted differently by the current legislation. Many fossil fuel-dependent states will face steep obstacles to meet the new "federal renewables electricity standard," which requires that a specified amount of energy be generated by renewable energy sources. New York State is fortunate to have a diverse electricity generation portfolio. Unlike most of the U.S., hydropower amounts to approximately 20 percent of New York State's net electricity generation; nuclear power surpasses that with 30 percent of net generation and other renewable account for around three percent of net generation.¹ This extremely clean energy portfolio coupled with an extensive and efficient mass transit system has resulted in New York State possessing the third-lowest per capita carbon emissions in the United States. This is an important and critical achievement.

The graphs on page two compare the energy portfolios of New York State and the U.S.

¹ Energy Information Administration, April 2009. http://tonto.eia.doe.gov/state/state_energy_profiles.cfm?sid=NY

Net Electricity Generation by Source



Energy Information Administration Data

U.S. Net Generation by Energy Source, 2007 data

New York Net Electricity Generation by Energy Source, April 2009 data

Other Renewables: wind, solar thermal and photovoltaic, wood, geothermal and other biomass

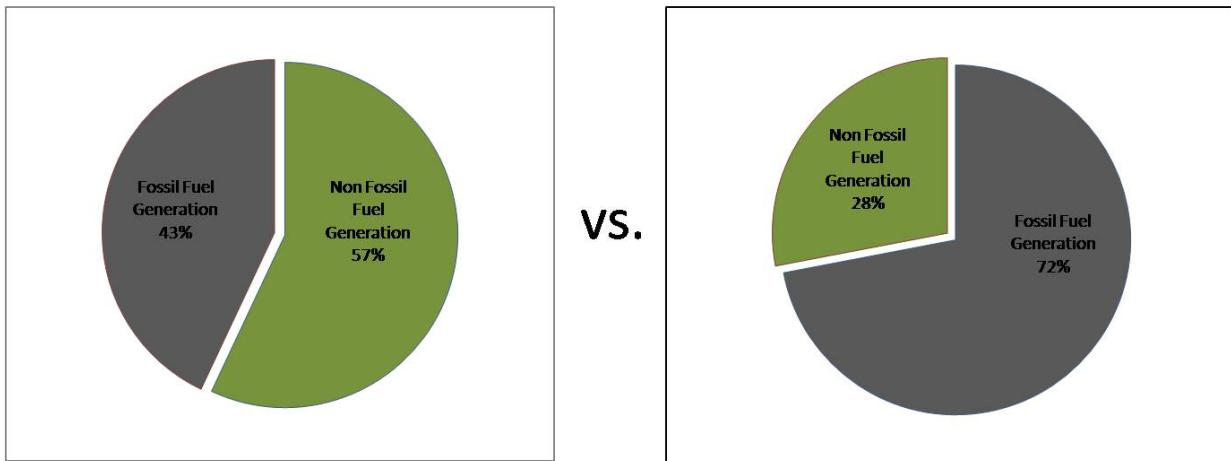
Hydroelectric: conventional hydro and pumped storage, minus energy used for pumping

Other Gas: blast furnace gas, propane gas, and other manufactured and waste gases derived from fossil fuels

Other: non-biogenic municipal solid waste, batteries, chemicals, hydrogen, pitch, purchased steam, sulfur, tire-derived

New York vs. United States Net Generation

Fossil Fuel and Non Fossil Fuel Sources



Energy Administration Data

Fossil fuel generation includes: coal, natural gas and petroleum

Non Fossil-Fuel Generation includes: nuclear, conventional hydroelectric and pumped storage minus energy used for pumping, wind, solar thermal and photovoltaic, wood, geothermal, other biomass, non-biogenic municipal solid waste, batteries, chemicals, hydrogen, pitch, purchased steam, sulfur, tire-derived fuels and miscellaneous technologies

Waxman-Markey would eliminate the Regional Greenhouse Gas Initiative (RGGI), a greenhouse gas reduction compact pioneered by New York State. Waxman-Markey directs that any and all state and/or regional cap and trade systems phase out with the inception of a national system. Also, RGGI currently only manages allowances for emissions from power plants, while Waxman-Markey would be far more comprehensive.

Combined Efficiency and Renewable Electricity Standard (CERES or RES)

Waxman-Markey states that the federal renewable electricity requirement will begin at six percent in 2012 and will gradually increase to 20 percent by 2020. These percentages are required to be met through renewable resources, or through efficiency and electricity savings. The bill defines renewable resources to include wind, certain biomass, solar, geothermal, certain hydropower projects, marine and hydrokinetic renewable energy, and landfill gas. The current legislation does not define nuclear power as 'clean' generation, but by putting a price on carbon, the legislation highly incentivizes the use of clean, emission free nuclear power as a source of energy.

Unfortunately for New York and several other states, specific definitions for renewable biomass² and hydropower³ eliminate much of the existing generation which could be considered renewable under a basic definition. However, a provision is included that reduces the renewable requirement for a state in proportion to any portion of its electricity sales that are generated from existing hydroelectric dams or combustion of municipal waste. This provision may benefit states like New York that already have ample hydropower generation without reducing the incentives to invest in new renewable generation.

Cap and Trade

The extensive cap and trade portion of Waxman-Markey is aimed towards monitoring greenhouse gas emissions beginning in 2012. The bill aims to reduce levels 17 percent below 2005 levels by 2020, and increasing to 83 percent below 2005 levels by 2050. To achieve this, the legislation establishes a system of tradable permits called "emission allowances" modeled after portions of the federal Clean Air Act, which successfully reduced sulfur dioxide emissions, which in turn reduced acid rain. Using a market-based approach, the goal is to provide economic incentives for American industry to reduce carbon emissions at the lowest cost to the economy.

