

GLOBAL WARMING TASK FORCE CO-CHAIR COMPREHENSIVE STRAWMAN PROPOSAL

This Proposal is not a draft Final Report. Instead, it outlines a comprehensive approach to resolving issues before the Governor's Global Warming Task Force as to which differences exist and related matters for the Final Report. Many other policies that will be recommended by the Task Force in its Final Report are not controversial and demonstrate the high degree of consensus achieved to date, as does the Task Force's Interim Report issued to the Governor on a unanimous basis in February¹.

This Proposal is designed to enable the Task Force to make recommendations that (i) recognize the seriousness of the challenges we face and (ii) achieve the diverse support necessary for success at the Task Force level and, importantly, for prompt implementation, recognizing that unanimity may not be possible. The package is a compromise. There will be pieces that each member may prefer be addressed differently. We believe it is in everyone's interest to forge as broad an agreement as possible at this stage in order to move forward. In reviewing this Proposal, we ask that Task Force members (i) recognize the need for the Task Force to meet its obligations under the terms of Order 191 and (ii) offer constructive solutions, taking account of the views of others, designed to enable us to achieve substantial consensus.

- I. **Guiding Principles.** The principles that have guided the formulation of this Proposal are:

¹ The Proposal does not modify the Interim Report recommendations. Those recommendations are in the process of being implemented by the Public Service Commission and other agencies and concerns related to their implementation should be raised in those forums.

- a. Our charge requires the Task Force to recommend policies that will enable Wisconsin to do its part in reducing GHG emissions to meet goals that we identify within the range set forth in Order 191. The issue is how to do so in ways that best mitigate costs and protect and enhance Wisconsin's economy.
- b. Our modeling shows that achieving substantial emissions reductions will be a difficult task. The consensus policies developed by the Task Force will not enable the state to meet either reasonably aggressive short or long term emission reduction goals without the additional policies proposed below, including a broad Cap and Trade Program for large point sources. We recognize that some of the policies we are proposing raise significant concerns related to economic and/or other environmental impacts. In light of our mission, the Co-Chairs have given the heaviest weight to the need to achieve significant GHG emissions reductions, while seeking to mitigate adverse impacts. We also have recognized the importance of obtaining a meaningful share of required reductions from all sectors.
- c. Our modeling effort has been difficult, particularly with respect to a Cap and Trade policy. The Task Force needs to caution readers of the Final Report on the significant limitations of this modeling exercise, and in particular, on the fact that any results that are included in the Report are increasingly less reliable the further out in time we go. We also need to emphasize that any such modeling results are based on a number of assumptions that could prove incorrect and are indicative

only. Our recommendations must reflect our best judgment based on experience, as well as the modeling done for the Task Force and a variety of other projections of the costs and benefits of GHG reduction legislation.

- d. Energy conservation and efficiency (C&E), including building codes and appliance efficiency standards, is the least-cost, most effective early action strategy for the energy sector. Similarly, development and deployment of a diverse portfolio of renewable generation resources, including distributed renewable generation, is the most environmentally benign supply-side option. However, we cannot predict with certainty the ultimate extent of success of either of these measures, and must recognize that other factors, such as widespread deployment of plug-in hybrid vehicles and electric vehicles, may drive a need for a significant amount of new low-carbon electric generation, particularly as older, less efficient plants are retired. For these reasons, while aggressive C&E and renewables policies must be our top priorities, the state also must provide utilities with the low-carbon, supply-side options necessary to meet their legal obligation to maintain an adequate and reliable electric system necessary for health and safety, as well as our economy, whatever the demand for electricity turns out to be.

- e. Over the long term, research and commercial development of low-carbon technologies will be essential. Trying to pick a future technology winner is difficult and risky. Therefore, the state needs to support R&D for a variety of

alternatives and provide optionality and flexibility for compliance with what are likely to be challenging emissions reduction requirements.

