

# Energy Committees Newsletter

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## **ENERGY AND CLIMATE CHANGE PRESIDENTIAL CAMPAIGN 2008**

**Robert H. Edwards, Jr.**  
**Mayer Brown LLP**

***Vice Chair, Carbon and Energy Trading  
and Finance Committee***

**Roger D. Feldman**  
**Andrews Kurth LLP**

***Chair, Carbon and Energy Trading  
and Finance Committee***

During this presidential election cycle energy and climate change have emerged as central issues. With the recent run-up in petroleum prices which has been felt not only at the gas pump but in increasing prices in all corners of the economy, including rising power prices in many parts of the country, and the recent up tick in major weather events, Americans have had a keen focus on energy and climate change.

As members of the ABA Section of Environment, Energy, and Resources, many of us are absorbed in selected aspects of the energy/climate change legal and policy issues on a daily basis. Nevertheless, it is somewhat challenging to fully understand the multitude of individual policy initiatives and the variety of approaches that can be pursued to achieve energy independence and begin to address climate change issues and to understand the interconnections among such policies. Furthermore, the popular press treatment of these issues tends to be fragmented at best, and rarely integrates the multiple policy pronouncements

that collectively would be expected to comprise a comprehensive energy and climate change policy. Frequently popular press coverage is reduced to bullet point “solutions” such as “more drilling,” “clean coal,” “more nuclear,” or “green power.”

To overcome the obvious problems this presents, we sat down with the chief energy policy advisors to Sen. Obama and Sen. McCain. We would like to thank Elgie Holstein and Jason Grumet of the Obama campaign and Doug Holtz-Eakin of the McCain campaign for agreeing to the interviews and for working with us to produce the attached. We, however, take full responsibility for the contents of this newsletter.

We divided our discussion into three broad categories: (1) Proposed Strategy to Reduce American Dependence on Imported Oil, (2) Proposed Response to Climate Change and its Coordination with the Reduction of American Dependence on Foreign Oil, and (3) How Innovative Technology Development Can be Stimulated to Address the Imported Oil and Climate Change Challenges. One of our goals was to establish as much comparability between the presentations for the readers’ benefit.

As you will see on the following pages:

- The approaches to dealing with U.S. dependence on foreign oil are somewhat different. Both candidates support expansion of domestic energy production of coal, oil, natural gas, and nuclear energy. The extent of reliance on drilling for more oil and the



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On behalf of these committees,  
Robert H. Edwards, Jr. and Roger D. Feldman  
were editors of this issue.

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approach to addressing environmental concerns is an area of difference.

- Greenhouse gas cap and trade programs are central to both candidates' proposals. However, the detailed mechanisms and approaches for implementation are different.
- Both candidates embrace the potential role which renewables and energy efficiency could play in addressing the challenges. However, the specific role of economic and regulatory incentives and the role of the federal government in supporting innovation differs between the two candidates.
- The relation of energy and national economics is front and center. There is a linkage by both candidates of energy developments to the overall national needs for employment. The candidates take somewhat different paths as to the specific government actions that should be taken to meet the challenges presented.

The results of our discussions with the advisors of each campaign are on the following pages.

## CAMPAIGN 2008: KEY ENERGY ISSUES OBAMA CAMPAIGN

### 1. What is your proposed strategy to reduce American dependence on imported oil?

Our dependence on imported oil is a threat to our national security, our economic strength, and our planet. To combat these threats, Sen. Obama has set an overarching goal of reducing United States oil consumption by at least 35 percent, or 10 million barrels per day, by 2030 (which is greater than the amount of oil we are expected to import from OPEC). There are several major elements to our plan, which includes an aggressive program to: double the fuel economy of all highway vehicles; encourage and develop renewable energy resources; promote the development of Plug-In Hybrid cars; continue to develop America's domestic fossil fuel and energy resources; adopt a measured and realistic approach to offshore drilling; aggressively develop clean coal



technologies, and implement an economy-wide cap and trade program to reduce greenhouse gas emissions by 80 percent by 2050.

