June 21, 2017

TO: The Honorable Rex Tillerson, Secretary, Department of State
The Honorable Nikki Haley, U.S. Ambassador to the United Nations
The Honorable Steven Mnuchin, Secretary, Department of Treasury
The Honorable Rick Perry, Secretary, Department of Energy
George David Banks, Special Assistant to the President, International Energy and Environment

FROM: Charles Hernick, Director of Policy and Advocacy, CRES Forum

RE: Post-Paris Agreement: The Next Steps Matter

Leaders of nations, industry, and international organizations around the world are watching to see what America will do following President Trump's announcement that the U.S. will withdraw from the Paris Agreement. While the President expressed the Administration's willingness to negotiate re-entry into the Agreement, his underlying message was clear: America will pursue its own economic and energy development path independent of international goals.

Prior to the decision, Citizens for Responsible Energy Solutions (CRES) Forum publicly called for the Administration to "stay in and renegotiate" the Agreement. We saw eye to eye with a mix of innovative private sector leaders, your fellow Cabinet members and Republicans on Capitol Hill who recognized the Agreement's benefits would have on mitigating our nation's carbon footprint and supporting our economy. Now that the United States is on a course to exit the Paris Agreement, more than ever, ***the next steps matter***.

CRES Forum was founded as a non-partisan, non-profit organization committed to educating the public and influencing the national conversation about commonsense clean energy solutions. This memo has been drafted to inform next steps that can be taken by senior members of the Administration to lead at the international level and assure that state-level actions are market efficient and promote consumer choice.

The U.S. should remain engaged with UNFCCC and negotiate re-entry to Paris

The United Nations Framework Convention on Climate Change (UNFCCC) has near global membership and is the parent treaty of the 1997 Kyoto Protocol and the 2015 Paris Agreement. The U.S. is still party to the treaty and has a seat at the table for future negotiations. The following recommendations will make re-entry into the Paris Agreement more effective and ultimately more palatable to Americans:

- Re-envision U.N.-led financial institutions
- Prioritize multilateral banks over U.N. financial institutions
- Allow countries to count bilateral spending that has integrated climate change as Climate Finance
- Add a provision for third party verification of greenhouse gas reporting disputes

Engaging at UNFCCC framework meetings on these and other issues provides an opportunity for the U.S. to lead global discussions related to economic growth, energy development, security, and environment, and promote U.S. national interests.

The Administration should embrace a true “all-of-the-above” market-based approach to energy that does not short-change clean energy

Irrespective of international agreements, U.S. carbon dioxide emissions have fallen since 2005 due to a transition to clean energy driven a mix of market forces and federal, state, and local policies. The result has been a 12 percent decrease in emissions over the past decade. Natural gas, wind, and solar energy are largely to thank. Therefore, as the Administration designs our nation’s energy policy, leaders must remember that with the continued advancement and adoption of clean energy technologies and the implementation of market-friendly, all-of-the-above energy policies, the U.S. can achieve aggressive emissions reductions, increase economic growth, and gain energy independence.

To do this, clean energy research and development needs to be prioritized. Full funding for ARPA-E and other Department of Energy innovation programs will help keep America’s competitive advantage, assure our leadership position in the growing global market, crowd-in investment in the advanced energy sector, and fuel small business start-ups that are a reliable source of economic growth.

The Administration would also be well served to look at how we can meet our nation’s energy, water, and transportation infrastructure needs while simultaneously investing in smarter energy grids, add micro- and macro-hydro power to our water management and drinking water distribution systems, and implementing the next generation of efficient transportation systems. If done correctly, these infrastructure investments will reshape the energy landscape, reduce energy inefficiencies and generate energy in places that have been overlooked in the past.

Taxes and tariffs need to be fair to all clean energy types sources. Businesses are more likely to invest when there is certainty in the cost of doing business over time. Tax certainty is particularly important for large-scale energy generation, distribution, and storage investments. Assuring free markets is important for American exporters, but also for industries like the solar industry, which leads the economy in domestic job growth and has benefited from a globally integrated supply chain.