- f.** Early reductions are important for a number of reasons. They are crucial to successful mitigation of global warming and should lower the cost and burden of emissions reductions over the long term, as well as reduce energy costs for consumers and businesses and provide other environmental benefits.
- g.** Encouraging voluntary action will not only help achieve early action, but also will lessen the need for, or scope of, mandatory requirements that may prove difficult to enact. However, we need to acknowledge that voluntary policies may not be effective in achieving GHG emission reduction goals.
- h.** Our policies should recognize the special challenges Wisconsin faces due to geography and geology. We should also build on Wisconsin's strengths and tailor our policies to provide new jobs and business opportunities in the state and enhance Wisconsin's terrestrial sequestration capacity, with its other attendant environmental benefits.
- i.** Given current cost pressures on consumers, utilities and industry (fuel prices, commodity costs, construction costs, other environmental compliance costs), and the economic downturn the country is experiencing, to protect consumers and our economy, and muster the political support necessary for prompt adoption and

implementation of our recommendations, we must include effective cost mitigation measures in the near and intermediate term, particularly for low- and middle-income consumers and for energy intensive industries that operate in highly competitive environments and provide essential jobs and other benefits in their communities.

- j.** There is a great deal of interest among corporate leaders, local governments and individuals in addressing the challenges and opportunities presented by global warming. However, there are also very significant gaps in the public's understanding of climate change issues and strategies, and in recognition of the need to make substantial behavioral changes. To succeed, we must build on the growing interest and leadership that exists to foster behavioral change and enable individuals, governmental bodies and businesses to (i) understand the implications of the choices they make and how they can make a difference and (ii) provide them with the tools and opportunities to do so as easily as possible.
- k.** The recommendations in the Task Force's Interim Report provide the foundation on which this Proposal rests and recognizes the crucial importance of aggressive conservation and efficiency measures to early action, cost mitigation and our long-term success.
- l.** The Task Force Final Report (which will include our Interim Report recommendations) will be a first step only. It will not solve the problem; the

issues we have discussed will be revisited and new policies proposed on an almost continuous basis. Our objective should be to propose policies that can achieve the support necessary for prompt action and lead us down the road to achieving significant GHG emissions, while helping to safeguard Wisconsin's jobs and economy. To maximize the chances of success, this means we need to propose sector policies that are well integrated and support each other, rather than a list of disparate, individual policies.

II. Utility Policies Related to Proposals on Which Work Group Agreement Has Not Been Reached.

- a. Early Action.** These recommendations are offered in place of the supply-side planning, environmental dispatch and interim offset templates discussed by the Task Force.
 - i. As a follow-up to the current Strategic Energy Assessment (SEA), by October 15, 2008, the utilities should prepare, document and file comprehensive GHG emissions inventories for their systems, using recognized standards on a consistent basis (such as the internationally recognized GHG Protocol), as determined by the PSC. These filings should include reasonable estimates of emissions associated with imported power. They should present this information in detail in a format accessible to others for expert review and analysis and also in a summary format easily understood by the public. In conjunction with these filings, each utility should (i) identify the actions currently being taken, or are

planned to be taken during the next three years (including, but not limited to, conservation and efficiency measures in its service area and renewable resource deployment), that will reduce its GHG emissions, showing estimated reductions, costs and other relevant information and (ii) identify other actions that could be taken by it during this period to further reduce its GHG emissions, such as dispatch modifications and early unit retirements, not included in its current actions or plans, and identify the potential emissions reductions available, the associated costs and any other relevant information. Upon review of all this information, each utility should be asked by the PSC to set voluntary, near-term (prior to implementation of a Cap and Trade Program) GHG emission reduction goals for its systems, including in its internal operations, just as many other major businesses are doing, and to report regularly on progress. Future rate filings should identify any reduction measures included in the cost-of-service. One alternative a utility may wish to pursue may be to join the Chicago Climate Exchange and make voluntary commitments through that vehicle, provided that the Wisconsin filing and reporting requirements discussed above are met. In addition, utilities should be encouraged to join the Climate Registry.

- ii. See the proposed renewables portfolio changes below in Sections b.i., b.ii, and b.v. These changes also are designed to further early action.

b. Renewable Portfolio Standard Changes to the Work Group Proposal.

