SUMMARY:

The Changing Business Climate: Is It Time For A National Carbon Policy?

Sponsored jointly by the Sustainable Energy Institute and Fleishman-Hillard

Wednesday, February 8, 2006
9:00 to 10:00 a.m.
The Columbus Club, Union Station, Washington DC

Hosts:

Neil Numark, Chairman of the Sustainable Energy Institute; President, Numark Associates, Inc.
Malin Jennings, Senior Vice President, Fleishman-Hillard

Moderator: Elizabeth Shogren, National Public Radio

Panelists:

Senator Tom Carper (D-DE)
Senator Lindsey Graham (R-SC)
James E. Rogers, Chairman and CEO, Cinergy
Robert E. Busch, President, PSEG Services Corporation
John Peschke, Professional Staff Member, Senate Energy and Natural Resources Committee
Bob Simon, Minority Staff Director, Senate Energy and Natural Resources Committee

Summary

Introduction

On February 8, 2006, the Sustainable Energy Institute and Fleishman-Hillard co-sponsored a roundtable discussion titled "**The Changing Business Climate: Is It Time for a National Carbon Policy?"** The panelists emphasized different aspects of the effort to combat climate change, but several common themes emerged.

Act sooner rather than later – and nationally rather than locally

The panelists did not necessarily agree on a specific approach to address climate change, but did agree with the overwhelming scientific consensus that climate change is real and that there is a need to act sooner rather than later. As **Mr. Busch** stated, "Whether you

completely agree with global climate change or not, the science is getting to the point where we can't take the chance that you're wrong…"

When asked by **Ms. Shogren** whether the federal government should impose mandatory limits on greenhouse gas emissions, all of the panelists were at least open to the idea. **Senator Carper**, **Dr. Simon and Mr. Busch** agreed that the government should impose such limits, while expressing certain caveats. **Senator Graham** and **Mr. Rogers** were open-minded about the idea, and **Mr. Peschke** simply stated that the Senate might do something on the subject in the future. No panelist expressed a preference for the United States to continue to rely solely on voluntary measures. As **Senator Graham** succinctly stated, "Voluntary is good, but generally speaking, voluntary is not nearly as successful as pushing people."

Graham noted that his position on climate change has shifted in recent years. Through traveling and focusing on this issue with his colleague, Senator John McCain (R-AZ), the Senator from South Carolina now believes that human actions are influencing climate change and that it needs to be addressed. In fact, **Senator Graham** stated that

> …there is a movement in the Senate that is undeniable. And a movement in the country that is undeniable that we're beginning to come to grips with a phenomenon that's real. And political solutions will soon follow the polling.

The consensus on the panel also seemed to favor national over state or regional actions. A local strategy might make sense from a short-term, environmentalist's perspective, **Mr. Busch** noted. But, he stressed, "The answer to this problem is not 50 different approaches to greenhouse gases in the United States. That makes no sense at all." **Dr. Simon** agreed, explaining that

> it is hard to see how you can make that transition [to a carbon constrained world] in a seamless or in the lowest-cost manner possible to the economy if it is happening sort of randomly and chaotically across the system, but that's what we'll get if there is no national leadership brought to this thing.

Industry-specific versus economy-wide approaches

Having agreed that something does need to be done on the national level to address climate change, panelists differed on what that should be. **Senator Carper** and **Mr. Busch** preferred an approach which would initially focus on one industry sector, the utility sector. **Senator Graham** and **Mr. Rogers** favored more of an economy-wide approach. But even **Senator Carper** – the sponsor of multi-pollutant legislation which focuses on the utility industry – and **Mr. Busch** seemed to acknowledge that ultimately focusing on just one industry would not be sufficient.

Carper highlighted one of the main reasons for action within the utility industry – the need for regulatory certainty. He stated,

> Within the sector itself [there is] a realization that this is a real problem. It's not going away. It's getting worse…. this is a chance for the industry to get some certainty, to stop having to worry about this patchwork quilt of states that now are imposing their own regulations.

