

## **GWTF Meeting, 5.14.08**

### **WPPI**

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**Among those in attendance** – Tia Nelson (BCPL), Roy Thilly (WPPI), Forrest Ceel (IBEW), Jeff Crawford (FCPC), David Donovan (Xcel), Frank Ericson (SC Johnson), Kristine Euclide (MGE), Jon Geenen (USW), Charlie Higley (CUB), Steve Hiniker (1000 Friends), Todd Holschbach (TNC), Margi Kindig (Citizen), Kathy Lipp (Alliant), Gary Malkus (GM), Bruce Nilles (Sierra Club), Bill Oemichen (WFC), Jennifer Oeschner (Sen. Jeff Plale’s office), Tom Scharff (NewPage), Keith Reopelle (Clean Wisconsin), Susan Stratton (ECW), John Vrieze (DBA/Vrieze Farms), Larry Weyers (Integrays), Eric Callisto (PSC), Dennis Koepke (PSC), Lori Sakk (PSC), John Shenot (PSC), Matt Frank (DNR), Mary Ellen Vollbrecht (DNR), Al Shea (DNR), Paul DeLong (DNR), Caroline Garber (DNR), Nick Sayen (DNR), Gary Radloff (DATCP), John Larsen (WRI), Nina Plaushin (WPPI), Caryl Terrell (Sierra Club), John Clancy (FCPC), George Edgar (WECC), Share Brandt (WECA/WFC), Noah Seligman (CWPB), Dave Benforado (MEUW), Kevin Kawula (LRPN), Rick Kuester (WE), Kris McKinney (WE), Greg Bollom (MGE), John Sumi (MGE), Warren Day (ATC), Ronald Zillmer (Mid-State Tech. College), Merrell-Ann Phare (CIER), Wes Slaymaker (EcoEnergy), Mike Powers (EcoEnergy), Dennis Derricks (WPS), Tom Smies (WPS), Mike Swenson (NSP), Ed Wilusz (WPC), Peter Taglia (Clean Wisconsin), Ramie Leonard (Broydrick & Associates)

#### **Welcome and Announcements:**

- DNR and PSC staff are continuing to clean-up (mostly proofreading and formatting) all of the policy templates. Workgroup chairs will be contacted and asked to review revised drafts before they are finalized.
- The Co-Chairs will soon send a memo to Members explaining the overall plan for the remaining scheduled meetings and for finishing the Task Force’s work. The May 29 meeting will focus on modeling results and a roundtable discussion among the members of priorities and concerns. It is increasingly important that appointed Task Force members (rather than substitutes) attend the remaining meetings if at all possible.
- Governor Doyle signed a climate change agreement with the United Kingdom on May 12 which calls for international collaboration and the exchange of information and technology. The governor also committed Wisconsin to joining the International Carbon Action Partnership (ICAP). Information is available on the web about the Wisconsin/UK agreement ([http://www.wisgov.state.wi.us/journal\\_media\\_detail.asp?locid=19&prid=3357](http://www.wisgov.state.wi.us/journal_media_detail.asp?locid=19&prid=3357)) and ICAP (<http://www.icap-carbonaction.com/index.htm>).
- At the previous Task Force meeting, unanswered questions were raised about how water consumption at nuclear plants compares to water consumption at fossil fuel plants. Andy Kellen (WPPI) and Peter Taglia (Clean Wisconsin) have information on this if anyone is interested.

#### **MGA Update:**

- Eric Callisto attended the full MGA Cap & Trade Advisory Group meeting yesterday in Milwaukee. The group approved work plans for all of the sub-groups and made plans for the rest of the process through November. An RFP should go out this week to hire modelers who can help develop a reference case and run Cap & Trade scenarios before October.

- There is some concern that the timeline the Governors agreed to might be unrealistic. By November the group expects it will be possible to reach consensus on Cap & Trade design principles but it is not likely they will have agreement on a model rule. Meetings and conference calls are set up for June and July. Refer to <http://www.midwesternaccord.org/> for more details.
- Susan Stratton reported that the MGA Energy Efficiency Advisory Group has similar concerns about their timeline. That group is working to fully understand the linkages between all four of the MGA energy advisory groups.
- The work of Wisconsin's Task Force is having and will have a direct and positive impact on what happens with the Midwestern Greenhouse Gas Reduction Accord.