- i. The current 2015 renewable portfolio standard should be amended to move the 10% requirement forward from 2015 to 2013 in order to accelerate early reductions of emissions through renewable energy substitution. The post-2013 standards will be 20% by 2020 and 25% by 2025.

- ii. To meet the revised standards in this Proposal, renewable energy credits should not expire after four years, but have an unlimited carry-forward life in order to incent early action on a cost-effective basis. For this purpose, credits should be available for purchase for the thermal portion of cogeneration projects fired with biomass, as well as biogas produced in Wisconsin that is put in the gas pipeline system, solar water heating and other verifiable renewable applications that displace fossil fuel use by utilities.

- iii. To meet the post-2013 standard a minimum amount of each utility's renewable energy should be required to come from Wisconsin-based renewable energy resources, including any Great Lakes wind and renewable energy credits from Wisconsin sources. A Wisconsin source requirement, coupled with credit carry-forwards, will stimulate quicker development of the state's renewable resource potential and provide related business and job benefits. It should also enhance reliability and

reduce related transmission costs and transmission losses. The Wisconsin source minimum by 2020 should be 6% (that is, 6% of the 20% requirement with 14% available from other sources) and 10% by 2025. These requirements are minimums that are likely to be exceeded if Wisconsin-based sources are the most economic alternatives. Whether this will be the case is impossible to predict. It will depend, among other factors, on whether Great Lakes wind is feasible at a reasonable cost, cost-effective development of the state's bio-energy and solar potential, the construction of major transmission improvements to the west and the cost responsibility for such facilities assigned to Wisconsin.

- iv. To incent the conversion of existing industrial coal-fired boilers to natural gas and/or biomass prior to implementation of a Cap and Trade Program, utilities should be permitted to purchase renewable energy credits for such conversions based upon a kWh renewable energy equivalency factor, with natural gas being credited at 50% of the biomass credit equivalency factor. In the alternative, where an industry wishes to deploy its capital elsewhere, by contract with the affected industry, a utility may install and own a replacement boiler, supply process steam and heat to the industry and utilize the equivalency credits directly.
- v. There should be no limit on the use of renewable energy credits to meet the revised standards in this Proposal, but only credits arising from

Wisconsin sources may be used to meet Wisconsin minimum source requirements. Use of the Midwest Renewable Energy Tracking System (M-RETS) credits would be available for the remainder of the requirements regardless of source location. In addition, to mitigate rate impacts, the PSC should have the authority, but not the obligation, to allow the use of credits from other programs that are comparable in terms of stringency and verification to (M-RETS).

- vi. To meet the non-Wisconsin portion of the standards after 2013, the existing 60 MW size restriction on new hydroelectric facilities would not apply. This change would permit purchases of hydroelectric power from any large project, including new Manitoba projects, to qualify post-2013.

This recommendation does not constitute endorsement of any new hydroelectric projects planned by Manitoba Hydro. The First Nations and others have strongly voiced concerns about the impacts of the existing hydro system on the First Nations and the environment. The Task Force recognizes that the construction of proposed new plants by Manitoba is likely to be controversial and involve complex issues. These issues, including the licensing of any new plants and any conditions in such licenses, like the controversies over the existing system, will be resolved under Canadian law, treaties with the First Nations and any agreements reached by affected parties. The Task Force cannot predict whether new

plants will be built or, if so, when or under what conditions, or whether the related transmission necessary for export of energy to the U.S. will be built. This recommendation simply recognizes that (i) hydroelectric generation is a renewable resource regardless of size, (ii) the output of any new plants built by Manitoba that is exported to the U.S. and displaces fossil fuel generation will reduce GHG emissions, and (iii) the Manitoba Hydro system can provide significant beneficial storage benefits that will enhance the value of U.S. wind power, provide renewable resource diversity and enable more efficient use of major new transmission built to access wind resources to the west of Wisconsin.

