



WRI Summary of the Carbon Limits and Energy for America's Renewal Act

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This summary provides a concise overview of S. 2877, the Carbon Limits and Energy for America's Renewal Act (herein referred to as CLEARA), as introduced by Senators Cantwell and Collins on December 11, 2009.

CLEARA would establish a program to limit the sale of carbon contained in all fossil fuels sold in the United States. Revenue generated from the program is primarily distributed to eligible U.S. citizens through dividend payments with some revenue set aside for other purposes.

This summary follows the structure of the bill except where we believe it facilitates understanding by grouping related components together. For more information on specific components of CLEARA, please refer to the actual legislative language as referenced by section and page number in this document.¹

GLOBAL WARMING POLLUTION REDUCTION TARGETS AND TIMETABLES²

- **Goals and Caps.** CLEARA sets non-binding economy-wide greenhouse gas (GHG) emissions reduction goals (Sec. 3, pg. 7) and a mandatory annual cap on the quantity of fossil fuel carbon that may be sold into commerce in the United States (Sec. 4, pg. 8);
 - **Goals:** CLEARA requires the president to set non-binding economy-wide GHG emissions reduction goals and instructs the president to meet these goals through a combination of the fossil fuel carbon cap and expenditures from a fund created by CLEARA, the “Clean Energy Reinvestment Trust Fund” (or CERT, defined and explained below) which is subject to annual appropriations by Congress. The goals are:
 - 2020: 20 percent below 2005 (~7 percent below 1990)
 - 2025: 25 percent below 2005 (~12 percent below 1990)
 - 2030: 42 percent below 2005 (~33 percent below 1990)
 - 2050: 83 percent below 2005 (~80 percent below 1990)
 - **Caps:** CLEARA requires the secretary of the Treasury to set a mandatory limit on the sale of fossil fuel carbon on the following schedule indexed to 2012 emissions levels (as projected in 2011; reductions relative to 2005 and 1990 levels are contingent on the actual level of the fossil fuel carbon cap in 2012):
 - 2012: 0 percent below 2012
 - 2020: 5 percent below 2012
 - 2030: 29 percent below 2012
 - 2050: 82 percent below 2012
- **Adjustments to the fossil fuel carbon cap.** The president may increase or decrease the number of carbon shares³ available for auction if he/she submits to Congress a notification of the modification and Congress passes a joint resolution approving the modification within 30 days (Sec. 4(a)(2)(C), pg. 10). The president may submit a notification modification to the cap for the following reasons:
 - Changes in climate science
 - To avoid dangerous interference with the climate system
 - Any international obligations of the United States
 - To preserve the international competitiveness of the United States
 - To account for permanently sequestered carbon
 - To provide a sufficient price signal to spur private investment in clean energy research, development and deployment
 - If annual appropriations from Congress are insufficient to meet standards in Sec. 3

¹ Page numbers apply to the Carbon Limits and Energy for America's Renewal Act as introduced. Copies of the bill can be found here: <http://cantwell.senate.gov/issues/CLEAR%20Act%20-%20Leg%20Text.pdf>

² See WRI's analysis of emission reductions under CLEARA, available here: <http://www.wri.org/publication/usclimatetargets>

³ We use the terms “emissions allowance,” “allowance,” and “carbon share” interchangeably in this summary document (whereas the legislation refers to “carbon shares”).

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POINT OF REGULATION, EMISSIONS REPORTING AND COVERAGE

- **Covered gases:** Carbon contained in fossil fuels that ultimately will be combusted and emitted into the atmosphere as CO₂ (Sec. 2(8), pg. 3).
- **Mandatory reporting:** Emissions reporting is not referred to in this legislation
- **Point of regulation:** A completely upstream approach is used with all entities covered at the start of the program in 2012. All first-sellers of fossil fuel carbon into the U.S. economy are required to hold allowances for all fossil fuel carbon sold (Sec. 4(a)(1)(B), pg. 9). The limitation covers approximately 81 percent of total U.S. GHG emissions in 2005.