Sen. Obama recognizes that the United States is the third largest producer of oil in the world. Two-thirds of all oil wells that have been drilled anywhere in the world have been drilled here in the United States. After decades of production, the United States has only 3 percent of the world's remaining proven oil reserves. So, while it is important for the U.S. to continue to maintain an active role in the global energy production system, it is clear that fundamentally we will never have any kind of meaningful control over our energy destiny until we dramatically reduce, and ultimately eliminate, our dependence on imported oil. The trajectory to do that is to focus very aggressively on energy efficiency while we transition to alternative fuels. We think that the assertion that more drilling is going to have an immediate impact on import dependency, or that it will in any meaningful way provide economic security or relief to consumers, is simply false.

Barack Obama is committed to beginning to power a significant amount of our transportation fleet with clean energy. His plan will provide significant incentives to domestic manufacturing facilities to transition to Plug-In Hybrid cars so that we can produce these vehicles in the United States and not just assemble cars using Asian car parts. In connection with this support of Plug-In Hybrids, he has endorsed a national 25 percent RPS (renewable portfolio standard) for electricity production. In addition, he is deeply committed to trying to develop and commercialize the next generation of clean coal and carbon sequestration technologies.

The development of advanced biofuels, including non-food-based ethanol, is another important part of Sen. Obama's plan for reducing our dependence on foreign oil and for moving our transportation fleet towards low-carbon emissions. Sen. Obama supports the continuation of the Renewable Fuel Standard and has introduced legislation calling for adoption of a national low-carbon fuel standard. The beauty of the low-carbon fuel standard is that it is not specific to any particular fuel technology, but what it does is gradually

obligate the refining sector to reduce the overall life-cycle carbon emissions of their products. The thing about ethanol is that there are many flavors of ethanol. There's only one flavor of petroleum which is that it is largely imported and largely high in carbon emissions. What we know about ethanol is that, on average, corn-based ethanol is slightly better than gasoline in terms of carbon emissions. Sen. Obama has been a long-time proponent of biofuels and believes that corn ethanol has really been kind of a pioneer fuel that has managed to crack into the monopoly that petroleum has had over our transportation system for the past 100 years. We believe that ethanol has had an important and disruptive role that can serve as a bridge to other biofuels. But again, it was a starting point that we believe we must move quickly past.

With respect to the development of domestic resources, Sen. Obama supports a reasonable and balanced approach to offshore drilling. He supports continued offshore drilling in the Gulf of Mexico and in other areas—both onshore and off—including in the 67 million acres of public lands already leased to oil companies and awaiting development. He also strongly supports the rapid expansion of drilling in the huge shale formations in Pennsylvania, North Dakota, Montana, Louisiana, and Texas, as well as construction of a natural gas pipeline to bring the vast reserves of Alaskan gas to consumers and businesses in the lower forty-eight states. However, there are certain areas, both on and off-shore, that have been set aside by presidents and Congresses of both parties for many years because of their special vulnerabilities—the Arctic National Wildlife Refuge is an example—and should therefore be protected from drilling. Sen. Obama would strike the proper balance between drilling and protecting our special preserves.

## **2. What is your proposed response to climate change and how does it relate to the reduction of American dependence on imported oil?**

To address our climate-change problem, the single most important thing that we must do is to ensure that the costs of greenhouse gas emissions are reflected in energy markets. Barack Obama believes that the most efficient way to do that is to adopt an economy-wide



cap and trade system, in which the private sector will make its own decisions about how best to reduce carbon. As long as the cost of venting a ton of carbon into the atmosphere is zero, companies will have inadequate incentive to invest in the equipment necessary to use energy more wisely and to cut their emissions. So establishing an economy-wide greenhouse gas emissions cap very early in an Obama administration is essential to achieving both our national climate objectives and our import reduction goals.

