MINUTES

JOINT COMMITTEE ON ENERGY AND ENVIRONMENTAL POLICY

January 13, 2009
Memorial Hall Auditorium

Members Present

Senator Carolyn McGinn, Chairperson
Representative Carl Holmes, Vice-Chairperson
Senator Janis Lee, Ranking Minority Member
Senator Jay Emler
Senator Roger Reitz
Representative Mitch Holmes
Representative Forrest Knox
Representative Tom Sloan
Representative Josh Svaty

Staff Present

Cindy Lash, Kansas Legislative Research Department
Mary Galligan, Kansas Legislative Research Department
Raney Gilliland, Kansas Legislative Research Department
Melissa Doeblin, Office of the Revisor of Statutes
Mike Corrigan, Office of the Revisor of Statutes
Sean Ostrow, Office of the Revisor of Statutes
Renae Hansen, Committee Assistant

Guests

Approximately 100 people attended the meeting.

Chairperson McGinn welcomed Committee members and guests to the meeting. The Chairperson noted that members of the House and Senate committees that deal with the topics of commerce, labor, energy, and utilities were invited to the meeting.

The Chairperson introduced the speakers who will address the Committee (Attachment 1).

The Chairperson recognized Dan Chartier, Manager, Air Quality Programs, Edison Electric Institute, whose presentation to the Committee was entitled *Emissions Trading: Lessons for a Carbon Market* (Attachment 2). He also provided another document concerning the electric utility industry and global climate change (Attachment 3).

Mr. Chartier's presentation was divided into four parts, as described below.

Cap and Trade Basics. Mr. Chartier described the traditional "command and control" approach to emissions control, which establishes what needs to be done, and prescribes how and when each emissions source is to respond. In contrast, under a cap-and-trade program the government's focus is on setting goals and ensuring results, rather than on approving individual compliance options.

The first true emissions trading program was created as part of the Acid Rain Program in the 1990 amendments to the federal Clean Air Act. The Program established a cap, the timing of reductions, and an allowance allocation process for emissions of sulfur dioxide (SO_2). The initial formula for emission allowances applied from 1995-1999, and a second formula was phased-in beginning in 2000 and is being used today. The trading system requires accurate monitoring of emissions and accurate, consistent accounting. The Environmental Protection Agency maintains a website (www.epa.gov/airmarkets) showing emissions that are reported, traded, and tracked.

Cap and trade programs subsequently have been used for nitrogen oxides (NO_X) reduction programs in the northeast and in the Houston-Galveston area, as well as for NO_X and SO_2 reductions under the Clean Air Interstate Rule and the RECLAIM program in the Los Angeles area.

Existing Green House Gas Markets. Mr. Chartier discussed the European Union Emissions Trading Scheme (EU-ETS), the Regional Greenhouse Gas Initiative (RGGI), the Midwest Greenhouse Gas Reduction Accord (MGGRA), the Western Climate Initiative (WCI), and the Chicago Climate Exchange (CCX).

The European Union's ETS is the largest emissions trading market in the world and captures 46 percent of all European emissions. It involves approximately 12,000 facilities that are involved in energy intensive industries. Lessons learned from the EU-ETS include the following: economy-wide coverage is needed, good baseline data is needed, market timelines must be designed for the long term, flexibility is important and a market infrastructure must be developed. Concerns about windfall profits were largely unfounded.

The Regional Greenhouse Gas Initiative was the first mandatory cap and trade program for greenhouse gas in the U.S. It involves a group of 10 northeastern and mid-Atlantic states, with the goal of initially stabilizing, then reducing, carbon dioxide (CO_2) emissions from power plants. Emissions are to be held at current levels from 2009 to the start of 2015, then reduced by 10 percent by 2019. RGGI requires power generators to hold allowance to cover their emissions. CO_2 allowances issued by the member states are sold at auction, with the use of auction proceeds determined by each state. Examples of revenue uses include programs for energy efficiency, renewable and clean energy, reduced electricity consumption, and rate relief. Allowances sold for slightly more than $3.00 per ton at the first two auctions. RGGI also provides for offset allowances to a limited extent and under certain conditions. Qualifying offsets include such things as landfill gas capture and combustion, forestation, and methane capture from animal operations.