- vii. There would be no restriction on a utility marketing renewable energy that is purchased or produced to meet the revised standards using a “green pricing” program, provided that marketing materials and tariffs clearly disclose that the energy being sold comes from resources that the utility is required by law to utilize and that the customer’s purchase will not result in the development of additional renewable energy resources beyond what is legally required.
- viii. All other provisions of Act 141 would apply to the revised portfolio standards in this Proposal, including the existing off-ramp provisions.

c. Long-Term Optionality. To provide utilities with flexibility and optionality

necessary to meet customer electricity requirements at reasonable cost over the long term, including the possible increases in demand due to generating unit retirements and/or widespread use of plug-in vehicles and/or electric vehicles or other factors, the Wisconsin nuclear moratorium should be modified effective upon the latter of (i) enactment into law of a 25% by 2025 renewable portfolio standard or (ii) final approval by the PSC and, where required, approval by Joint Finance, of revised energy efficiency goals, and related spending and program requirements, consistent with the Task Force's enhanced energy efficiency policy template. These additional conditions are intended to provide assurance that all cost-effective conservation and efficiency measures will be pursued as a first priority and that any need for a costly, new baseload power plant such as a nuclear plant, or new coal plant with capture and sequestration, will be determined after taking account not only of costs and benefits (including emissions reductions) of available supply-side alternatives, but also of reductions in need achieved through a comprehensive, aggressive conservation and efficiency effort, other demand-side measures and a challenging renewable resources requirement.

The proposed modifications would (i) add a new requirement to Section 193.493 (2) (b) Wis. Stats. that the proposed plant must be built to meet Wisconsin electricity needs, at a cost that is reasonable in comparison with available alternatives, taking account of emission reductions benefits, and (ii) replace Section 194.493 (2) (a) Wis. Stats., dealing with the requirement of a federally licensed nuclear waste disposal facility, with a requirement that to obtain a Certificate of Public Convenience

and Necessity (CPCN), the PSC must find that the nuclear waste plan for the plant is reasonable and stringent, given the safety and other risks presented by such waste. This proposal would modify the Generation Work Group's proposal by imposing a 100% Wisconsin needs requirement instead of 75%, and eliminate a possible merchant plant component, although such a plant could be built and owned by a third party that would sell the output to Wisconsin utilities to meet the needs requirement. The prohibition on nuclear merchant plants would be justified given the state's longstanding and traditional utility regulatory responsibility and the unique environmental and safety issues related to nuclear.

This recommendation is not a recommendation by the Task Force that a new nuclear plant be built. However, it would allow utilities to prudently plan and propose that alternative, if they believe it is the most cost-effective and beneficial means to meet GHG reduction goals and their obligations to serve over the long term. Whether such plants are built will depend on the success of the state's C&E and renewable programs, the need for new generation driven by actual load growth and plant retirements, the economics of nuclear power, the feasibility of alternatives, and addressing nuclear fuel issues in a manner acceptable to federal and state regulators.

d. Other Utility Policies.

- i. The Final Report should recognize that a significant increase in regional transmission capacity, as well as wind siting reform, development of the state's bio-energy, solar, geothermal and Great Lakes wind potential, and

implementation of the other “enabling” templates proposed by the Generation Work Group, including increasing and making uniform incentives for the development and purchase of customer-based renewable energy resources, particularly in the areas of methane capture and solar, will be crucial to the success of the energy policies proposed. Failure to implement these policies will significantly increase the likelihood that emissions reduction goals will not be met.

In addition, the Final Report should recognize the importance of a fair cost allocation mechanism to Wisconsin for major regional high voltage transmission built to provide access to renewable resources, which reflects the benefits of such transmission to the state.

- ii. In recognition of the pressing need for additional research and development, on the federal and state levels, to develop new technologies on a commercial basis at reasonable cost as soon as possible to facilitate substantial GHG emissions reductions, the Task Force should recommend that the state aggressively advocate for a dramatic increase in federal R&D spending on technologies to reduce GHG emissions. The Task Force should recommend that the state also increase its own funding for such R&D and that the PSC permit reasonable increased spending on GHG emissions reduction-related R&D by electric utilities to be recovered in rates. In particular, the state should support rapid development and

deployment on a commercial basis of coal plants with carbon capture and storage, so that alternatives are available to meet future baseload needs.

