

Unfinished Business: *MCCAG Recommendations Requiring 2009 Legislative Action*

Dear Senator Prettner Solon and Representative Hilty:

We write individually as members of the Minnesota Climate Change Advisory Group (MCCAG). As you know, the final report of the MCCAG was released by the Pawlenty administration in May, 2008. The report summarizes the 54 recommended actions to reduce global warming pollution agreed to by the MCCAG. Despite delays in receiving the report, the Minnesota legislature took action or held hearings on several of the MCCAG's recommendations during the 2008 legislative session, as summarized in the attached chart. However, most of the recommended actions, and the global warming pollution they would prevent, have yet to be addressed. As the MCCAG report makes clear, the state of Minnesota will need the pollution savings from *all* of the recommended actions to achieve the goals laid out in the Next Generation Energy Act of 2007.

To ensure that those goals will be met, the 2009 legislature will need to move aggressively to adopt the MCCAG's recommendations. To assist in this effort, we have identified priority recommendations from each of the sectors as a suggested starting point for legislative action. We do so in an attempt to prompt study and debate on these recommendations by your committee during the interim leading to the strongest possible legislative proposals for action next year. While we consider all MCCAG recommendations critical to meeting Minnesota's reduction goals, the groundwork for legislative action on some recommendations has already been laid.

We have included recommendations from each of the MCCAG's Technical Working Groups¹ to achieve savings from across the state's economy. While there has been much debate during and after the MCCAG process about the accuracy of some of the cost and savings estimates included in the report, we believe that the estimates are, for the most part, directionally correct and sufficient for the purpose of establishing priorities. Finally, we do not intend with the following priority suggestions to limit action on any of the other MCCAG recommendations yet to be acted on. Again, it will take pollution savings from all of the recommendations, at a minimum, to achieve the state's climate protection goals.

Priority Recommendation #1: Developing Strategies to Promote Industrial Energy Efficiency and Emissions Reductions (RCI 4 and 6)

RCI 6 is a collection of related actions and strategies which would increase the state's assistance in encouraging industry to reduce energy use and emissions, through promotion, technical assistance, tax or other incentives, removing barriers, and state economic assistance. For example, it would help industry to identify and to harvest the

¹ The six Technical Working Groups were: Residential, Commercial and Industrial; Energy Supply; Transportation and Land Use; Agriculture, Forestry and Waste; Cross-Cutting Issues; and, Cap and Trade

low hanging fruit in four technology areas with quick payback: process related insulation, steam traps, lighting and compressed air.

Similarly, RCI 4 would focus those same strategies on combined heat and power (“CHP”) projects, which utilize natural gas or biomass for industrial on site generation of both electricity and heat.

Priority Recommendation #2: Generation Performance Standard (ES-1)

A Generation Performance Standard (GPS) requires utilities making a significant new long-term investment in base load generation to meet carbon dioxide emission rates comparable to new natural gas plants, or to coal plants with carbon capture and storage. The policy is designed to prevent investment in long-lived plants with high carbon dioxide emission profiles that would lock in those emissions for 40 or more years. The MCCAG supported this policy with the condition that it not be applied to projects that are now under regulatory review. We recommend that all projects, including those still under regulatory review (Big Stone II and Mesaba), as well as any new projects, be subject to the GPS.

Priority Recommendation #3: Climate-Friendly Transportation Pricing (TLU-2)

This policy moves toward transportation pricing where the costs that drivers pay more fully reflects the actual miles they drive and the pollution emitted by their vehicles. The actions under this policy would encourage drivers to choose transportation alternatives, purchase more efficient vehicles, and drive less or more efficiently. MCCAG recommended action in four areas to promote this policy:

- Encourage the purchase of low greenhouse gas-emitting vehicles.
- Provide incentives for auto insurance companies to bill drivers based on the actual mileage they drive.
- Implement other policies that convert fixed costs of driving (e.g., registration fees, fuel taxes) into variable costs based on vehicle miles traveled.
- Use new revenue streams for less polluting travel options (e.g., public transit, vanpooling, etc.)

