

# Climate Change Policy Update

## Waxman-Markey Faces Senate Challenge

The 2009 American Clean Energy and Security Act (ACES) was narrowly passed by the House of Representatives in June and will form the basis for new climate legislation to be developed by the US Senate over the coming months. The bill lent the US much needed [legitimacy](#) for climate-related negotiations at the recent G8 summit; however, political pressure remains strong to pass a Senate bill prior to climate negotiations in Copenhagen this December.

The bill consists of four Titles that together provide a comprehensive suite of tools for GHG reductions. A number of initiatives are promoted including:

**Clean Energy:** a combined federal efficiency and renewable energy standard; the acceleration of carbon capture and storage technologies, and the development of a smart grid.

**Energy Efficiency:** funding for energy efficiency programs; efficiency standards for buildings, lighting, appliances, transportation, and industrial energy efficiency.

**Reducing Global Warming Pollution:** a cap-and-trade program with mandatory caps on 85% of the US economy by 2016. Caps would be phased in with electric sources and some stationary sources regulated in 2012, a range of industrial sectors in 2014, and certain natural gas distributors in 2016.

**Transitioning to a Clean Energy Economy:** transition assistance for industry, capped sectors, and low income households.

Implementation of the cap would reduce emissions from covered sources by 3% over 2005 levels by 2012, 17% by 2020, and 83% by 2050. However, the bill's complementary measures could result in [total US reductions](#) of up to 28% below 2005 levels by 2020, and 75% below 2005 levels by 2050.

A successful mark-up of the bill will need to clear a number of hurdles, including reconciling changes from six Senate committees by the end of September. Stiff opposition from Republicans, some Democratic senators, and strong lobby groups is expected to result in significant changes to the ACES bill.

An expanded role for the nuclear sector and consideration of agricultural issues may be required to gain the 60% support needed to pass a Senate vote. If a Senate bill is passed, it will need to be reconciled with ACES and pass a final vote in both chambers before it is sent for final presidential approval.

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## MGGRA Publish Recommendations to Influence Future Federal Schemes

In June, the [Midwestern Greenhouse Gas Reduction Accord](#) published their [Final Design Recommendations](#) for a regional cap-and-trade program.

Although they prefer “a cap-and-trade program at the federal level...rather than a regional program,” it is hoped that the recommendations will influence the “current national debate” and highlight that the Midwest has “particular resources and special economic circumstances” that need to be considered in a federal scheme.

The region is considered America’s

manufacturing and agricultural heartland and is North America’s most coal-dependent region. As such, the Design Recommendations hope to provide proposals that address the concerns and priorities of sectors that could be adversely affected while simultaneously balancing a “wide range of regional benefits, concerns and tradeoffs.”

The MGGRA is a collaboration between Wisconsin, Minnesota, Illinois, Iowa, Michigan, Kansas and Manitoba. Indiana, Ohio, Ontario and South Dakota are observers to the MGGRA.

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*“The Midwest has particular resources and special economic circumstances that need to be considered in a federal scheme.” – MGGRA Draft Final Recommendations.*

### Quebec Passes Cap-and-Trade Legislation

Quebec advanced its climate change profile by passing into law a flexible, market-based GHG mitigation mechanism.

[Bill 42](#) – which sets the foundation for a cap-and-trade system – received royal assent on June 18<sup>th</sup>. The bill allows the government to break down the cap by sector and either auction or freely allocate allowances.

It also requires regulated emitters to report their emissions to a central register and legislates 1990 as the baseline year against which provincial emission reductions are measured.

Passing cap-and-trade legislation enables compliance with the rules of membership to the Western Climate Initiative, in which Quebec, Ontario, BC, Manitoba, and 7 US states are members.

## G8 Agree on 2°C Warming Limit - But Not on Reduction Targets

At their recent July 8-10 summit in Italy, the leaders of the G8 agreed to limit global temperature rise to 2°C but failed to articulate this aspiration in terms of the amount of GHG reductions required to achieve that goal. Critics argued that a temperature goal without an accompanying concrete GHG reduction target leaves the necessary level of effort open to individual interpretation, and will likely result in inadequate global GHG cuts.

This fear was confirmed by the Canadian government’s explanation of the agreement. Immediately following President Obama’s announcement that countries had reached “a historic consensus on concrete goals for reducing carbon emissions,” namely 80% reductions by 2050, Canada’s environment minister Jim Prentice characterized the goal as “aspirational” rather than solid, and suggested that the agreement “fits together well” with Canada’s current plan to reduce emissions by “as much as 60% to 70%” by 2050.

Critics point out that a reductions target is hollow unless it is accompanied by a baseline year, which the G8 statement hazily approximates as “1990 or more recent years.” Under Conservative leadership, Canada’s federal baseline year was changed from the internationally accepted year of 1990 to 2006, reflecting the year the Conservatives came to power. The US uses 2005 as a baseline.

The G8 affirmed the importance of technology development and diffusion, its belief in markets to efficiently and effectively achieve GHG reductions, the benefits of liberalized trade in environmental goods and services, the importance of enhancing offsets mechanisms, and the crucial role that private sector investment plays in accelerating the transition to a low-carbon economy.

With the inclusion of countries outside the G8, like China, India, Mexico, Brazil, and South Africa, this summit set the stage for countries’ positions at the upcoming UN Climate Change Conference being held in Copenhagen this December.