- iii. The Final Report should recognize that while successful conservation and efficiency measures will significantly mitigate higher electricity rates through lower bills for customers as a whole, the impact is likely to be disparate. For instance, effectively reaching lower income customers may prove difficult for a variety of reasons. Local governments and other public entities may not have the resources needed to make C&E investments. Also, where large, energy intensive industries have already implemented substantial energy efficiency measures, there may be less they can do in the future than other customers to mitigate the impact of rate increases. For these reasons, the Task Force should recommend that the PSC in incenting utilities to invest in conservation and efficiency projects, place a special focus on (i) lower-income impact cost mitigation strategies, (ii) public buildings (existing and new) funding support and (iii) industrial projects that will provide significant emissions reduction opportunities and help keep industry competitive.

These PSC/Focus program priorities should be supplemented by a major state sponsored energy efficient housing retrofit and rehabilitation program for existing housing stock in lower income areas (urban and rural), a related job development and training program, and an increase in

the state's existing economic modernization program to attract and retain industry through measures to improve competitiveness.

The PSC also should investigate and implement rate crediting mechanisms that reward substantial early action in conservation and efficiency taken by large, energy intensive industry at its own expense after 2004.

- iv. Given the expected high cost of new baseload generation and other utility investments required to meet emissions goals, the Task Force should recommend that the PSC investigate rate mitigation strategies such as (i) levelization of cost recovery in rates of high capital cost, low-carbon and GHG reduction projects to avoid early year rate shock and (ii) on a voluntary basis, securitization of related debt to lower interest costs and allow for more highly leveraged capital structures for particular projects that will not adversely affect bond ratings. Any such mechanisms must provide an opportunity for utilities to invest significant equity capital in such projects. Such mechanisms should be designed to lower total return costs for customers and, at the same time, incent utility investments in low carbon and GHG reduction projects.

- v. To provide industrial customers with flexibility in achieving their proportionate share of the state's utility load reduction goals, the industry

opt-out provision of Act 141 should be expanded to permit an industry to meet its share of such goals through a combination of its own verifiable conservation and efficiency measures and/or on-site renewable energy applications.

- vi. The Non-Regulated Fuels Efficiency and Conservation Template should be modified to delete the study requirement and recommend inclusion of non-regulated fuels in the Focus Program through a modest public benefits fee on such fuels.
- vii. The Energy Efficiency in Schools Template should be modified to clearly recommend changes to school levy limits and/or the shared revenue funding formula to eliminate C&E project disincentives for schools.

III. **Transportation.** The transportation sector is responsible for the second highest contribution to the state's GHG emissions inventory. To meet our goals, it is essential that the state implement a comprehensive set of policies to lower emissions by increasing the efficiency of vehicles (mpg) in the state, to substitute low carbon fuels, and to enable individuals and business to drive less miles. Such policies will not only lower emissions, they will also lower consumer and business costs. Success will require state leadership and substantially increased public awareness that will lead to changes in choices and behaviors.

- a. Decrease in GHG Emissions from Passenger Vehicles.** The Task Force should advocate in favor of a single, nation-wide set of aggressive vehicle efficiency standards to reduce GHG emissions, recognizing the burden on automakers, and resulting cost burden on consumers, if the industry is required to meet multiple standards. With this caveat, the Task Force should recommend that Wisconsin join with the other states that have adopted the California Car (CARB) standards in order to help move those standards forward as the single, consistent set of vehicle efficiency standards that will be applied nationally, since these standards will materially reduce emissions compared with new federal CAFE standards and also save consumers and businesses money in a rising fuel cost environment. In making this recommendation, the Task Force should explicitly recognize the importance of the automotive industry jobs to the state, and express the Task Force's confidence in the ability of U.S. automakers to meet high efficiency standards on an expedited basis.

The Task Force also should recognize that Wisconsin will not drive resolution of this issue. It will be decided by pending lawsuits, whether the EPA in the future reverses its current refusal to grant California a waiver or whether the federal government increases the 2007 CAFE standards to a level equal to or greater than CARB under the next Administration. We should indicate that our support for the CARB standards is based on the fact that we believe that automakers will build to a single set of standards in any event and those standards should be higher than CAFE, consistent with the actions of other industrialized

countries. If the CARB standards prevail elsewhere, as a practical matter, they will apply in Wisconsin.

b. Wisconsin Manufacture of Efficient Vehicles and Vehicle Market

Transformation. The Task Force should strongly recommend that the state, the Janesville community and other affected parties work hard with General Motors on a plan of action to convert its Janesville facility to manufacture smaller, highly efficient vehicles to take advantage of the highly skilled labor force in Janesville and the supply chain that exists, instead of closing the plant.