Government’s best role is stimulating – not over regulating – the private sector. While there is a role for government in the regulation of established business and markets, the Administration is rightly focused on assuring that regulations don’t close the door to entrepreneurs and small businesses that are foundational to our economy. A true “all-of-the-above” market-based approach to energy will embrace clean energy because it is no longer an emerging market—clean energy characterizes the energy market in terms of innovation and economic opportunity.

States should continue to lower carbon emissions and transition to clean energy in partnership with one another through state-based programs

Since the announcement to withdraw from the Paris Agreement, 12 states plus Puerto Rico, and countless municipalities have formed the United States Climate Alliance with the commitment to fulfill their own emissions reduction targets. State leadership on this issue is not new.

Years before the Trump Administration's decision on Paris, nine northeastern states and California already implemented mandatory market-based programs to reduce greenhouse gas emissions. Dozens of states and municipalities established energy portfolio standards and renewable energy credit (REC) markets to achieve climate change goals. Some of these programs have been around for decades—they are all working to lower greenhouse gas emissions and facilitate clean energy.

In the short-run, the trend is moving towards a new era of local and state-level climate policy as policymakers have wide latitude to pursue local energy and job creation opportunities centered on carbon capture and sequestration, advanced nuclear, increased natural gas, energy efficiency, and clean energy development. However, in the longer term, coherent federal legislation and policies promoting clean energy will help states reap economic, national security, and environmental benefits.

The federal government should build upon state policy and focus on market efficiency and consumer choice

An important challenge for any future federal programs will be integration with existing state efforts that address carbon emissions and regulate energy producers. Federal policymakers can begin building upon these efforts now. Ultimately, we need to consider all options for affordable, reliable energy, and continue allowing the market to put forward the best solutions to energy problems. The following two options, which rely on voluntary market forces as opposed to establishing a cap on greenhouse gas emissions, can be taken together or separately to strengthen consumer and market choice.

Market Efficiency Option: Create a framework for carbon and renewable energy credit markets to work together and improve trading efficiency, without a federal cap

Nine northeastern states are members of the mandatory market-based Regional Greenhouse Gas Initiative. California has established a similar program to reduce greenhouse gas emissions. A parallel set of renewable energy credit (REC) markets have evolved across dozens of states and municipalities to achieve climate change goals. While effective to-date, these local and regional markets are small-scale (compared to a national market) and utilize different trading units. This creates a barrier to entry. The federal government could play a role in helping these markets work together instead of making another attempt at a top-down cap. Building a voluntary nationwide framework with common trading units would eliminate inefficiencies in state, local, and regional energy credit and emissions markets through standardization.

Many companies voluntarily offset emissions or participate in carbon markets, and more and more shareholders demand that climate risk be factored into corporate decision-making. By creating market standards, barriers for small businesses to engage these markets will be reduced and the door to additional markets (i.e., emissions trading systems) in Europe and China will be easier to open. This option protects the rights of states and does not establish mandates for corporations, instead allowing project developers to achieve economies of scale and help communities meet their own climate change goals.

Consumer Choice Option: Reform energy markets so that they are competitive and give consumers choices

Customers have very few options when it comes to buying electricity. In many states or regions, a customer may only buy electricity from one provider. This is reminiscent of monopolies in other utilities such as telephone and cable television. Breaking up state-level energy monopolies will provide customers with more choices. Some monopolies are addressing consumer demand and selling packages of renewable energy, often at a premium price. However, electricity cannot be purchased from another vendor—even if it is cheaper. Increasing the competitiveness of electricity markets would allow families and businesses to buy from their power provider of choice. They could also opt-in for clean energy based on price, market availability, and environmental standards among other factors. By increasing competition, prices would drop for consumers and opportunities would rise for clean energy entrepreneurs. Clean energy markets are ripe for more innovation and cost reduction.