



Public Policy Alert

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U.S. House of Representatives Approves Cap-and-Trade Legislation

Sweeping energy and environment legislation would have profound effects on businesses across all sectors of the U.S. economy.



The pressure is on in Washington for revisions to national energy and environmental policies, and some companies are taking steps now to understand the prospects and potential impacts.

The House of Representatives has approved a far-reaching, comprehensive energy and climate change bill that would cut U.S. greenhouse gas (GHG) emissions 17 percent by 2020 from 2005 levels through a cap-and-trade system and would impose a Renewable Electricity Standard (RES) of 15 percent by 2020. The American Clean Energy and Security Act of 2009 includes economy-wide provisions for energy efficiency and alternative energy. "The energy bill that passed the House will finally create a set of incentives that will spark a clean energy transformation in our economy," said President Obama after the House vote. The debate now moves to the United States Senate.

Proposed new public policies in the House-approved bill include:

Cap and trade: A federal cap-and-trade system is the cornerstone of the House bill and the key component for implementing the mandate to reduce economy-wide GHG emissions by 3 percent below 2005 levels by 2012, by 17 percent below 2005 levels by 2020, by 42 percent below 2005 levels by 2030, and by 83 percent below 2005 levels by 2050. The cap-and-trade system would start in 2012 and phase in additional sectors of the economy in 2014 and in base year 2016. The reductions would affect the sectors of the economy differently, as they would receive different allowances and be phased in at different times. Carbon reduction could bring higher energy costs for businesses and consumers throughout the economy.



The legislation, as amended during House debate, exempts the agriculture and forestry sectors from the emissions caps. This amendment directs the secretary of agriculture to establish an emissions offset program for the agriculture and forest industries that includes an incentives program to reduce or avoid GHG emissions on private agricultural and forestland.

Renewable electricity standard

(RES): The House bill would require 15 percent of electricity to be generated by renewable electricity sources by 2020. Qualified renewable sources of energy include wind, solar, geothermal, biomass, qualified hydropower, and marine/hydrokinetic energy.

The amended House bill would establish an RES for federal agencies and allow the federal government to enter into energy purchase contracts with renewable electricity suppliers for up to 20 years. The RES would require the federal government to increase its use of renewable energy to 6 percent in 2012 and to 20 percent in 2020. The amendment would make changes to accommodate states with a central purchasing model in their RES. It also would amend the National Interest Electric Transmission Corridors, and it grandfathers existing biodiesel plants to exempt them from life cycle analysis under the U.S. renewable fuel standard

program. The bill also redefines biomass as a renewable energy source.

Energy efficiency and conservation:

The House bill would instruct the U.S. Department of Energy and the U.S. Environmental Protection Agency to design a plan to increase overall national energy productivity by 2.5 per year from 2012 to 2030. The bill would also require residential buildings to reduce energy use by 30 percent and new buildings to reduce energy use by 50 percent from baseline standards set in 2006.

The House bill would provide funds for states for specific energy and environmental applications. It would also provide funds for residential energy efficiency audits, energy consumption reductions, energy retrofit costs, and the installation of renewable technologies not subsidized by tax credits. The bill would create a Community Building Code Administration Grant program to provide \$100 million over five years in matching grants for local building code enforcement, and it would provide incentives to lenders and financial institutions to provide lower-interest loans and other benefits to consumers to improve their energy efficiency. It would also direct the Department of Housing and Urban Development to issue rules to prohibit private restrictions or prohibitions to the installation of solar energy systems.



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The legislation would also amend the Retrofit for Energy and Environmental Performance (REEP) program to allow funds provided through the Robert T. Stafford Disaster Relief and Emergency Assistance Act to qualify as a contribution toward the matching requirements of the REEP program. The bill would provide 10 percent of funding under the REEP program for retrofits of public and assisted housing.

Alternative energy: The bill would permit states to use State Energy and Environment Development (SEED) funds for renewable energy generators. It would make natural gas fueled vehicles eligible for clean vehicle incentives, the vehicle integration program, and the manufacturing incentives for alternatively fueled vehicles. It would limit permit costs for the construction of solar energy systems, and would provide that noncompliance with permit cost requirements disqualifies the entity from Community Development Block Grants.

Transmission improvement: The bill would grant the Federal Energy Regulatory Commission (FERC) siting authority for high-priority transmission lines in the Western Interconnection. Proponents consider the construction and upgrading of high-voltage transmission lines in the Western Interconnection necessary for proposed wind farms and solar parks in the western United States. The northeastern states maintained siting authority in order to site high-priority transmission lines for new offshore wind energy projects.

Costs: The Congressional Budget Office (CBO) and the Joint Committee on Taxation (JCT) estimate that the House legislation, as amended, would increase federal revenue by \$873 billion and would increase direct spending by \$864 billion over the 2010–2019 period, according to a June 26 letter written to the chairman of the House Energy & Commerce Committee. The CBO and JCT estimate that the legislation would reduce future budget deficits by about \$4 billion over the 2010–2014 period and by about \$9 billion over the 2010–2019 period. CBO has not completed an estimate of the bill's estimated impact on discretionary spending.



The House bill is only a start, and there will likely be contentious debate over cap-and-trade legislation in the Senate in the coming months.

The CBO estimates that the cost of mandates to reduce greenhouse gas emissions through a cap-and-trade program would exceed the annual thresholds established in the Unfunded Mandates Reform Act (UMRA) of \$69 million for intergovernmental mandates and \$139 million for private-sector mandates for 2009, the letter added.

Conclusion

The legislative focus will now shift to the United States Senate. The Senate Energy & Natural Resources Committee approved an energy bill on June 17. The Senate Environment & Public Works Committee is drafting other provisions, with committee consideration currently

anticipated for early August. Assuming these bills continue to advance, a legislative goal would be to combine these provisions into a single bill as the House has done.

The pressure is on in Washington for revisions to national energy policies. Meeting some of the new proposed mandates may prove to be a considerable challenge for many companies in all sectors of the economy. Some companies are taking steps now to understand the prospects and potential impacts. KPMG will strive to keep companies informed as the debates continue.