Also, to help automakers substantially increase the market for much more fuel-efficient vehicles, lowering costs for compliance, as well as consumer vehicle purchase and fuel costs, the state should develop a comprehensive consumer transportation education and behavioral change marketing program, to be combined with the incentives proposed in other transportation work group policy templates. This effort should be part of the marketing campaign of the Wisconsin Voluntary Greenhouse Gas Reduction Initiative recommended in the Task Force's Interim Report.

c. Low-Carbon Fuels Standard. The Task Force should emphasize the importance of the Task Force's proposed policy recommending a low carbon fuels standard that is technology and feedstock neutral in order to reduce GHG emissions from transportation fuels. Such a standard is preferable to other fuels policies such as

renewable fuel mandates as it provides much greater compliance flexibility, while refraining from selecting specific winning technology options. Such a standard leaves room for conventional corn ethanol, while also driving new innovation into cellulosic biomass and waste feedstocks. Any low-carbon fuel standard developed in Wisconsin should be harmonized with any similar regional efforts and standards under development.

- d. Policies to Enable Reductions in Vehicle Use.** Also key to our transportation policy portfolio are the Task Force's proposals to reduce emissions by enabling individuals and businesses to lower the vehicle miles they drive over the long term, without adversely affecting quality of life or curtailing freedom of choice. These policies are intended to assist the state, local governments, businesses and individuals in planning and making land use and transportation decisions in ways that will facilitate the desire of individuals and businesses to lower their transportation costs and their GHG footprints. The policies are consistent with the state's Energy Independent Community initiative.

IV. **Other Industry.**

- a. Voluntary Programs.** The industry work group recommendations related to reducing the direct GHG emissions of industry consist of voluntary measures, including education and incentive programs, that may or may not be funded or prove effective. Fortunately, the emissions in this sector are declining and, given the many initiatives underway by major corporations in Wisconsin to adopt

sustainability practices, are likely to continue to decline. However, in the event that meaningful emissions reduction progress does not continue to be made, or the reverse occurs, the state should evaluate the emissions reductions success in this sector in 2012. If progress is not being made, taking account of any growth in production, the state should review the need and feasibility of adopting mandatory requirements. In doing so, the Task Force should recognize that such mandatory measures will not be needed to the extent industrial sources are, or shortly will be, subject to a Cap and Trade system.

- b. **Feebate Proposal.** It is unclear if this proposed, voluntary program will generate significant industry participation. In addition, there are a number of design issues that require further work, such as whether the program should focus on energy intensity or GHG emissions reductions and whether it should be sector or company-based. For this reason, the Task Force should recommend that the DNR explore this proposal with its advocates and Green Tier participants. If there is significant interest among Green Tier participants in pursuing this proposal, they, together with the DNR, should develop the program as a part of Green Tier.
- V. **Ag/Forestry.** Wisconsin has substantial opportunities to achieve GHG emission benefits from the forestry and agriculture sectors through a variety of strategies which can reduce emissions and enhance sinks, in addition to providing the state with renewable fuels. Careful attention to Wisconsin's uniqueness in this regard is important.

a. Voluntary Programs. Like the industrial sector, the recommendations of the Ag/Forestry Work Group to achieve emissions reductions in their sectors, and to increase terrestrial sink capacity, consist of voluntary programs, with incentives that will require significant funding. A portion of the funding needed may be made available through an offset program in a regional or federal Cap and Trade Program, but this funding source, as well as direct government funding, given current economic conditions, is uncertain. Yet it is important that these sectors do their share. Therefore, the progress in these sectors in reducing emissions, and in increasing terrestrial sink capacity, on a voluntary basis, should be evaluated by the state in 2012. If meaningful progress is not being made, or if the opposite is occurring — emissions are increasing and/or sink capacity continues to decrease — the state should consider imposing mandatory measures within these sectors, where such measures are likely to lead to substantial progress and such measures are not covered, or soon to be covered, by the offset component of a Cap and Trade system.