Priority Recommendation #4: Low Carbon Fuel Standard (TLU-3)

A Low Carbon Fuel Standard (LCFS) is designed to reduce the average carbon level of fuels sold in Minnesota. Fuel providers (producers, refiners, importers and blenders) would be required to reduce the average carbon content of the fuels they sell in the state. Unlike a tailpipe standard (e.g., Clean Cars) that focuses only on vehicle performance, the LCFS considers the carbon content of fuels on a life-cycle basis, from wells to wheels. It promotes a diversity of fuels (e.g., electricity, biofuels, hydrogen, etc.) that can achieve a reduced level of carbon in the fuels we burn for transport.

Priority Recommendation #5: Clean Cars Standards (TLU-6)

The Clean Cars standards would reduce greenhouse gas emissions and other tailpipe pollution from new motor vehicles sold in Minnesota starting with model year 2011 and beyond. The MCCAG found that this transportation policy produced the greatest net savings to the state, as well as significant greenhouse gas reductions. Since on-road gas and diesel use account for 20% of Minnesota's overall emissions, requiring auto manufacturers to sell cleaner, more efficient cars and trucks in Minnesota is critical. The technology to meet these stricter air emissions standards without compromising availability or performance of vehicles already exists, and the 14 states that have already adopted Clean Cars standards represent almost 50% of new car sales in the U.S. MCCAG recommended adopting the Clean Cars standards by a majority vote, and we believe this policy should play a key role in reducing Minnesota's rising greenhouse gas emissions.

Priority Recommendation #6: Protection of Peatlands (AFW-2)

Peatlands are Minnesota's largest carbon sink, containing 37% of all carbon stored in the state, compared to 3% in the state's forests. Protecting these enormous carbon reservoirs from the impacts of warmer and drier conditions and increased fire risk is critical. The MCCAG recommended that new policies should:

- Identify areas where peatlands are in danger of releasing stored carbon as a result of drainage infrastructure, and implement hydrologic or vegetation management, including afforestation with appropriate tree species.
- Evaluate the impacts mining peat for horticultural uses, sod farming, and energy production, and develop standards to protect carbon stocks.
- Initiate research into fire potential on drying peatlands.

Priority Recommendation #7: Urban Forestry (AFW-5)

The MCCAG found that increased urban tree planting, coupled with activities to maintain and improve tree health and longevity, will yield large carbon savings at actual cost savings. In addition to enhancing the level of carbon stored in trees, strategic tree planting also reduces heating and cooling costs and associated emissions. Programs already in place, such as Minnesota ReLeaf, could be expanded to assist Minnesota communities with the up-front costs of nursery stock, planting and on-going tree maintenance.

Priority Recommendation #8: State and Local Government GHG Emissions (CC-3)

Environmental review (development of EAW's and EIS's) provides an excellent opportunity to consider greenhouse gas emissions and climate change impacts from a proposed project before it is approved. We would go beyond the MCCAG's recommendation to recommend a bill clarifying the existing law requires EAW's and EIS's to include the following:

- An accounting of the direct and indirect greenhouse gas emissions projected to result from the proposed project.
- An assessment of whether opportunities exist to avoid, minimize or mitigate direct and indirect greenhouse gas emissions.
- An analysis of the environmental effects caused by global warming pollution, with particular attention to any localized effects likely to impact the public and decision-makers in geographic proximity to the proposed project.
- To the extent available, an analysis of the economic effects of climate change, using the most recent information available, with particular attention to any economic impacts likely to affect the public and decision-makers in geographic proximity to the proposed project.
- Acknowledgement that any environmental modeling that does not account for projected climate changes and is used to evaluate environmental effects may be affected by future changes in climate and, to the extent available, use of environmental impact models that account for known or projected changes to the climate.

Priority Recommendation #9: Regional Cap and Trade (C&T-1)

A majority of MCCAG members supported having Minnesota join a regional cap and trade system. Under a cap and trade system, carbon emissions are capped and the right to emit carbon under the cap is governed by a market based trading system. Carbon reductions are achieved by lowering the cap over time. Minnesota is a signatory to the Midwest Greenhouse Gas Reduction Accord. The Accord commits Minnesota and six other Midwest jurisdictions to developing such a system. Work under the Accord has already begun with the goal of developing a model rule for state ratification by the end of 2008. We strongly recommend early action by the Minnesota legislature in 2009 to consider ratification of the proposed model rule. In addition, the legislature should establish a mandatory GHG reporting system, as a prerequisite to an effective carbon trading system, to facilitate the progress reports on emissions reductions required under SF 3337 (2008), and to identify new opportunities for reductions and sinks.

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