#### **Technical Advisory Group - Modeling Update and Revised Data Reporting Template:**

- Kristine Krause explained that the TAG revised the data reporting recommendations based on Task Force comments at a previous meeting and the final memo is now posted on the Wisconsin Task Force on Global Warming web site.
- The TAG will next turn the data reporting recommendations memo into a standard format policy template, which will also be posted on the website.
- The TAG is still reviewing preliminary modeling results for Cap & Trade scenarios. The modeling indicates a large leakage problem (i.e., some emissions are not actually reduced but simply move from Wisconsin to other states). The TAG is scrutinizing the model to try to determine whether this is a reasonable forecast or perhaps just a flaw in the modeling logic. They are trying very hard to get Wisconsin-specific information and think about how the modeling results might influence Wisconsin's positions in regional and national cap and trade debates.

#### **Renewable Energy Issues - Canadian Hydropower:**

- Jeff Crawford explained that he was troubled by the Manitoba Hydro presentation at a previous meeting and wanted the Task Force to hear a differing viewpoint. He introduced the guest speaker.
- Merrell-Ann Phare (Executive Director, Centre for Indigenous Environmental Resources) gave a presentation on her organization, the impacts of large hydropower projects on the environment and Canada's First Nations, and related licensing issues. A copy of her presentation is available on the Wisconsin Task Force on Global Warming web site.
- Three major projects in the 1970s and 1980s resulted in dramatic decreases in the flow of the Churchill River, and an eight-fold increase in the flow of the Nelson River. The rationale for these projects was to match seasonal flow with seasonal energy demand and to build hydropower dams where they were most economical (on the Nelson River rather than the Churchill). These projects went forward without an Environmental Impact Statement. After the fact, studies found all sorts of negative impacts on First Nations.
- Licensing issues are important for all future developments. Interim licenses were issued for these projects more than 30 years ago, but never finalized. Licenses for old projects should be resolved before any future projects should be approved. The process for doing this has never been clear. First Nations are nearly unanimous in this opinion.
- When considering energy production sources, it is important to ensure that energy is produced in full accordance with applicable laws and treaties and with full public involvement.

### **Renewable Energy Issues – Promoting Wisconsin Renewable Resources:**

- Keith Reopelle explained that Clean Wisconsin was also concerned about the Manitoba Hydro discussion, but was particularly focused on the economic benefits of developing renewables in Wisconsin as opposed to out-of-state. He introduced the two guest speakers.
- Wes Slaymaker (Director of Wind Energy Development, EcoEnergy) and Mike Powers (Real Estate Manager, EcoEnergy) gave a presentation on their company and the economics of wind energy development. A copy of their presentation is available on the Wisconsin Task Force on Global Warming web site.
- Wisconsin is fortunate in that the wind resource is generally close to the load. Wind projects create shared revenue for local governments; payments to landowners; high paid, high skilled jobs; and indirect economic benefits in Wisconsin. Detailed examples of these benefits are included in the presentation.
- Wisconsin also has opportunities for small scale “community wind” projects. EcoEnergy has found that 70% of people support small scale wind projects (i.e., just a few turbines), though opposition still arises from those closest to the proposed project site.

### **Discussion of Cap and Trade Policy Proposal:**

- John Larsen (WRI) gave a presentation to set the stage for discussion of cap and trade policies. A copy of his presentation is available on the Wisconsin Task Force on Global Warming web site. Some of the key points of his presentation are summarized below:
  - Cap & trade programs are a way to use commodity markets to reduce emissions at least cost. Another market-based alternative is a carbon tax. With a carbon tax, you can achieve certainty about the price of carbon emissions but you won't have certainty about the resulting level of emissions. Cap & trade programs have the opposite effect, a certain level of reductions at an uncertain price. With a carbon tax, revenues can be used for complimentary purposes. With cap & trade, this is true if allowances are auctioned and not allocated for free. Cap & trade programs may have higher transaction costs than a carbon tax policy but the transaction costs are still lower than for non-market regulatory approaches (i.e., “command & control”).
  - If the Task Force recommends a Cap & Trade policy, there are many design issues to consider. Though disagreement is possible on any of the design issues, the ones that are most commonly contentious are targets, scope of coverage, allowance distribution, cost containment, and offsets.
  - Allowance distribution is typically the single most contentious issue because the government is creating and distributing a very valuable asset. The distribution method does not affect total emissions, but it affects who bears the costs. There are pros and cons to each distribution option.
  - Cost containment mechanisms may alter a cap & trade program and make it work more somewhat like a carbon tax. By capping or controlling the cost of allowances one loses certainty about the level of emission reductions. As with the cap & trade versus carbon tax debate, there are pros and cons to cost containment methods.
  - Offsets are project-based reductions made outside of the scope of covered sources. Allowing covered sources to comply with a cap by purchasing offsets gives them more compliance options and leads to lower allowance prices, but can also create verification challenges and reduce investment in the covered source sectors. Most

cap & trade programs limit the use of offsets in some fashion, either on the supply side (limiting what counts as an offset) or demand side (limiting how much of the compliance obligation can be met through offsets) or both.

