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June 28, 2007

The Honorable Barbara Boxer
United States Senate
112 Hart Senate Office Building
Washington, DC 20510

Dear Senator Boxer:

In a testimony given today to the Senate Committee on Environment and Public Works, Mr. Jason Grumet stated that a World Resources Institute (WRI) chart comparing projected greenhouse-gas emission reductions under various cap-and-trade proposals was inaccurate. WRI would like to assure the Committee of the accuracy of this chart.

Between January and May of 2007, WRI analyzed cap-and-trade policies proposed by Members of the U.S. Congress based on data from the Energy Information Administration (EIA)¹ and from the legislative proposals themselves. As one element of this work, WRI charted the projected impacts of a cap-and-trade program proposed by Senators Bingaman and Specter – a proposal that we understand was based in part on 2004 recommendations from the National Commission on Energy Policy (NCEP).

In today's hearing, Mr. Grumet presented NCEP recommendations released in April, 2007.² These recommendations include a variety of supplemental policies and favorable technology assumptions. In this sense, his presentation differed from those of the WRI analysis, which focused solely on the cap-and-trade elements of the original NCEP recommendations.

A safety valve removes the environmental certainty that an emissions cap will be achieved, and instead provides certainty that a given price will not be exceeded. Whether the price is reached (the safety valve "triggered") is a matter of some dispute. NCEP's economic analysis of its own cap-and-trade and supplementary recommendations states that, "Absent these favorable technology assumptions and supplemental policies, the safety valve in the NCEP recommendations is likely to be triggered in the early years of program implementation."³ Thus, we believe our representation of the Bingaman-Specter proposal with price caps accurately depicts this early trigger of the safety valve and the resulting increases in greenhouse gas emissions absent the inclusion of the new technology assumptions and supplemental policies. We would further note that a similar analysis,

undertaken by the modeling team at MIT and released in a paper in April 2007⁴, shows essentially the same path.

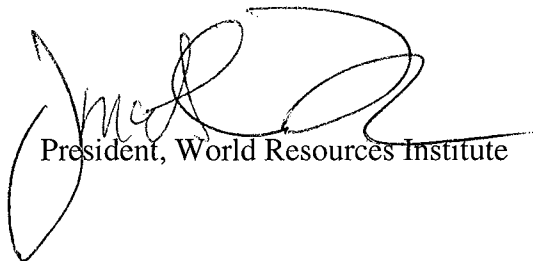
Even with supplemental policies, the NCEP proposal does not appear to yield as significant a level of reduction in emissions as do many other legislative proposals currently under consideration. A more thorough analysis would be required to assess how the full policy suite, including both the cap and trade component and supplemental policies, would reduce emissions. Such an analysis could also help ascertain whether, even with such supplemental policies, the price cap would be triggered.

WRI would like to submit this letter into the public record of the hearing held by the Senate Committee on Environment and Public Works on June 28, 2007.

We would welcome any questions you or your colleagues on the Environment and Public Works Committee may have on this analysis and chart. I have attached additional material here, and it can also be found at our website.⁵ We look forward to further discussing cap and trade program design and options for cost-control measures that could be undertaken without jeopardizing the program's environmental effectiveness or the development of robust carbon markets.

Thank you for your leadership on this critical issue.

Sincerely,



President, World Resources Institute

¹ John Larsen, World Resources Institute, 2007. "Comparison of Economy-wide Climate Change Proposals in 110th Congress: 1990-2050."

² National Commission on Energy Policy, 2007. "Energy Policy Recommendations to the President of the 110th Congress."

³ National Commission on Energy Policy, 2007. "Economic Analysis of Updated Commission Recommendations."

⁴ MIT Joint Program on the Science and Policy of Global Change, 2007. "Assessment of U.S. Cap-and-Trade Proposals", Sergey Paltsev, John M. Reilly, Henry D. Jacoby, Angelo C. Gurgel, Gilbert E. Metcalf, Andrei P. Sokolov and Jennifer F. Holak, Report No. 146.

⁵ www.wri.org/climate/topic_content.cfm?cid=4265