The nature of the utility sector, and its long-term planning needs, also argues for some form of certainty. As **Mr. Rogers** explained, building power plants is a 30-40 year investment. Decisions, he noted, needed to be made now about which type of plant should be built for plants to go online by 2015. Citing economic concerns, Rogers contended that

> …we need to deal with these issues today because the impact on the consumer already is great from the increases in coal, gas and oil. And as a consequence of that we start to look at the CO_2 issue in this context of rising prices. And decisions are being made today to build new plants that are going to lock in the burning of coal without the ability to reduce emissions of CO_2. And that's why it's so critical.

Dr. Simon agreed that industry needed a "rational planning horizon." With industry leaders needing to make (and justify) decisions about whether to invest in more expensive new technologies, he contended that "…if you don't have a rational price signal that people can count on, then it is very difficult, I think, to expect people in industry to voluntarily sign up for large increments of additional capital cost."

Simon also described the issues concerning an economy-wide vs. a utility-sector approach:

> No one sector of the economy is the overwhelming predominant source of greenhouse gases. … So the question is, if you are trying to construct a system that's balanced, that's fair, that's effective [and] that maximizes our opportunities to get the most bang in terms of greenhouse gas reductions for any compliance costs that we impose on the economy, do you want to look across a variety of sectors for the lowest economic fruit and construct a system to do that? Or the contrary position would be, look, some sectors are easier to get your hands around than others on this, and so maybe we should just focus on the easiest-to-address sectors first and leave others to later, recognizing that that might in turn create the problem that you get started and you sort of hone in on one sector of the economy and you then discover that you can never politically advance the ball beyond that sector to any other sector.

Senator Graham argued for the broader approach, contending that any climate change strategy needed to incorporate not only the power sector but also the transportation sector. In addition to helping to fight climate change, hybrid vehicles could improve our national security by helping the United States reduce our dependence on foreign oil for national security reasons, suggested Graham. "If you leave the transportation sector out I think you've really missed the point," he noted.

Nuclear energy should be part of any proposed solution to fighting climate change

Both **Senators Graham and Carper** were outspoken in their support for nuclear energy as part of the response to the problem of global climate change. Carper also commented that some of his Democratic colleagues may now be more inclined to reconsider nuclear as an energy option.

Graham welcomed this possible change, and noted its implications for forming a legislative coalition to address the issue, "that not only educates but has more hitting power in Congress." If some Democrats like Senator Carper "came to the middle" on nuclear, it was his job as a Republican to get some of his colleagues to come to the middle on the idea of "pushing our industries to do more." He expressed interest in forming a "grand coalition" that crosses party lines and that involves three constituencies: persons concerned about national security who are advocates for hybrid vehicles; nuclear energy advocates; and environmentalists concerned about climate change and other utility sector emissions. Said Graham:

> I think if you got the coalition, the politics will fall into place… If you did all three things at once you'd have a more comprehensive solution. And you would have different political groups coming together to get this thing over the finish line.

Panelists generally agreed that the role of nuclear in addressing climate change should just be one piece of a bigger puzzle. **Mr. Busch** stated that "ultimately we have got to solve the majority of this problem with nuclear power." But **Mr. Rogers** and **Senator Carper** stressed the need to also address energy efficiency, as well as incorporate wind, clean coal technology, conservation, and solar energy into the mix. Regarding coal specifically, **Mr. Rogers** noted that "Today over 50 percent of electricity in this country comes from the burning of coal. We're not going to walk away from that tomorrow." Contending that coal gasification technologies "would make a dramatic difference," Rogers added that "pulverized coal" would be viewed as a cheap alternative by those who "believe there'll never be carbon taxes or mandatory controls of carbon."

Stressing technology and innovation – and balancing environmental and economic impacts

All of the panelists emphasized the critical role that technological innovation could play in fighting climate change. **Senators Graham** and **Carper** predicted that technological advances in the next 50 years would enable the United States to be much more capable of handling and treating radioactive waste, thereby making nuclear energy a more palatable option for its opponents. **Mr. Rogers** stressed the role that coal gasification technologies could play, and **Senator Carper** highlighted the economic benefits of high efficiency standards for air conditioners.