The Midwestern Greenhouse Gas Reduction Accord was signed in November 2007. Kansas is a member, along with five other states and the Canadian province of Manitoba. The group has established a 2020 target reduction of 15 percent - 25 percent below 2005 emission levels, and a 2050 target of 60 percent - 80 percent below 2005 levels.

The Western Climate Initiative was established in February 2007. Seven states and three provinces are members. The group adopted a regional target of a 15 percent reduction from 2005 levels by 2020. Covered facilities include those with annual emissions of at least 10,000 metric tons of CO_2e (carbon dioxide equivalent) in sectors including electricity generation, industrial and

commercial facilities, transportation fuel, and others. Mandatory measurement of emissions of six greenhouse gasses starts January 2010, with compliance reduction targets effective in 2012.

The Chicago Climate Exchange is a pilot project for voluntarily trading greenhouse gas credits. The project covers all six greenhouse gasses. To-date, most participants are private corporations. Members agreed that by December 2006, all would reduce emissions 4 percent below 1998-2001 baseline levels, and by the end of 2010 would reduce emissions 6 percent below baseline. The commodity traded at the Exchange is the Carbon Financial Instrument® (CFI®) contract, each of which represents 100 metric tons of CO_2e.

Federal Legislative Landscape. Mr. Chartier discussed bills before Congress in December 2008 that contained economy-wide emission reduction targets. All plans include a 70 percent - 80 percent reduction in emissions by 2050, relative to baseline years of 1990, 2005, or 2006. To achieve these levels advanced coal generation has to be part of the solution, as well as energy efficiency, renewables, increased nuclear generation, and plug-in hybrid vehicles. The potential impacts on consumers by 2020 as a result of climate legislation, as estimated by Edison Electric Institute, are shown below. The ranges reflect differences in assumptions used. In addition, the costs assume a single federal program; costs will increase if states add fines for infractions.

Range of Potential Impacts of Climate Legislation on Consumers in or by 2020		
Overall cost per household	will increase	$446 to $2,927
Electricity prices	will increase	21% to 35%
Natural gas prices	will increase	20% to 39%
Gross domestic product	will decrease	0.7% to 1.74%
Employment	will decrease	1.1 to 2.78 million
Coal consumption	will decrease	42% to 66%
Permit prices ($/ton CO_2e)	will be	$18 to $48/ton
Total U.S. greenhouse gas emissions	will decrease	4,887 to 6,654/mmt CO_2e

Cap-and-Trade versus Tax. Mr. Chartier identified several main differences between the two systems.

Cap-and-trade system	Tax system
Maximum emissions are known; the environmental target is met.	Emissions vary and may exceed the target because businesses decide whether to emit and pay the tax, or reduce and avoid the tax.
Cost varies based on marginal cost to control emissions to the cap level.	Cost per unit of emissions is fixed.
Cost savings from improved technologies and market efficiencies get captured.	Must determine the right tax to get the desired environmental outcome.

Most people are proposing a cap-and-trade system because it provides certainty in reduction of emissions. A hybrid approach that uses cap-and-trade to capture efficiencies while adding price protection to ensure that costs do not exceed an acceptable threshold could be key. Regardless of the system chosen, decisions will need to be made about environmental targets and timelines, the point of regulation or collection, sectors and entities covered, who is exempted and why, and the type of measurement and verification process to use. The integrity of emissions and allowance data is critical.

Panel Discussion of Carbon Tax and Cap and Trade Policy Options

Participants included Amy Blankenbiller, Kansas Chamber of Commerce; Brad Harrelson, Kansas Farm Bureau; Nancy Jackson, Climate and Energy Project; Woody Moses, Kansas Cement Council; and Tom Thompson, Kansas Chapter of the Sierra Club.