But climate change and oil dependence problems are not America's alone. The nations of the world are on a short clock economically and ecologically. Therefore, Sen. Obama wants to re-engage with the international community so that America can play a leadership role in designing the agreements necessary to cut greenhouse gas emissions. In meeting the terms of such international accords, we will be simultaneously reducing our dependence on imported oil. So we will need an equitable and effective global climate treaty. In Copenhagen in 2009, the international community will hopefully execute that new treaty, which should, for the first time, bring developing countries explicitly into the fold with real emissions-reduction requirements. In order for the next president to play a meaningful role in designing that global treaty, we believe that we must do everything we can to develop a real bi-partisan mandate and a broad domestic consensus early in the next administration.

Regarding climate change, Sen. Obama recognizes that we are experiencing global warming, not American warming. He believes that a real solution is going to require active participation by all major economies and many developing countries, including China, India, and Brazil. At the same time he supports the notion of differentiated commitments, which has been part of the climate change dialogues since the first President Bush. He believes that developed countries are going to have to lead, but that there are going to have to be meaningful mandatory commitments by developing countries.

We also have to have a compact between government and the private sector, which is why Sen. Obama is so eager to advance public-private partnerships to

accelerate technology innovation. We're also going to have to have an informed and engaged American public. While Sen. Obama does not believe that it is going to be necessary for citizens to make significant sacrifices in order to achieve our national climate goals, he does want to involve them in a constructive effort to change the way we use energy in America. In doing so, he hopes to raise awareness about the ways in which the choices we make every day have a collective impact on our national security, our economic security, and our ecological security. This will be a true priority in an Obama administration which will change the narrative so that the U.S. can rejoin this international discussion with credibility and enthusiasm.

Sen. Obama appreciates the important role that states have played in filling the vacuum on policies to support renewable energy and efforts aimed at addressing climate change. He notes that federal laws often follow state laws and he believes that it is critically important to protect and encourage states that wish to advance their own innovative programs to help address climate change. He also recognizes that in order to have an efficient program that generates the kind of bipartisan support necessary, we'll have to be able to have a national currency for carbon permits. And so the goal would be to have some obligations that would require state programs to be essentially consistent in the way that they would create permits with the federal program, so that a ton in Ohio and a ton in Alabama and a ton in New Jersey are the same currency.

### **3. How should clean tech and other existing technologies be improved, deployed, and incentivized to help reduce America's dependence on imported oil and further our efforts to ameliorate climate change?**

We have a great deal of potential in the United States to become a global leader in clean technologies and green energy. One of Sen. Obama's goals is to work with the private sector to create 5 million new jobs in the clean tech and energy sector. Through an appropriate combination of government support for basic research and development, investment in promising technologies, assistance for retooling our manufacturing centers, and job training for our



workforce, we can become leaders in this emerging area and at the same time reduce our dependence on foreign oil and address climate change.

So, for example returning to his support for a national renewable portfolio standard for the electricity sector, Sen. Obama has endorsed a 25 percent renewable portfolio standard for electricity production by 2025. With this aggressive national goal, we hope to obtain a much bigger role for power generation from renewable resources. Sen. Obama has a number of policy proposals that will help us achieve this ambitious goal. First, he proposes to invest \$150 billion over a ten-year period to, among other things, help promote fast development and commercialization of commercial-scale renewable energy. These investment dollars would also be directed to encourage energy efficiency, develop clean coal technologies, promote advanced biofuels, and support Plug-in Hybrid vehicles. So here is an example of the interconnections of the policies. To the extent that Plug-in Hybrid vehicles become an important part of the transportation fleet, it will be important that we are making progress on greening our production of electricity at the same time.

Another important aspect of Barack Obama's policy is that he believes that the next generation of fuel-efficient and low- or no-emission vehicles should be built in the United States. Accordingly, a portion of the \$150 billion will be directed towards modernizing our manufacturing facilities and investing in our American workforce, so that industry is positioned to produce the next generation of high-mileage vehicles. The same can be said with respect to clean technology products and services generally. Sen. Obama will support cooperative R&D between the government and the private sector, and he will provide support for re-tooling our factories so that American workers can produce the clean tech products for the 21st century.