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## The UK's Transition Plan: Model for a Low Carbon Economy

The UK's new [Low Carbon Transition Plan](#) was released on July 15<sup>th</sup> and outlines Britain's national strategy for climate and energy in detail. It sets a path to 80% GHG reductions by 2050 using "carbon budgets," which are decreasing 5-year legally binding caps on net emissions. The UK has already reduced emissions by 21% since 1990, and this plan details how reductions of over one-third will be realized by 2020.

The UK plan is split into five sections: power generation and industry; homes and communities; workplaces and jobs; transportation; and farming and waste.

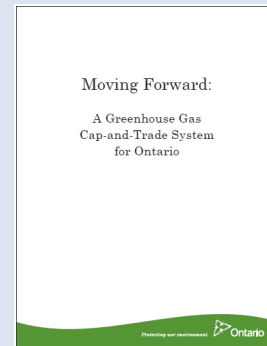
Over half of the reductions are to come from power generation. By 2020, 40% of generated power will be carbon-free, including 30% renewables with new nuclear and carbon capture and storage making up the balance. Smart meters are to be installed in every home in the UK by 2020.

Transport accounts for nearly a fifth of expected savings. Reduction actions range from transportation infrastructure improvements; fuel efficiency standards; emissions caps on aviation and shipping; and the electrification of trains.

Nearly \$6 billion will have been channeled into making homes more energy efficient between 2002 and 2011, and creative new schemes to overcome financing barriers are being piloted, such as the "pay as you save" program, where the upfront costs of energy efficiency devices are repaid over time using the savings yielded by the upgrades.

The plan is tremendous in scope and ambition but analysts and industry insiders think that it is achievable. With general political support for the plan, it is likely that it will survive any near-term changes in government and will make the UK plan a global model for transitioning to a low-carbon economy.

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### Moving Forward: Designing a Cap-and-Trade System for Ontario

In late May, the Ontario Government released [Moving Forward: A Cap-and-Trade System for Ontario](#) to advance its work on the design of a cap-and-trade system. The scheme explicitly states Ontario's intention to harmonize with the approaches of other provinces, US states and emerging federal systems. The discussion paper outlines critical design issues and [invites public comments](#) and advice until July 26<sup>th</sup>.

The major issues under review are:

**Scope and Thresholds:** Which sectors are covered and how much do they have to emit before they are included?

**Cap Setting and Allocation:** Free versus auctioned allowances, cost containment mechanisms, and the use of potential auction revenue.

**Credit for Early Action:** Developing a framework to incent and reward early action.

**Offsets:** Offset system oversight, protocol development, which projects count, and issues around permanence, reversals, limitations, trading, banking, and offsets from outside Ontario.

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## Canada's Draft Offset Rules Released

A revised [Overview of Canada's Offset System](#) and accompanying documents were released on June 10, and are [open to comment](#) for 60 days. Together, these documents outline the architecture of the proposed future federal offset system.

The overview restates the government's commitment to a GHG reduction target of 20% below 2006 levels by 2020 and anticipates offsets to contribute to achieving this target.

The final framework for the Offset System is expected to be published in the Canada Gazette by the fall. Changes to the previous plan include:

- Scheme start date pushed from to January 1, 2010 to January 1, 2011;
- The number of offset protocols on the fast-track list reduced from over 40 to 7. Those still on the fast-track list are: afforestation; landfill gas; reduced or no tillage; wind; forest management; wastewater management, and anaerobic biodigesters;
- Scaled-back dates for offsets generation and project initiation. Emission reductions will now be eligible for offset credits if they occurred on or after January 1, 2011 (previously 2008), and projects must have been initiated on or after January 1, 2006 (previously 2000).

For an offset project to be eligible for consideration, reductions and removals must occur in Canada and a federally approved and third-party verified Quantification Protocol must be developed.

Projects must create GHG reductions surplus to (over and above) existing legal and regulatory requirements of local, regional or federal jurisdictions. Projects are considered ineligible if they take advantage of government programs or incentives aimed at curbing GHG emissions.

While the proposed rules provide some clarity around the government's intentions, there is still uncertainty on many issues including how the federal system will interact with other provincial/regional/international regimes.

[Lynda Danquah](#), a policy manager of trading regimes for Environment Canada, said it was "still early days" when responding to questions about how this system might mesh with other provincial, regional and federal schemes. Environment Minister Jim Prentice [addressed the issue](#) of jurisdictional overlap with the provinces on June 10, saying that the federal offset system "will complement those efforts, not supplant or duplicate them," though he didn't provide details. He also suggested that the federal government will engage the provinces and develop equivalency agreements where appropriate.

There are other harmonization issues that remain. For example, the existence of a technology fund, where an emitter can pay a fixed price per tonne of GHGs it emits over its cap, effectively sets a price ceiling on offsets whose price would normally vary according to supply and demand. Tech funds also make hard caps "softer," since emitters can pay to pollute over and above their allowance. A tech fund exists in Alberta, and remains in the federal government's climate change plan as a cost-containment mechanism, but presents challenges to policy-makers and creates uncertainty for those who wish to engage in creating offsets.

All comments received on the legislation will be reviewed, and it is expected that the final versions of the Program Rules and Guidance documents will be published in the Canada Gazette this fall.

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