ALLOWANCE VALUE DISTRIBUTION

- **Distribution of Value:** 100 percent of all allowances are auctioned to regulated entities. Auction proceeds are divided as follows:
 - 75 percent of proceeds are deposited in the Carbon Refund Trust Fund (Sec. 4(f)(2), pg. 28)
 - 25 percent of proceeds are deposited in the Clean Energy Reinvestment Trust Fund (Sec. 6(b)(1)(A), pg. 33)
- **Auction procedure:** Only regulated entities may participate in auctions. Auctions are initially held monthly though the secretary of the Treasury may change the frequency under certain circumstances (Sec. 4(b), pg. 20).
- **Expenditures from the Funds:**
 - Amounts in the Carbon Refund Trust Fund are available for the purpose of paying energy security dividends (Sec. 4(f)(3), pg. 28) (See *Assistance During the Transition to a Low Carbon Economy* section below),
 - Amounts in the CERT Fund could be available, subject to budget authority and annual congressional appropriations, for a range of purposes (Sec. 6(c)(1), pg. 33-37). There is no guaranteed amount of spending for any particular purpose. Purposes eligible for funding include (See *Assistance During the Transition to a Low Carbon Economy and Clean Energy, Efficiency and Supplemental Greenhouse Gas Reductions* sections below):
 - Worker, community and business transition assistance,
 - Addressing competitiveness impacts on energy-intensive industries, and
 - Supporting clean energy, efficiency and supplemental GHG emissions reductions

CLEAN ENERGY, EFFICIENCY AND SUPPLEMENTAL GREENHOUSE GAS REDUCTIONS

- **CERT Fund:** CLEARA establishes a trust fund in the U.S. Treasury called the "Clean Energy Reinvestment Trust Fund." Subject to annual appropriations from Congress, the president is given general discretion to request from Congress the use of CERT Funds to support programs and initiatives that provide incentives, loans and grants to (Sec. 6, pgs. 33 – 37):
 - Invest in clean energy and fuels research, development and deployment activities
 - Fund efficiency projects, including weatherization for low-income and public buildings
 - Support residential fuel switching
 - Provide matching grants for energy efficiency consumer loan recipients
 - Fund offset-like domestic and international projects that verifiably reduce, avoid or sequester GHG emissions through forestry and other land use practices
 - Curtail emissions of non-fossil fuel GHGs, black carbon and other emissions that affect the climate
- **Efficiency Consumer Loan Program:** The secretary of the Treasury would establish a program for any qualifying individual to borrow against any future dividend (see *Assistance During the Transition to a Low Carbon Economy* section below) to invest in energy efficiency or other clean energy technologies that would reduce the individual's energy bills and reduce GHG emissions (Sec. 5, pg. 31).
- **Reimbursement for Sequestered Carbon:** In addition to the aggregate annual carbon shares limit, the secretary of Treasury is required to issue carbon shares for fossil fuel carbon that is:
 - Verifiably sequestered in a carbon capture and storage facility
 - Re-injected into an oil-and-gas reinjection project, or
 - Embedded in manufactured products (Sec. 4(c), pg. 25)
- **Voluntary Carbon Reductions:** The secretary of the Treasury is required to reduce the aggregate annual carbon shares limit by an amount equal to the total quantity of all verifiable carbon reductions attributable solely to voluntary emissions reductions efforts (Sec. 4(d), pg. 26).



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COST CONTAINMENT

- **Trading:** Regulated entities and certain other recipients of allowances may only conduct allowances transactions on a dedicated public exchange. No other entities may conduct such transactions (Sec. 4(b)(7)(A), pg. 23).
- **Banking and Borrowing:**
 - **Banking:** All allowances except safety-valve allowances may be used for compliance as much as ten years after the initial date of issuance (Sec. 4(b)(5), pg. 22).
 - **Borrowing:** Borrowing is not expressly permitted; however, compliance periods may last up to two years allowing entities flexibility to sell fossil fuel carbon without holding allowances, in effect a form of borrowing for a brief period of time (Sec. 4(a)(1)(B), pg. 9).
- **Price collar:** CLEARA sets minimum and maximum prices for allowances available at each auction (Sec. 4(a)(4), pg. 13):
 - **Price floor:** No allowance shall be sold at auction for less than \$7 (in 2012 dollars) in 2012. The price floor increases at a rate of 6.5 percent per year plus the rate of inflation.
 - **Price ceiling (referred to as the safety-valve price):** An unlimited amount of allowances shall be sold at auction if prices rise to the price ceiling, which is initially set at \$21 (in 2012 dollars) in 2012. Any allowances sold at the price ceiling are in addition to those issued under the fossil fuel carbon cap. The price ceiling increases at a rate of 5.5 percent per year plus the rate of inflation.
 - Use of safety-valve allowances: Any purchaser of safety-valve allowances must use them for compliance within 90 days of purchase.
 - Proceeds from the sale of safety-valve allowances are deposited in the CERT fund and are intended to be used for programs that curtail non-fossil fuel GHG emissions or increase sequestration within the United States, subject to annual appropriations (Sec. 4(b)(4)(C), pg. 21).
- **Offsets:** Only allowances released at auction or distributed for reimbursement may be used for compliance by regulated entities; therefore, offsets may not be used for compliance.

