KEY INSIGHTS FROM A SOLUTIONS FORUM ON CARBON PRICING AND CLEAN POWER

CENTER FOR CLIMATE AND ENERGY SOLUTIONS

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States will have tremendous flexibility to choose how to reduce carbon emissions under the Clean Power Plan. One idea states are exploring is putting a price on carbon. The first C2ES Solutions Forum—held on April 15, 2015—brought together legal and economic experts, state environmental directors, and business leaders to explore the potential use of market mechanisms to reduce these damaging emissions efficiently and cost-effectively.

For more information about the C2ES Solutions Forum, see: http://www.c2es.org/initiatives/solutions-forum

Key insights and highlights from the event on carbon pricing and clean power include:

- **Most economists agree that the most efficient way to address climate change is to put a price on carbon**. Adele Morris, a senior fellow at the Brookings Institution, said a carbon price percolates across the supply chain and incentivizes businesses to make the best investment and technology decisions and seize new opportunities.
- **The U.S. Environmental Protection Agency (EPA) has given states tremendous flexibility to determine the best way to achieve emission targets**. Michael Wara, a professor at Stanford Law School, made the case that the broad language in the proposed Clean Power Plan appears to create significant space in which states can create carbon pricing programs—such as implementing a carbon tax or a cap-and-trade program—in their implementation plans.
- **Virtually every state is already engaged in some activity that reduces emissions**. For example, many states have renewable electricity standards and energy efficiency resource standards. In addition, 10 states are using carbon-trading programs to reduce greenhouse gas emissions. Several states are considering a carbon tax.
- **Market-based options available under the proposed Clean Power Plan go beyond creating or joining a cap-and-trade program or instituting a carbon tax**. Many states and businesses have expressed interest in a common elements approach, where states can put in place core elements—such as common definitions and measurement and verification processes—so that companies could be in a position to trade within and across borders even without formal state or multistate allowance programs. Such an approach has caught the eye of states, like Colorado, that are interested in a carbon-pricing program but are concerned about the time it will take to implement one. Skiles Boyd, vice president of environmental management and resources for DTE Energy, said his company is leaning toward the idea of a “market-ready” approach because it would allow states time to make progress toward policies that would help minimize rate increases for customers.
- **States and businesses generally agree that market mechanisms are a proven, least-cost way to reduce emissions**. Janet Coit, director of the Rhode Island Department of Environmental

Management, views the Regional Greenhouse Gas Initiative (RGGI) as the best system of emissions reduction because it is proven, it is efficient, and it can use market forces. As a RGGI member, Rhode Island didn't see its electricity prices go up, Coit said. The state used funds generated from RGGI for energy efficiency programs and renewable energy, which reduced electricity demand and overall costs. RGGI states have reduced carbon emissions 40 percent since 2005. Katie Ott, senior manager of federal government affairs for Exelon, noted that market-based policies have worked before. The U.S. acid rain program reduced sulfur dioxide emissions from power plants twice as fast and at a fraction of the cost of traditional regulations. "There's no reason why they can't do it again, this time for greenhouse gases," she said. Erika Guerra, head of government affairs and corporate social responsibility at Holcim (US) Inc., a cement manufacturer, noted her energy-intensive business is sensitive to power prices. Holcim has supported carbon pricing and has internalized a cost of carbon in its operations.

- **States believe support from the business community will be essential to adopting market-based options**. David Paylor, director of the Virginia Department of Environmental Quality, believes market-based options could eventually be part of his state's implementation plan. Virginia is reviewing all of its options, including market mechanisms and even joining RGGI. "We prefer market drivers,'' Paylor said. "Solutions are going to be facilitated when the business community can get behind certain ideas and say, 'This is the thing that makes the most economic sense to us.' The business community is going to have credibility in Virginia with that regard."
- **State and business leaders recognize the need to talk to one another about the best way to reduce emissions**. Businesses have begun interacting with states in various ways, such as through one-on-one discussions or through trade associations. Katie Ott said business leaders recognize their responsibility to bring forward reasonable, low-cost ideas. Skiles Boyd of DTE said that in Michigan, the governor has assigned his staff, the Public Service Commission and state Department of Environmental Quality to work together on the Clean Power Plan with all of the state's stakeholders. "The key is to get as much input and as many ideas as you can get," he said, "and then we're going to have to narrow that down and figure out what the best plan is."
- **States are concerned about having enough time to develop market-based policies**. Martha Rudolph, director of environmental programs for the Colorado Department of Public Health & Environment, believes states are more likely to consider market mechanisms if they have more time to develop their plans. Janet Coit suggested EPA could help states by not asking that a detailed approach be spelled out within each state plan.
- **State and company representatives see a role for EPA to help states after the Clean Power Plan is finalized**. Martha Rudolph suggested EPA could release a draft Federal Implementation Plan after the rules are final this summer to provide guidance for states. Janet Coit suggested EPA could help states convert their emission rate to a mass-based standard, and perhaps even promote the adoption of the latter. Kevin Leahy, director of energy and environmental policy at Duke Energy, suggested that EPA might want to facilitate trading by companies outside of a formal emissions trading program by establishing a registry to track those trades.

C2ES will continue the conversation with states and businesses to share insights and innovative ideas that will help us get to a clean energy future. Our second Solutions Forum on May 18 will explore improving energy efficiency, which reduces emissions, through information and communication technologies. Our third event on June 25 will examine how to finance clean energy technology and infrastructure.

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The Center for Climate and Energy Solutions (C2ES) is an independent nonprofit organization working to promote practical, effective policies and actions to address the twin challenges of energy and climate change.

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