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A Clean Energy Standard: Getting Back into the Clean Energy Race

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To get the U.S. back into the global clean energy competition, Third Way released a proposal for a national Clean Energy Standard on January 11, 2011. Our plan has emerged as a leading policy option because it addresses many of the issues that derailed previous energy reform proposals without overreaching in scope or ambition. A Clean Energy Standard provides the **regional flexibility** our diverse energy system requires, the **market certainty business leaders' demand** and the **bipartisan support** that a divided government requires.

Enacting a federal Clean Energy Standard (CES) remains an ambitious goal. There are many policy details to work out, but it is critical that we make this happen. While we debate whether clean energy is a sound investment, our competitors are racing ahead to capture a global market that will grow by \$2.2 trillion over the next 10 years. China has gone from an also-ran to the global leader in wind power, thanks to a combination of investments and domestic clean energy policies. Germany now has half the world's solar energy capacity. Japan dominates the hybrid auto market. The European Union (EU) has a suite of policies to encourage clean energy adoption and has proposed an additional \$70 billion in investments in clean energy, which could create as many as 600,000 new jobs in the EU. ¹ As a result, the United States' share of the clean energy market has plummeted, falling from 69% in 1998 to just 38% in 2004. ² This has fueled a U.S. clean energy trade deficit, which has soared over the last decade, growing from \$300 million to \$6.4 billion. ³

What is a Clean Energy Standard?

Modeled on state energy standards, a national Clean Energy Standard would require utilities to generate a percentage of their electricity from clean (non- or low-emitting) energy sources. The required percentages would grow over time to allow for new generation to come online. Policy details can vary widely, as separate proposals from Senators Richard Lugar (R-IN), Lindsey Graham (R-SC), Third Way, and President Obama make clear. ⁴

Unlike a Renewable Energy Standard (RES), most Clean Energy Standard proposals would credit not only renewable sources, like wind, solar, hydro or geothermal, but would embrace an “all of the above strategy” to include non-emitting sources like nuclear energy and coal with carbon capture and storage (CCS). Natural gas, which emits far less than conventional coal generation, could receive a partial credit. Energy efficiency could be included either as part of a Clean Energy Standard or as a corresponding set of policies enacted simultaneously.

Why a Clean Energy Standard is an Answer

With trillions of dollars and tens of thousands of jobs at stake, the United States does not have the luxury of time to act. But we cannot simply replicate policies that are being used abroad. A one-size-fits-all approach might work in a small country like Germany or a command-and-control economy like China, but it would not work in the United States. Our country's energy needs are too diverse and our markets are regulated at the state level. A Clean Energy Standard would fit our current system by providing the flexibility states and local utilities need to meet demand and keep costs low while transitioning to clean fuel sources.

American companies also need certainty before they invest capital and resources in new technologies. Absent this clarity, utilities and other companies are postponing investments in clean technology while waiting for Congress to act and other countries race ahead of us to manufacture clean energy technologies and install generation capacity.⁵

This is a rational business decision. But there are serious economic and environmental ramifications because of this delay. Products that could be developed domestically—ranging from nuclear plant components, to next generation solar panels, to technologies like advanced batteries—are instead being developed overseas.⁶

A Clean Energy Standard's combination of allowing regional flexibility and addressing the business community's need for certainty, help solve one other great policy hurdle in Washington, D.C. In this era of divided government, a Clean Energy Standard has broad bipartisan support. President Obama backed an energy standard in his 2011 State of the Union address. The idea has garnered support among moderate Democrats,⁷ And a number of Republicans, including Governor Haley Barbour (R-MS), and several Republican members of Congress.⁸

Providing Regional Flexibility:

Preserving States' Ability to Address Their Unique Energy Needs

Thirty-six states (plus the District of Columbia) already employ energy standards. They are a proven solution. A national Clean Energy Standard would encourage and empower states to scale up these policies while preserving the flexibility for them to build on what is already working. We have already seen progress in every region and across ideological divides—energy standards have earned bipartisan support in swing states like Missouri, Montana, and Virginia and even traditionally conservative ones like North and South Dakota, Texas, and Utah.⁹ Twelve of the 36 states that have some form of an energy standard passed the policy with either a Republican Governor or a Republican-controlled legislature.¹⁰

State energy standards have helped foster market certainty and increased demand for clean energy technologies, boosting local economies and creating jobs. After years of anemic growth in the wind power sector, the Renewable Portfolio Standard (RPS) in Colorado in 2004 was a shot in the arm for the industry, as installed wind capacity grew by a factor of five from 2004–2007.¹¹ In Texas, the story is similar: the wind sector experienced moderate growth from 2000–2005, but the new law kicked it into high gear, quintupling installed capacity in the four years following the passage of the RPS in 2005.¹²

Energy standards have worked in these 36 states because they were crafted with an eye toward the realities on the ground. Many state requirements now far exceed the federal targets currently under consideration. Nevada has a 20% target by 2015, Delaware a 20% target by 2019 Colorado a 30% target by 2020. Colorado voters took their first bold action in 2004, making the state the first to pass an RPS by ballot initiative. The RPS has been so popular that it has twice been updated with stronger targets, passing the General Assembly by large margins.¹³ Nevada also ratcheted-up its RPS target in 2009 with only one vote on opposition in both houses. The bill was signed by Nevada’s Republican Governor.¹⁴ Under a national Clean Energy Standard, these laws would not change. Each state will still decide for itself which energy source works best with its resources and how it wants to meet the clean energy target.