One of the areas that is important for sustained development of renewable energy is to create a stable investment climate for renewable energy entrepreneurs. Let me offer a couple of examples. One, of course, is the renewable energy production tax credit, which seems to limp along year by year and gets used as a political football. Sen. Obama is in favor of a 5-year

extension of the production tax credits in order to provide a stable investment environment for wind, solar, and other forms of renewable energy. With respect to the regulatory environment, one of the key elements is to work with state regulatory agencies and utilities in order to do what we call, decoupling, this is to break the hard connection that has long existed between utility profit on the one hand and more power sales and new power plant construction on the other. So, what Sen. Obama plans to do is to put in place policies that move the states in the direction of rewarding utility energy efficiency programs, thereby reducing the need for new power plant construction, while at the same time rewarding consumers with lower utility bills.

Sen. Obama recognizes that nuclear power represents a full 20 percent of our electricity generation in this country. He believes that nuclear power will remain an important part of the national energy mix into the foreseeable future. He does not favor closing down existing nuclear power plants, and he supports license extensions for plants that meet applicable safety standards. At the same time, however, he believes we need to make further efforts and further progress with respect to several key areas of nuclear energy. First, the safety of long-term spent fuel storage must be assured. In addition, we need to be sure that in a post-9/11 world, the security of all aspects of the nuclear fuel cycle and of plants is assured, and that non-proliferation standards and policies are fully met.

As we think about the future, it is noteworthy that two people, T. Boone Pickens, a legendary oil man and a conservative, and Al Gore, an environmental leader and a champion in the climate change arena, are giving America a very similar message: that our energy problems are profound, and that we cannot drill our way out of them. Both of them are sending a message, if you will, an America can-do message, that we have the resources to innovate, we have the great research centers and universities, we have the entrepreneurial spirit and the investment capital necessary to bring about a transformative change in the way we use energy in our society. This is the message from both ends of the political spectrum.



Sen. Obama believes that we can move toward a much more extensive use of the cleaner and more sustainable fuels. While at the same time implementing enormous efficiency improvement so that the amount of energy we use per unit of GDP can move downward significantly over time. This last point is particularly important for economic reasons and that is that energy crises historically have fluctuated. Prices will continue to fluctuate, but the notion that we will see energy as cheap as it was in the past is clearly not one upon which we can or should be counting. It's unlikely that we'll see those cheap energy days again.

For the American consumer, the facts are cold and hard. Since 2006, the percentage of medium family income devoted to energy spending has doubled to nearly 8 percent. The run-up in energy prices has caused enormous pain and economic hardship for families and businesses alike. Sen. Obama believes that those impacts, together with the national security implications of our growing dependence on imported oil, require a sustained national commitment to energy efficiency, to developing renewable energy, and to deploying the technologies necessary to reduce greenhouse gas emissions from our fossil fuel use. In so doing, we can save money as a country, as individuals, and as businesses.

The Pickens plan looks to natural gas-propelled vehicles as a bridge to the next generation of vehicles, while Al Gore wants to move the entire fleet of vehicles to clean burning zero-emissions designs within ten years. Both of these men have presented alternative pathways to the same set of goals. We do not need to choose between them, and it's probably counterproductive to try to predict which way the markets will move, but what we certainly need to do is to adopt policies and provide incentives that empower the scientists, engineers, and entrepreneurs who will create the solutions to our energy problems.

In all of these plans there are many elements that must come together. For example, how fast can we construct new wind power facilities? How can we expand and strengthen our electric transmission systems to improve efficiency, reduce congestion and cost, and connect to remote renewable energy

installations? What will be the pace of development of the necessary power systems and controls that will be needed for plug-in hybrid electric vehicles and distributed generation? To answer these and other critical questions, Sen. Obama has proposed an aggressive Apollo-like commitment to an R&D program designed to focus on those break-through technologies essential to achieving a clean, affordable, and secure energy future.