ASSISTANCE DURING THE TRANSITION TO A LOW CARBON ECONOMY

- **Energy Security Dividend:** Each qualified individual in the United States shall receive a per-capita Energy Security Dividend on a monthly basis issued under a program administered by the secretary of the Treasury (Sec. 5, pg. 29).
 - **Funding:** All dividend payments are funded through auction proceeds deposited in the Carbon Refund Trust Fund.
 - **Dividend amount:** Each dividend payment will be equal to the total amount of auction proceeds available in the Carbon Refund Trust Fund each month divided by the total number of qualified individuals.
 - **Qualified individuals:** all individuals who lawfully reside in the United States
 - **Taxation:** Energy Security dividends are not subject to income taxation
- **International Competitiveness:**
 - **Targeted Relief Funds for Exporters (Sec. 4(a)(6), pg 16):**
 - Beginning in 2013, the secretary of Treasury must distribute compensation from the CERT Fund, subject to annual appropriations, to exporting energy-intensive industries that are “unable to compete due to unfair market prices arising from disparate fossil carbon limits or fees among countries”
 - Relief funding would be provided to entities as compensation for additional costs, per unit of production output, arising from “disparate carbon limits among countries,” with priority to the most competitively disadvantaged sectors.
 - 6 months after enactment (and periodically thereafter), the secretary of the Treasury would propose data sources and methodologies to identify sectors and commodities that should receive funding under this provision.
 - **Border Carbon Adjustment (Sec. 4(a)(7), pg 18):**
 - Beginning in 2013, the secretary of Treasury must impose fees on importers for fossil fuel carbon emissions associated with the production of imported commodities.
 - Such fee would only apply if domestic producers of such goods would be “demonstrably disadvantaged economically” without the fees, the country of origin “does not impose comparable fees or limits” on fossil fuel carbon emissions, and if it is implemented in a manner consistent with trade agreements and treaties to which the United States is a party. All revenues would be deposited in the CERT fund.



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- 6 months after enactment (and periodically thereafter), the secretary of the Treasury would propose data sources and methodologies to identify sectors and commodities covered by this provision.
- **Worker, community and business transition assistance:** Subject to annual appropriations from Congress, the president may use CERT Funds to carry out programs and initiatives that provide incentives, loans and grants to provide targeted, region-specific assistance (Sec. 6, pgs. 33 – 37):
 - To those in the United States “experiencing the greatest economic dislocation due to efforts to reduce carbon emissions...”
 - For early retirement of carbon-intensive U.S. assets that are “stranded by new market dynamics”
 - To those in the United States that experience the most negative impacts from climate change
 - For workforce training for careers in energy efficiency, renewable energy and other emerging “clean technology industries”
 - To help low-income families pay utility bills
 - To support climate change or ocean acidification mitigation and adaptation programs and research
 - To support energy consumer protection advocacy programs

CARBON MARKET ACCESS AND OVERSIGHT

- **Market access and limits:** Only regulated entities may participate in auctions and in transactions conducted over dedicated allowance exchanges (Sec. 4(b)(2), pg. 21).
 - Limits on allowance purchases and holdings: Regulated entities are subject to limits on annual purchases of allowances and cumulative allowance holdings set by the secretary of the Treasury (Sec. 4(b)(6), pg. 22).
 - Limits on allowance transactions: Regulated entities may only conduct allowances transactions on a public exchange administered by the secretary of the Treasury (Sec. 4(b)(7)(A), pg. 23).
- **Derivative Markets:** Regulated entities are prohibited from buying, selling or creating allowance derivatives. Only non-regulated entities may engage in derivative transactions. Any derivative markets that arise will be subject to oversight and regulations set by the secretary of the Treasury in consultation with other agencies (Sec. 4(b)(8), pg. 24).