Providing the Market Certainty Businesses Demand:

Absence of National Standard Prevents Clean Energy Investment

A national Clean Energy Standard would provide the certainty that business leaders have long demanded for America’s energy sector but, to date, has been lacking. As David Crane, President and CEO of NRG Energy, has noted: “A clean energy portfolio standard, properly done, is a national energy policy for the United States.”¹⁵ Once a clear target for clean energy is established, businesses can to get to work to create and roll out the technologies that are best suited to meet this target.

It is the absence of any national energy policy in the U.S. that has left us in the situation we face today: a market environment that discourages investments in clean energy. As a result, clean energy companies are opening and growing overseas and both innovations and the capital needed to commercialize them are following. Don Furman, Senior Vice President of External Affairs for Iberdrola Renewables, explains that “the lack of federal policy is still the biggest problem that we have.” The absence of federal policy (and the low price of natural gas) has slowed Iberdrola’s growth as the second largest wind generator in the United

States.¹⁶ Thanks to national energy policies abroad, wind companies in China and Europe have not faced similar problems.

The investment is not due to a lack of interest. Many business executives want to invest in cleaner, more efficient generation technologies, but they cannot do so without a coherent national policy. Jeff Immelt, Chairman and CEO of GE, argues that “No business will invest when there is no certainty about what a market will look like...If we’re serious about transforming our energy markets, we must send the right signals and create demand for the technologies that solve these problems.”¹⁷

Geoffrey Roberts, President and CEO of Entergy Wholesale Operations, sums up the business case for greater predictability, “Significant uncertainties that are unclear or unmanageable lead us to make decisions not to invest in projects affected by such uncertainties...The rules do not have to be exactly what we want, so long as we can operate within their framework.”¹⁸ Duke Energy, on track to become the largest utility in the country (presuming it completes its merger with Progress Energy), has not taken a position on a Clean Energy Standard. But David Mohler, Duke Energy’s Senior Vice President and Chief Technology Officer, echoes Roberts’ position, stating, “We need some kind of sustainable framework policy that people can plan into and build.”¹⁹

Winning Bipartisan and Multi-Regional Support: Backers in Senate, House, and States

Bipartisan, multi-regional support for policy proposals is not just an ideal, it is mandatory in today’s Congress.

Recent history shows that there is plenty of appetite among Republicans and Democrats, across all regions of the country, for an energy approach that includes all clean sources, including new technologies like CCS and natural gas, as well as nuclear energy.

GOP support for a Clean Energy Standard starts with Mississippi Governor (and prospective presidential candidate) Haley Barbour. In early March 2011, he said a national energy policy “needs to be a clean energy standard...why wouldn’t hydro and nuclear be at the front for clean energy?”²⁰

Any policy that moves in the Senate this year could build off of efforts started at the end of the 2010 congressional session. Republican Senators Olympia Snowe (ME), Richard Lugar (IN), and Susan Collins (ME) all introduced serious energy reform proposals that received some bipartisan support. Senator Lugar’s “Practical Energy and Climate Plan Act of 2010,” contained a version of a clean energy standard. Cosponsored by Senators Lindsey Graham

(SC) and Lisa Murkowski (AK), it required utilities to obtain 15% of their electricity from clean energy sources by 2020, 20% by 2025, and 25% by 2030.²¹

In this Congress, Republicans have expressed interest in discussing a clean energy standard. Energy and Natural Resources Committee ranking member Murkowski described herself as “kind of excited to be looking to how we can move towards a clean energy standard.”²² At the beginning of this year, Sen. Graham stated that one of his goals for energy this year was to “come up with a clean energy standard that will create jobs and clean up the air.”²³ As recently as March 8 he told reporters: “To me a clean energy standard, regionally applied, is a way to go forward.”²⁴

Other Republican Senators have indicated an openness to clean energy reform if the opportunity arises. Sen. Collins summed up the goal of a Clean Energy Standard as “a good one,” and has voted for RES measures in the past.²⁵ Sen. Richard Burr (NC), a longtime proponent of reviving nuclear energy in the United States, said his goal was to get “an energy policy—comprehensive—out of the committee, through the Congress, but one that looks at energy policy not as a five-year timeline, but as a 30-year timeline.”²⁶

Certainly Republican Senators’ supportive public statements alone will not come close to moving a Clean Energy Standard over the finish line. But in a Senate already notorious for its partisan divide, this a positive sign that clean energy advocates should not ignore.

There are even glimmers of hope, albeit more distant, in the House. In 2007, 26 House Republicans voted for a Renewable Energy Standard. This included now-Energy and Commerce Chairman Fred Upton (MI), who two years later said he “would in fact support creating a national electricity standard,” provided that it includes “any form of zero-emission power.”²⁷ More recently, Rep. Cathy McMorris Rodgers (WA) said of a Clean Energy Standard, “You’re going to find broad agreement in the goals, you know, we wanna move in that direction.”²⁸

Even some members of the conservative 2011 freshman class are open to the idea. Rep. Jeff Duncan (SC), a strong proponent of expanding nuclear energy, told reporters in January 2011, “I would be willing to look at anything that expands nuclear energy in this country.”²⁹

Conclusion

To be sure, a national Clean Energy Standard has a long way to go. But there is a clear economic incentive for a Clean Energy Standard if the U.S. is to seriously compete in the global clean energy market. States have already shown that energy standards work. A Clean Energy Standard will expand these successes nationally while preserving regional

flexibility. Business leaders are ready to invest in clean energy but need certainty to ensure these investments make financial sense. A Clean Energy Standard provides that certainty. Finally, only policies with broad bipartisan, cross-regional support can pass in a divided Congress. A Clean Energy Standard has already built a track record of support across party and regional divides. China and the EU are moving far ahead us in clean energy race. A Clean Energy Standard is a good place for the U.S. to re-engage in this competition.

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