Government policy can make or break the emergence of these kinds of transportation options. For example, if we don't extend the production tax credit and we kill off the investment capital necessary to do a rapid build-out of wind generation, it would not be possible to achieve the kind of high-efficiency hybrid transportation scenarios that Gore and Pickens have described. If you look at the kinds of technology that Al Gore talks about including in Plug-in Hybrid vehicles, there are a number of things that must come together to make this possible. We will need an aggressive R&D program supporting efforts to improve the battery functions of those vehicles and to bring down the cost of batteries and the price of the vehicles. Additional efforts will be needed to put in place other technical aspects of how you suddenly develop an extension of the electric grid to millions of vehicles. If you don't support these new technologies, including tax credits for early purchasers of these vehicles, you're probably going to kill off or at least tragically and unnecessarily delay the viability of these new technologies. So, that is a role of government—to both incentivize the development and deployment of those technologies but also to get out of the way so that the consumers will make choices within the marketplace.

Sen. Obama embraces the challenge from T. Boone Pickens and Al Gore, both leaders and their respective fields of endeavor. We should and can achieve these goals with an aggressive national commitment. That's precisely what Sen. Obama's energy and environmental platform stands for.



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[environ-renewable\\_energ\\_res@mail.abanet.org](mailto:environ-renewable_energ_res@mail.abanet.org)

**Restructuring of the Electric Industry Committee**  
[environ-energy\\_indus@mail.abanet.org](mailto:environ-energy_indus@mail.abanet.org)

## **CAMPAIGN 2008: KEY ENERGY ISSUES MCCAIN CAMPAIGN**

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### **1. What is your proposed strategy to reduce American dependence on imported oil?**

As an overview, here are a few of the centerpieces of what we call the Lexington Project which are designed to eliminate America's dangerous reliance upon imported oil. It's a national security threat, an economic threat, and an environmental threat. That's a position we don't want to waiver from. Sen. McCain has accordingly moved first to support a broad spectrum of alternatives to imported oil. Renewable fuels are indeed part of the picture, yet the senator is also interested in increasing domestic oil and natural gas production.

With respect to domestic oil production, Sen. McCain proposes to remove the Federal Moratorium on Outer Continental Shelf Drilling and further proposes that state and local governments should determine whether to drill in the waters off their coasts and share in lease royalties on a basis comparable to that affecting existing off-shore royalties. In recognition of the fact that we use most of our imported oil to drive, Sen. McCain intends to transform the transportation sector by promoting vehicles that require less petroleum. To that end, he has proposed a scalable "tailpipe credit." Drivers would receive a \$5,000 refundable tax credit for the purchase of a vehicle which completely eliminates carbon emissions and would receive partial credit toward that maximum for reductions below current emissions levels. This is meant to be an inducement at the margin to move people toward cleaner, more efficient vehicles and away from excessive oil consumption. Another part of the program is the "battery challenge": a \$300,000,000 reward for the group that delivers a commercial-ready battery package that would make electric vehicles practical for everyday driving. That's the technology I think everyone agrees is possible and worth pursuing aggressively. There's been a lot of commercially-funded research into battery technology, and a substantial government incentive will surely intensify those efforts to bring a game-changing device to market more quickly.



Taken together, these proposals form a cohesive set of policies designed to move America quickly away from reliance on imported oil and toward energy independence. It's a reflection of Sen. McCain's concern that we're financing those who don't share our values to the detriment of our national security. We want to take aggressive action to stop that.

Accordingly, once we enact a global warming "cap and trade" program, it will include the transportation sector and provide a built-in economic incentive to move away from the heavily oil-based approaches. Although the proposals I've mentioned are primarily intended to address short-run imperatives like rising gas prices and threats to our national security, we expect many of the benefits will accrue exponentially in the long run.