Inevitably, the idea of technological innovation was linked to economic competitiveness. The automotive industry, in particular, was cited as a prime example. Regarding possible revisions to CAFE standards (and the technological changes that they would require), both **Senators Carper** and **Graham** referred to the current economic struggles of the automakers in Detroit as a primary reason why policymakers are unwilling to tackle the issue.

Senator Graham concluded that technological advances have the potential to help efforts to combat climate change and to help the United States "create a new foothold" in the global economy.

Senator Carper repeatedly referred to ethanol and newer, environmentally friendly automotive technologies which might be both economically beneficial to the industry and environmentally friendly. He suggested that the federal government can both invest in research and development related to technologies such as fuel cells or hybrid vehicles, and use the government's purchasing power on both the civilian and military sides to purchase vehicles to help commercialize new technologies. Carper also cited the government's changes in tax policies as a mechanism to create incentives for people to purchase efficient vehicles.

Similarly, **Mr. Rogers** promoted energy efficiency and technological innovation on economic grounds, citing both the rising costs of fuels for the industry and the future increases in costs for consumers. Observing that the United States has not had a major push for energy efficiency in years, Rogers argued that "now is the time for us to reenergize our effort to utilize technology and to find ways to use energy more efficiently in the face of not only environmental requirements but also these rising costs."

Political realities and ongoing political activities: Where does the United States go from here?

The Senate resolution passed in the summer of 2005 which called for mandatory carbon emission cuts was a milestone in Senate climate change policy, and signs continue to emerge that the politics of this issue are shifting. The overwhelming scientific consensus on the issue, combined with the revised stance on climate change of conservatives like Senator Graham and the willingness of some Senate Democrats to reconsider nuclear energy as a viable option, all suggest that the passage of carbon legislation in the Senate could potentially become reality. However, clearly obstacles still remain.

Senator Carper identified one – the need for presidential leadership. He described a conversation he had had with President Bush a day earlier in which the President seemed surprised to learn:

> … there's interest within the industry to actually accept something like mandatory caps that can be done in a way that doesn't harm consumers, doesn't kill the economy. In a way that actually harnesses market forces.

Senator Graham focused on another – the relationship to U.S. competitiveness in the global economy. While he did not argue that the United States should continue solely to pursue voluntary strategies, Graham acknowledged that the global economy was the reason why he had been hesitant to embrace mandatory controls. He stressed that any major global action to address climate change which did not include China and India would not get much support – "you're going to have a hard time getting us to cripple our own industries when the world is not involved."

Responding directly to a question from Ms. Shogren about why he hesitated to embrace mandatory controls, Graham answered:

> China and India, and being able to keep people in Florida and South Carolina. If you don't understand that then I think we don't understand the global economy. You're competing against labor at 46 cents an hour. And environmental regulations in this country have done a lot of good, worker safety legislation has done a lot of good, but they don't have much of it in China and India. …And that's what keeps me on the fence.

Emphasizing that the United States needed to lead, he cautioned,

> I know we're going to lead, but we're having global changes to our economy at the same time we're having global changes to our climate. And if we're not sensitive to those global changes we could push some industries over the edge unnecessarily.

The Senate will attempt to produce climate change legislation in upcoming months. Both **Mr. Peschke** and **Dr. Simon** described upcoming efforts there. Driven by a white paper recently produced by Senators Bingaman and Domenici, a climate conference will examine how a mandatory, market-based system might be constructed. **Mr. Busch** praised **Senator Carper's** legislation as a very good place to start, and **Busch** added that the utility industry in general was ready to support that kind of legislation. **Mr. Rogers** also expressed openness to focusing on the utility industry initially. He contended that while an economy-wide plan to address carbon was ultimately needed, "…maybe one [sector], the utility industry, can start first. But," he stressed, "the plan ought to be a fairly clear plan in which all segments of our economy are brought to play because over time that will reduce the cost and put us in a better position as a country. And I think our target focus should be around post-Kyoto."

As more alarming stories of melting ice caps and rising sea levels hit the front pages of newspapers across the country, the issue clearly is not going away. In fact, **Senator Carper** believes that climate change is going to be a "centerpiece" issue in the 2008 Presidential campaign and that whoever is elected will have a mandate to take action.