A major provision focused on carbon emission offsets provides an economic incentive for expanding carbon mitigation beyond power plants and large emitters. Farmers, forest owners and green entrepreneurs will potentially benefit from new streams of income as polluters attempt to use offsets to mitigate their costs.

Various organizations⁴ have released estimates on the cost of a cap and trade program to America's economy, and detailed which states will be severely impacted. The current legislation essentially gives away nearly 80 percent of the allowances rather than auctioning them off. The distribution of allowances without charge is designed to ease transition to a clean energy economy. Eventually, there will be a standard financial cost assigned to each ton of carbon emitted while energy producers will be forced to meet demand while producing limited carbon emissions.

² Outlines strict definitions for both 'renewable biomass' and 'qualified waste to energy.'

³ Strictly outlines what will constitute 'qualified hydropower', eliminating much of New York's existing hydropower from being considered renewable.

⁴ Congressional Budget Office (CBO), National Association of Manufacturing (NAM), Environmental Protection Agency (EPA), The Heritage Foundation, The CATO Institute, Massachusetts Institute of Technology (MIT).

Cost to Consumers

Both “cap and trade” and the renewable electricity standard would use similar market-based trading systems. Participants will compete to find the most financially-efficient means of achieving the two systems respective goals: producing renewable energy/saving energy and reducing greenhouse gas emissions. Generators and utilities will be forced to choose how they go about achieving the simultaneous goals, likely choosing the least costly means.

Many opinions exist on what the current legislation will cost consumers and U.S. economy. The cost to consumers is conservatively estimated to be \$175 per household in 2020,⁵ and range upward to include projections of 129 percent increases in residential electricity prices.⁶

A significant portion of the bill is designed to protect consumers as well as energy-intensive and trade-exposed industries (e.g. manufacturers of iron, steel, cement and paper). From 2012 through 2025, 55 percent of allowances will be used to protect consumers from energy price increases, and 19 percent used to assist trade-vulnerable and other industries to make the transition. Regulated utilities will receive 32 percent of allowances through 2025 in a complex formula designed to protect consumers without blocking progress. Utilities will be forced by law to use allowances exclusively to keep rates low and reduce the fixed-rate portion of consumer electric bills.

Provisions also exist which are designed to protect consumers from price increases for natural gas and home heating oil. A specific protection is also written into the bill for low- and moderate-income families who are disproportionately impacted by price hikes. Lastly, as the allowances begin to phase out starting in 2026, the bill directs remaining allowances to be auctioned with proceeds distributed to consumers through tax credits.

Impact of Waxman-Markey

Overall the current legislation will have an impact on a wide range of industries that could prove positive or negative. The bill outlines new energy-saving standards for buildings as well as appliances. It touches upon transportation, although mainly covering only heavy-duty and off-road vehicles. It uses regulatory requirements as well as financial incentives to enhance coal carbon capture and sequestration (CCS). It offers financing for worker assistance and job training along with creating a Clean Energy Deployment Administration which would promote access and investment in clean energy and energy efficiency technologies.

Future Outlook

The current legislation has a large number of prominent proponents as well as many outspoken opponents. As the bill advances through the Senate, a great number of interest groups could impact Senators in changing the characteristics of the legislation. Numerous environmental advocates are currently pitted against agriculture organizations, with agriculture potentially possessing an upper-hand in the Senate.⁷ Concerns over higher utility rates and their effect on manufacturing, small businesses and working families will be important matters of debate. New York AREA will continue to follow the discussion and legislation as it progresses.

⁵ Congressional Budget Office Analysis: the average cost of the legislation would be approximately \$175 per household in 2020- not including energy efficiency savings of approximately over \$4,000 per household by 2030.

⁶ National Association of Manufacturers Analysis: emissions allowance prices would go as high as \$270 per ton of CO₂ in 2030, leading to the conclusion that residential electricity prices would go up 129 percent.

⁷ “Senate Ag Panel’s Members Look to Stake Major Claim in Climate Bill,” *The New York Times*, July 9, 2009.

About the Author –

Norris McDonald is the founder and president of the **African American Environmentalist Association**; he has been a career environmentalist for 30 years. Formerly with the Environmental Policy Center (now Friends of the Earth), as Director of the Energy Conservation and Transportation Project, he is an energy and environmental specialist and has served as an advisor to industry and local neighborhood community groups. McDonald was president of the Washington, D.C. Chapter of the American Association of Blacks in Energy (AABE) from 1982 to 1984. He organized the first Energy Braintrust for the late Congressman Mickey Leland. He has authored and successfully worked for the passage of national energy legislation before the U.S. Congress. He has presented testimony before federal, state and local regulatory agencies, U.S. House and Senate Energy and Environmental Committees. He was a participant in the original meetings with the U.S. Environmental Protection Agency to adopt environmental justice policies.

About New York AREA: Founded in November 2003, the New York Affordable Reliable Electricity Alliance (New York AREA) is a diverse group of more than 150 business, labor, and community groups whose mission and purpose is to ensure that New York has an ample and reliable electricity supply, and economic prosperity for years to come. New York AREA helps to educate policy makers, businesses, and the general public regarding the necessity and importance of safe, low-cost and reliable electricity. For additional information visit: www.area-alliance.org