b. Importance of developing bio-energy potential. The Task Force should recognize the importance to the state of rapidly developing its bio-energy potential by recommending that substantial state assistance be provided to help farmers to cultivate the next generation of energy crops, as recommended in the Task Force's Advanced Biomass and Biofuel Commercialization and Utilization Template. Species such as switchgrass that thrive on marginal lands, wood waste, crop residue and other cellulosic sources could serve as excellent feedstock for

producing fuels that could aid in meeting low-carbon fuels standards and also advance the state's energy independence goals. The low-carbon fuel standard proposed in the transportation sector, and increased use of biomass for heat and energy production, will increase demand for these feedstocks substantially, making it critical to establish adequate domestic supply. The state should provide a clearinghouse for best practices in cultivation and in connecting farmers and the forestry businesses with buyers for these new products.

VI. Other Policies.

a. Additional Policies for Future Consideration. In the process of the Task Force's work, a number of possible recommendations have arisen late in the process, given the increasing public and academic interest in combating climate change. Some of these possible future recommendations could lead to significant greenhouse gas emissions reductions. Given the magnitude of the challenges we face, the Task Force recognizes the need to take all cost-effective, feasible emissions mitigation actions, but we also must come to closure. Therefore, the Task Force should include an appendix to the Final Report that identifies various ideas that have been raised but have not been analyzed in depth by the Task Force that we believe deserve further scrutiny.

The list of ideas for further consideration could include:

- Food supply chain emissions reduction and strategies
- Food consumption emissions impacts and related behavioral change strategies
- Freight hauling emissions reductions measures

- Small engine emissions reductions measures
- Measures such as the Massachusetts law requiring new, large scale developments to offset emission impacts
- Providing basis point reductions in WHEDA loans for “green” projects
- Voluntary or mandatory speed limit reductions
- A SF6 (sulferhexafluoride) emissions reduction requirement
- Anaerobic digesters at landfills, food processing facilities and wastewater treatment plants
- Increased use of video conferencing.

b. Ongoing Responsibility for Policy and Data Analysis. The Task Force should recommend that a formal process be developed by the state to continuously review and evaluate emissions reduction policies, existing and potential, in order to meet the goals recommended by the Task Force. The state should place responsibility for this important task, as well as for overseeing data collection needs, and tracking and regularly informing the public in a clear and understandable way of the state’s emissions reduction progress, in a single agency (new or existing). This responsibility should include robust monitoring and evaluation of progress by all sectors. This recommendation will require enhancing the proposed TAG template on data requirements to cover the other assignments mentioned above.

VII. Cap and Trade. The Final Report should recognize that a broad-based multi-sector GHG Cap and Trade Program (C&T Program) that establishes a price for GHG

emissions will be essential to meet whatever goals are recommended. The Program should, at a minimum, cover all large point sources. The cap, and the rate of decrease of the cap, should be set to be challenging, but achievable. They should take account of reductions reasonably achievable by the other policy recommendations of the Task Force, including policies not modeled.

The Task Force Final Report should state that:

- i. The best approach, strongly favored by the Task Force, is a uniform, multi-sector, federal C&T Program with a target effective date of 2012. However, it is very important that any federal C&T Program treat Wisconsin fairly and recognize that states like Wisconsin that are highly dependent on coal for electricity, and which have energy intensive industries like paper production, are likely to be disproportionately affected, particularly during the transition period to a low-carbon economy. For these reasons, (i) any revenues realized by the federal government from Wisconsin as a result of allowance auctions, after a reasonable contribution to federal GHG reduction R&D from which the state may benefit, should be returned to Wisconsin to mitigate impacts of consumers and business (ii) any distribution of allowances at no cost and auction proceeds should favor states that will be disproportionately impacted by the Program, (iii) substantial off-set opportunities should be provided that will enable Wisconsin to reduce emissions from non-covered sources and increase its terrestrial sink capacity significantly and