- Detailed recommendations will be a challenge to craft but the Task Force might be able to agree on all or most of the design principles.
- Keith Reopelle and Kris McKinney gave a presentation listing the many cap & trade design principles on which the workgroup actually reached agreement, but also explaining the differing opinions in four areas where the workgroup could not reach consensus. A copy of their presentation is available on the Wisconsin Task Force on Global Warming web site. Some key points on the areas of disagreement are summarized below:
  - Allowance Distribution:
    - Environmental groups like Clean Wisconsin tend to favor auctioning of all or nearly all allowances. They feel this is consistent with “polluter pays” concepts and a true market approach. They also feel that a free allocation of allowances might reward those sources that have the highest emissions and thus create perverse incentives. Auctioning of allowances can also serve as built-in incentive for early action because those who have already reduced emissions won’t need to buy as many allowances as their competition. Finally, the revenues collected from an auction could be spent on activities that get additional GHG reductions and/or to address equity concerns.
    - Most utilities and industrial sources favor free allocation of allowances, at least for an initial period of time. Auctioning of allowances would be very expensive for large regulated sources, and their customers would ultimately pay the price. If Wisconsin auctions allowances and other states allocate them or don’t even regulate CO<sub>2</sub>, there is the potential for competitive inequities. There are also differences between how this plays out in states where electrical generation is regulated versus unregulated. Industrial sources argue that if they have to buy allowances at auction, they have less money to spend on energy efficiency and emission reduction projects.
  - Limiting Use of Offsets:
    - One point of view (held by Clean Wisconsin and others) is that emission reductions from offsets are harder to verify, less certain than reductions at covered sources, and a diversion of resources away from covered sources. They say this argues for limiting the use of offsets on both the demand side and the supply side.
    - The opposing point of view (held by covered sources and others such as agricultural groups and the Nature Conservancy) is that offsets are an excellent cost control mechanism and shouldn’t be limited, as long as they are real, surplus, verifiable, and enforceable, with appropriate accounting.
  - Cost Containment:
    - Price cap on allowances; allow banking and/or borrowing; increase use of offsets; regulatory off ramp or postponement on case-by-case basis.
    - Environmental groups generally oppose most cost containment measures because they believe all such measures reduce the certainty of environmental outcomes.

- Utilities and other covered sources favor banking, borrowing and other measures and argue that any cost containment measure can be designed to avoid or minimize the chance that environmental goals are jeopardized. Cost containment measures, they argue, could also be adopted on a temporary or interim basis to coincide with expected technology development timeframes.
- Compliance Period:
  - Utilities and other covered sources favor longer compliance periods (e.g., based on emissions over a 3-year period). This allows them more flexibility and makes them less vulnerable to weather extremes or other situations beyond their control.
  - Environmental groups favor shorter (e.g., 1-year) compliance periods. They argue that this creates stronger incentives for early reductions and accelerates the search for new technologies and solutions.

**Discussion of Conservation and Energy Efficiency Policy Proposals:**

- The templates listed on the agenda were not included in the Interim Report because the Conservation and Energy Efficiency workgroup co-chairs wished to discuss them further with the Task Force. They explained that some groups not on the Task Force may have concerns about these templates, but there will be ample opportunities for further input as Task Force recommendations are debated and/or translated into actual policy.

**Discussion of Water Conservation Policy Proposals:**

- A revised version of the draft “Focus on Water” template was shared with members. The policy proposal has not changed much from the version shared at the previous Task Force meeting, but the template now includes a preliminary estimate of the potential greenhouse gas reductions. The template is available on the Wisconsin Task Force on Global Warming web site. Members are encouraged to review it and comment if they wish.

**Discussion of Forestry and Agriculture Policy Proposals:**

- The workgroup Co-Chairs developed this template because landowners across the country are opting out of the Conservation Reserve Program and putting land into agricultural production to take advantage of higher commodity prices. This could result in the release of up to 2 million tons of currently-sequestered CO<sub>2</sub> in Wisconsin through 2028. This template recommends consideration of a menu of potential incentives to encourage landowners to continue land uses that sequester carbon. All of the incentives could have substantial co-benefits for wildlife and water quality. The Co-Chairs put this template out for review but didn’t get any comments. It is now available on the Wisconsin Task Force on Global Warming web site.

**Next Steps / Other Business:**

- Next steps for the Task Force will be laid out in the forthcoming memo from the Co-Chairs.
- Future Task Force meetings have been set through June. The dates are: May 29, June 10, and June 26. At this time, all meetings are planned to be held at WPPI in Sun Prairie. Task Force members will be notified of any changes or additions and all meetings will be noted on the Wisconsin Task Force on Global Warming website.