Biofuels will fit into this overall strategy as Sen. McCain believes that carmakers should build more flex-fuels vehicles which could run on regular gas, ethanol or methanol. If you have a car that's cleaner and it's running on either cellulose-based ethanol or sugar-based ethanol, that will produce a desirable result. What's most important is that it's affordable and not running on imported oil. The senator does not support, however, the continuation of the Renewable Fuel Standard for biofuels. If producers can turn a profit on biofuels when gasoline is at four dollars per gallon there's no need to subsidize particular feedstocks. The senator has been a long-standing opponent of ethanol subsidies and mandates, and he would also like to eliminate the tariff on imported sugar-based ethanol. He'd let the market determine which biofuels become the most commercially viable.

The senator also sees value in reforming the regulatory bottlenecks affecting domestic oil and gas production and the refining process. These are basically issues of general government efficiency. The senator believes the permitting and siting process takes too long; everyone recognizes that. There are efficiency issues in the Department of the Interior and siting issues affecting drilling in the Gulf of Mexico which need to be addressed.

In sum, our plan to reduce American dependence on imported oil is focused on the fuel sector and changing the types of cars that Americans drive. The senator

also supports related initiatives that are still in development stages but show great promise.

## **2. What is your proposed response to climate change and how does it relate to the reduction of American dependence on imported oil?**

With respect to global warming, Sen. McCain has long been a proponent of "cap and trade" measures. He introduced legislation to that effect in the last three Congresses with Sen. Lieberman. He supports a 60 percent reduction of 1990 emission levels by 2050. He also supports a fairly aggressive use of "banking" and "borrowing" offsets trading so emissions reductions may be accelerated or may be deferred to more economically efficient periods. In addition, Sen. McCain's system allows for unlimited initial offsets from verifiable domestic or international sources. This would complement his approach to emissions reductions in the transportation sector. It's economically-friendly because in the end, there's no reason why economic growth can't just as easily moderate climate change as accelerate it. In fact, investing in new technologies to expand the green technology sector may prove more productive on the global warming front than retrofitting older ones.

In Sen. McCain's view, the implementation of domestic "cap and trade" legislation should proceed in parallel with the UN process that we're going to see in 2009. For a strategy to control climate change to be successful, the entire world has to buy in. China, India, Mexico, South Africa, and other rapidly developing countries are particularly important in that regard. It's Sen. McCain's belief that a key motivator for such international cooperation will be some demonstrable domestic success, like getting a bill before the House of Representatives, which has never happened. That should occur simultaneously with the international negotiation planned for 2009.

Given the timetable, there's simply no way we're going to get domestic legislation through Congress prior to the December 2009 meeting. If we do, fine, but you know, we don't think that's a reasonable expectation. But we do have to set an example. China has been suggesting since 1992 that it would act upon visible



commitment by the United States. The United States therefore must have something to show to the world, and that could be that there is legislation under serious consideration.

One of the uncertainties raised by the debate surrounding the Warner/Lieberman bill is the posture the United States should assume if the standards of other countries are not as stringent as its own; whether or not the legislation would contemplate, for example, additional duties on exports from countries that don't match U.S. emissions standards. That has not been the senator's position and that viewpoint is reflected in bills he has introduced in prior Congresses. That is not what the senator's position is in this campaign. Indeed, we believe that it would be premature to focus on that issue at this time. Right now we need to rally domestic support around "cap and trade" legislation so that we may be a world leader on this issue when we participate in the UN process.

The senator believes that there should be federal leadership domestically as well as internationally. One set of standards for the entire U.S. would clearly be more cost-effective than fifty. For that reason, we think that we've got to implement proper standards domestically so we can get the international community to buy in. It's an issue of credibility; our national solidarity on this front affects our ability to inspire international solidarity.