The opening questions posed to the panel were as follows:

> How would either a carbon tax or a cap-and-trade system impact your industry or community? What benefits would you anticipate for your industry or community resulting from either of those policies? From the perspective of your business/industry/organization, assuming no action is taken on either at the federal level, which would you rather see the Kansas Legislature pursue and why?

Amy Blankenbiller, Kansas Chamber of Commerce, said her organization is opposed to cap-and- trade on a state basis. At minimum it should be a federal action, but preferably an international policy.

Brad Harrelson, Kansas Farm Bureau, said his organization does not support either a carbon tax or cap-and-trade on a state, regional, or country basis. If either is used, it should be international. Their members would be unfairly impacted if a cap-and-trade system were put into place. The Lieberman-Warner bill would add $6 - $12 billion to agricultural production costs. This would result in a vast loss in income.

Nancy Jackson, Climate and Energy Project, is a member of the Midwest Governor's Association Greenhouse Gas Reduction Advisory Group that is designing a cap-and-trade system to be recommended to the federal government, should a national system be enacted. Efforts to regulate carbon are best done at a federal or global level. The costs of electricity will rise no matter what we do. There will be significant costs with cap-and-trade, as there are with all innovations. Kansas is well situated to benefit from a cap-and-trade system in the United States; the state has not fully utilized its potential for energy efficiency and for development of the wind industry.

Woody Moses, Kansas Cement Council, said his organization is opposed to a state, regional, or possibly even a federal cap-and-trade or carbon tax program. A ton of carbon is emitted for every ton of cement created. This is a particularly vexing problem in a carbon emission reduction society, and calls for a global solution. A lot of cement goes into the construction of energy efficient buildings. The debate on how to resolve this contradiction has not yet occurred.

Tom Thompson, Sierra Club, Kansas Chapter, said the primary purpose of a cap-and-trade or carbon tax system is to decrease the amount of CO_2 emitted and thereby reduce the effects of global warming. The Sierra Club supports a cap-and-auction system, and believes a 70 percent - 80 percent reduction in emissions can be reached by 2050. For the system to work, the funds generated at auction should be directed to reduction of energy use, in particular to help low- and

middle-income families become more energy efficient. He cited economists who stated that addressing global warming would cost the world 1 percent of its GDP a year, but the cost of doing nothing could cost the world 5 percent - 20 percent of its GDP.

Panelists also responded to a follow-up question, "if a cap-and-trade system is enacted, which sectors should it be applied to?"

Ms. Jackson noted there are myriad stakeholders involved across the country. An economy-wide cap-and-trade system would be more effective and less expensive. Certain industries have no way of making any reductions and that would have to be looked at for the separate industries.

Ms. Blankenbiller stated the Chamber has a diverse membership, and does not want to disadvantage one member to benefit another. The Chamber supports a national policy.

Mr. Moses said there is not enough data to make adequate decisions on which industries to target.

In response to questions from the audience, Mr. Chartier noted that when the U.S. began controlling emissions, the technology to remove SO_2 already was available. In contrast, there is a technology deficiency for other greenhouse gases, and it will take time for new technologies to be implemented in existing facilities. If the United States acts alone, or even in concert with European Union, without the involvement of the developing nations it is not possible to solve global problems.

Nancy Jackson responded that when there is regulation, industry will respond. Energy efficiency programs could provide 40 percent of the reductions needed. The benefit of regulating CO_2 is a point of much debate, but if the science is right, the repercussions of ignoring it are monumental. If the science is wrong, we will have lost GPD but will have diversified our sources of energy production.

The minutes from the December 5, 2008 meeting were approved.

The meeting adjourned at 10:40 a.m.

Representatives of Westar Energy provided a document to Joint Energy and Environmental Committee members entitled, "Meeting our Customers' Energy Needs, A Strategic Plan for Uncertain Times" (Attachment 4).

Prepared by Renae Hansen
Edited by Cindy Lash

Approved by Committee on:

May 11, 2009
(date)