- (iv) states should be granted reasonable flexibility on Program implementation and share in administration.
- ii. The second best solution would be a broad-based, multi-sector regional C&T Program. Ongoing negotiations under the auspices of the Midwest Governors Association are intended to produce such a Program. Participation of more states, and links to other markets, will be very important to the success of this effort and to keeping allowance costs reasonable. This regional effort is important not only in the event that a federal program fails to be adopted in a timely manner, but also to better inform the state, and its stakeholders, about the key policy issues related to a C&T Program and to build consensus within Wisconsin, and the larger Midwestern stakeholder community, on regional interests and needs related to such a Program in order to more effectively influence the design of any federal Program.
- iii. The Task Force should recommend that a Wisconsin-only Cap and Trade Program not be pursued. Such a market is not likely to have adequate liquidity and also would create competitive issues with neighboring states.
- iv. In order (i) to mitigate what may be substantial adverse cost impacts on the state (its consumers and industrial base) as a result of potentially high and volatile GHG emissions allowance costs, particularly during the

transition period while low-carbon technologies are developed, (ii) to ensure that allowance value is retained in Wisconsin, and not diverted to financial firms or other jurisdictions, (iii) to enhance the state's ability to achieve GHG emissions reductions in non-covered sectors and (iv) to garner the political support necessary for support of challenging emissions reductions caps, the Task Force should recommend that for any Cap and Trade Program which includes Wisconsin (in addition to the areas of agreement in the C&T Work Group template):

- For the first ten (10) years, a substantial majority of available allowances (90%) should be allocated to covered Wisconsin sources at a fee of \$2 per allowance (raising approximately \$135 million annually) and the remainder (10%) be auctioned. A gradual increase in the amount to be auctioned should occur after this transition period. This recommendation assumes (i) separate state funding through rates for the enhanced energy conservation and efficiency policy recommended in the Task Force's Interim Report, (ii) enactment of the enhanced renewable resource portfolio standards recommended above, and (iii) use of allowance fees and auction proceeds generally as described below. Care should be taken not to over or under allocate allowances to avoid windfalls and to provide effective cost mitigation.

- The allocation methodology for allowances should be designed to support the emissions reduction objectives of the C&T Program and reward more efficient facilities. The PSC should be required to ensure that the value of all allowances provided to utilities flow through to customers and not shareholders. The fee for allowances should be regarded as a recoverable cost of providing service.

- All fees for allowances and auction revenues should be held in trust and used solely to fund programs to reduce GHG emissions and climate change adaptation strategies. These programs should include the Comprehensive Initiative to Support Voluntary Long Term Greenhouse Gas Emission Reductions recommended in the Interim Report, the existing housing retrofit and rehabilitation, job training and industrial competitiveness programs identified earlier in this Proposal.

- The Program should provide for liberal availability of offsets for emissions reductions from sources not covered by the Program and to significantly increase Wisconsin's carbon terrestrial sink capacity, subject to stringent verification, additionality and permanence (accounting for years of effectiveness and insurance, etc.) requirements, pursuant to a detailed set of offset protocols. Wisconsin should begin developing such protocols.

- Early action credit should be provided, subject to clear verification requirements.
- Unlimited banking and a compliance period of three years, with a smooth annual step-down of cap to reach Task Force targets should be employed.
- A reasonably high price cap, or other cost containment measure, should be included to provide protection against price spikes.

These provisions are not intended to compromise the integrity or stringency of the cap in any material respect — that is, the emissions reductions required by the Program.

VIII. Emissions Reduction Goals.

. The goals will use a 2005 Wisconsin emissions levels as the baseline and the targets will apply to net emissions (sources minus sinks) of the 6 Kyoto Protocol greenhouse gases. Goals will include:

- a. Stabilization at 2005 levels by _____.
- b. Achieving a reduction to the equivalent of estimated 1990 levels by _____, using a percentage reduction from 2005 levels.
- c. Achieving a reduction to the equivalent of [60% to 80%] below 1990 levels by 2050, using a percentage reduction from 2005 levels.