Many issues have been raised during discussion of the Warner/Lieberman bill that concern the scope of the U.S. credit cap and whether credit allowances should be auctioned or allocated to key regulatory institutions. The McCain proposal covers 90 percent of domestic emissions; it includes the utility sector, the commercial sector, the transportation sector, and the fuel sector. Small businesses and homeowners would not be included in the initial coverage directly. The senator favors auctioning a small portion of the initial permits, and would dedicate some of the proceeds from that auction to general climate-related projects. Auction proceeds would also be used to help low-income individuals and families. The remainder would be allocated to industries and sectors that are less able to pass costs forward to consumers. We believe our proposed allocation mechanism is a way to remunerate

the transition cost of industries with long-lived capital stocks. Ultimately it may be desirable to auction the entire allowance but we need to recognize that unforeseen circumstances may arise before we begin that transition. It is most cost-effective to approach the allowance issue aggressively right away as we have proposed.

It is the senator's view that the overall climate change response mechanism should be regulated by a climate change corporation created for that purpose and given the oversight necessary to ensure operating efficiency. The particulars are going to have to be implemented by a subordinate collaboration of EPA, DOE, and FERC.

As to the question of whether the regulated credits will be defined as commodities or securities, I think the events of the past year suggest that if we're successful we'll have to roll that issue into an expansion of financial regulation, an issue that's certainly beyond the scope of this conversation.

### **3. How should clean tech and other existing technologies be improved, deployed, and incentivized to help reduce America's dependence on imported oil and further our efforts to ameliorate climate change?**

As we already indicated, we believe our efforts to advance clean tech are complementary to America's other economic objectives. Sen. McCain would seek to encourage growth in the clean tech economy. While there are a number of policies he would pursue, first and foremost is simply the maintenance of the general environment for innovation. This demands support for low taxes and limited regulation. Sen. McCain supports the continuation of government grants for basic research, education, high technology engineering, mathematics, and similar types of programs. The senator believes the Production Tax Credit should be extended indefinitely, with the caveat that if a technology becomes commercially viable without a subsidy, there's no reason to continue it for that technology.

A key sector that we've highlighted in our program for intensive follow-up is coal. The U.S. has coal; it is its most abundant energy resource. The U.S. shouldn't



walk away from coal; China certainly isn't. If we are going to be successful in moderating global warming, we have to be able to address coal sensibly. The first imperative is to be aggressive in research and development when it comes to clean coal technologies like carbon capture and coal sequestration. Sen. McCain will commit \$2 billion per year for 15 years to help expedite the discovery and deployment of these clean coal technologies. With regard to coal gasification and coal-to-liquids there are many potential models out there, including in the United States. We need to work quickly to develop our coal resources to move toward energy independence.

To that end, the senator believes we should build on prior efforts to achieve a breakthrough in clean coal technology. Future Gen appears to have been a political failure and perhaps a management failure, but the need to support initiatives like Future Gen is indispensable to the development of clean coal and carbon-capture technology. It will be an important element of the McCain administration program. Because we rely upon coal to the extent that we do today, we have to include it in our short-term energy plans if we are to meet our growing national energy needs and address climate change. With regard to coal-to-liquids technology, if we put a climate change cap in place, coal researchers find ways to produce it cleanly in compliance, those who want to sell it can find ways to use it efficiently, we have no objection to that. We just don't think it should be singled out for government support.

"Cap and trade" should not be skewed or treated as a mere facilitator for coal or other particular types of technologies which is something that Warner/Lieberman did, at least for carbon sequestration. The idea is to put the program in place, have it cover utilities, cover commercial transportation fields, and then on the other side, encourage aggressive investment in utilities' ability to use coal to meet those caps by producing transportation fuels (i.e., stored electricity) that are cleaner and more efficient than the ones we have now. You know, there's a clear government policy cushion for clean coal in this case, but it's a result of our "cap and trade" policy rather than a motivator.

Indeed, I don't think anyone who is sensible to environmental and energy issues believes that there will be a single solution. We are going to need a lot of everything. So the senator has also simultaneously proposed a program for aggressive expansion of the nuclear power sector in the U.S. It's zero-emission technology. It is being used much more widely around the world than it is in the United States. Sen. McCain believes we can store some of the waste in Yucca Mountain. We can reprocess nuclear waste as many countries already do. We should use the resulting nuclear power for electricity generation. That ties together with the senator's idea that we ought be plugging our cars into the electrical grid, thereby making them much cleaner to drive, and resolving our dependence on imported oil.

Finally, concerning renewable energy sources such as wind, solar, and biomass, the senator has proposed a single, equalized production tax credit. Many promising technologies are not yet commercially viable without some subsidies. At the moment we have variable production tax credits that aren't uniform with respect to different renewable resources and extend for different periods. They are subject to inconsistent renewal dates. The senator believes there should be a coherent set of subsidies for renewables. They should be put on the map of the electricity production sector and given a chance to try and compete with other sources. The electricity sector is really about running everything around the clock; coal, nukes, renewables, and natural gas for the foreseeable future. We'd like to see this hard-driving conducted in a manner that's clean and uniformly consistent with a "cap and trade" program.

Clearly this is an expensive process that we're talking about and somebody has to put up the capital to do it. Support for coal technology can arise from several sources. Two billion dollars a year are available from coal permitting. Federal funds for additional R&D will become available when allowances are auctioned. There is a productive capital tap for renewables available from the private sector as well as on-going support funding from the Hill. We support the commercialization of renewables with particular attention to the various production tax credits that need



to be consolidated. But at the heart of our program is the senator's desire to continue the basic research projects and things like that but make sure that these programs actually produce results.

The senator is not opposed T. Boone Pickens' plan, but he isn't in favor of singling out one particular solution such as special subsidies for windmills and solar in the electricity sector so that natural gas can be used exclusively for fueling cars. Mr. Pickens' plan properly recognizes the importance of wind in our mix of electricity sources, but that is just one of the many sources that we will need to meet our growing energy demands and keep our economy moving forward. In contrast, the Gore proposal was to move away from fossil fuels for automobiles within 10 years and transition to renewable fuels, which would presumably be used to fuel cars directly or indirectly in the form of stored electricity produced from renewable sources. While it reflects the right aspirations, his expectations for the feasibility of implementing his proposal in 10 years is probably much too optimistic. Maybe we will get there in 10 years, but Sen. McCain's primary objective is to focus on fuel being used by vehicles directly. His position is that what's proposed in the "cap and trade" arena will be what is required to reach attainable environmental goals in that area.

Everything within the senator's program is meant to move things along more quickly, particularly with respect to the transportation sector to get that sector cleaner faster in a way that has proven to be politically viable. There are both infrastructure and distribution issues—these are physical problems. You have to finance a lot of pipeline, and that can foment competitiveness policy issues where refining companies are unwilling to use existing facilities to distribute all kinds of fuels. And we're looking at all the angles pretty carefully. Our policies are calibrated to encourage private actors to invest in renewables and other technologies.

Similarly, with respect to the loan guarantee programs our general views are as follows: For the nuclear loan guarantees there's a particular group of facilities that should be given these guarantees to get started. We believe that once these units are put in place, all the

evidence suggests that much more nuclear power will flow from the fundamental incentives and we will not need to continue the loan guarantee program. Particularly when our "cap and trade" system is fully implemented, the nuclear and renewable loan guarantee programs will likely no longer be needed. More generally we think in energy-centric terms; government is too often driven primarily by concern for oversight jurisdiction to the detriment of scientific or objective concerns.

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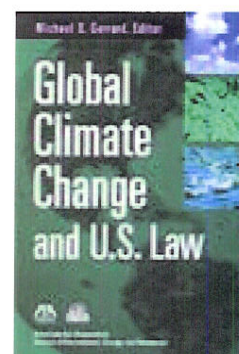
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