

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, protect and enhance Wisconsin's economy and result in all sectors doing their share.

- 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.** Substantially increased, cost-effective 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 and is the foundation for success of other Task Force recommendations. Increased C&E can be ramped up promptly, proven technology is available and success will delay the need for expensive generation additions while needed new technologies develop. Anecdotal evidence suggests that substantial reductions in consumption can be achieved where there is a will and increased C&E will help create new “green collar” jobs.
- e.** Similarly, development and deployment of a diverse portfolio of renewable generation resources, including distributed resources, are the most environmentally benign supply-side options and therefore, should be a Wisconsin priority.
- f.** 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.

- g.** 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.
- h.** Early reductions are important for a number of reasons. They are crucial to successful mitigation of global warming and meeting the emissions reduction targets recommended in this Proposal, particularly the 2014 target, 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. They also should provide flexibility important for meeting intermediate and long-term targets. Some members of the Task Force believe the recommended targets will not be met without aggressive, mandatory early action policies not included in this Proposal. Other members disagree.

- i. 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.
- j. 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.
- k. 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.

- l.** 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 significant and broad-based 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.

- m.** The recommendations in the Task Force's Interim Report provide the foundation on which this Proposal rests, highlighting the crucial importance of aggressive conservation and efficiency measures for early action, cost mitigation and our long-term success.

- n.** In order for the Task Force recommendations to be successful and emissions goals to be achieved, it will be essential that (i) the recommendations be acted upon promptly and the required funding pursued and (ii) a state-wide public campaign be launched as soon as possible to raise public awareness of the need for action, to foster significant behavioral change and to provide individuals, farmers and businesses with the expertise and tools necessary for action, as recommended in the Interim Report.

- o.** 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.** Wisconsin's first priority must be prompt implementation of much more aggressive energy conservation measures and strategies, as recommended in the Task Force's Interim Report.
 - ii.** The current Strategic Energy Assessment (SEA) should be reopened by October 15, 2008, with all utilities subject to the SEA required to 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 after public input and examination of leakage issues, each utility would 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 and recovery of reasonable and prudently incurred costs to meet goals consistent with the

PSC's Assessment should be permitted. 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 SEA process and reporting requirements discussed above are adhered to. In addition, utilities should be encouraged to join the Climate Registry.

- iii. 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 (RPS) Changes to the Work Group Proposal.

- i. The current 2015 RPS 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 available for compliance 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 Wisconsin cogeneration projects fired with biomass (in addition to electric portion of such projects), as well as biogas produced in Wisconsin that is put in the gas pipeline system, solar water

heating and other verifiable renewable applications in a utility's service area that displace fossil fuel use by the utility.

- 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, enhance electric system reliability and reduce transmission costs and transmission losses. The Wisconsin source RPS minimum by 2020 would be 6% and 10% by 2025. Conversely, the maximum amount of renewable energy from out-of-state used to meet the RPS would be 14% for the 2020 standard and 15% for 2025 standard. 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. In the event that an Act 141 off-ramp is used with respect to the in-state RPS minimum, the

remedy may be to waive the in-state source requirement, while maintaining the integrity of the overall RPS.

- iv. To incent the conversion of existing Wisconsin industrial and other utility customer coal-fired boilers to biomass prior to implementation of a Cap and Trade Program, utilities should be permitted to purchase renewable energy credits for such conversions. 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 on a contract basis 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. The First Nations and others have serious concerns about the licensing status of the existing Manitoba Hydro projects and their environmental impacts. These issues, as well as the licensing of any new plants, and any conditions imposed in any new licenses or on existing projects must be resolved under Canadian law, treaties with the First Nations and any agreements reached by affected parties. This recommendation is based on the premise that the concerns of the First Nations related to the existing hydro system and any new proposed projects will be resolved before new projects are built, including issuance of final licenses, as Manitoba Hydro has indicated. 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. To enable utilities to meet the new, more aggressive RPS recommended in this Proposal in a timely manner and to avoid use of off-ramps, the revised RPS should (i) stream-line the regulatory approval (for all affected agencies) and siting process for renewable projects; (ii) encourage proposals that encompass multiple projects, with multi-project, integrative plans for acquisition of sites, equipment and contractors, (iii) allow for PSC approval of multi-year commitments for acquisition of necessary equipment in a timely manner, with appropriate recovery of development costs; (iv) provide additional resources for the PSC to process applications; (v) encourage larger utilities to partner on projects with smaller utilities; and (vi) remove existing siting and equipment transportation barriers.

viii. All other provisions of Act 141 would apply to the revised portfolio standards in this Proposal, including the existing off-ramp provisions and applicability to municipal and cooperative utilities.

c. **Long-Term Supply 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 would be modified effective upon the latter of (i) enactment into law of a 25% by 2025 renewable portfolio standard consistent with this Proposal 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, much more aggressive conservation and efficiency effort, other demand-side measures and a challenging renewable resources requirement.

The proposed modifications would (i) add a new Certificate of Public Convenience and Necessity (CPCN) provision to Section 193.493 (2) (b) Wis. Stats. that requires that any proposed nuclear plant be built to meet Wisconsin electricity needs, at a cost that is reasonable and advantageous to customers 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 the required CPCN, the PSC must find that the nuclear waste plan for the plant is economic, reasonable, stringent and in the public interest, given the safety and other risks presented by such waste. The CPCN requirement for a nuclear unit would apply to any proposed nuclear unit regardless of size, including any replacement of any existing nuclear unit. Also, in addition to the existing right of the PSC to apply for extension of the 180-day time limit to act on a CPCN, an additional extension could be sought by the PSC in the case of a nuclear unit for a reasonable, but defined period. This proposal recognizes that Task Force members are likely to have significantly different positions on what will constitute sufficient stringency to address the risks they perceive. The 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. 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. Any such plant should be subject to regulation by the PSC on a basis that is comparable to the regulation that would apply to such a plant if owned and operated by a Wisconsin public utility. The prohibition on nuclear merchant

plants would be justified given the state's longstanding and traditional utility regulatory responsibility and the unique, utility economic, environmental and safety issues related to nuclear plants.

This recommendation is not a recommendation by the Task Force that a new nuclear plant be built. All available low carbon energy technology should be pursued to meet the state's supply-side energy requirements, with the most optimal alternatives implemented, while maintaining a diverse and reliable portfolio of resources. However, the recommendation would allow utilities to prudently plan and propose a nuclear plant, 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, including methane capture, distributed wind 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 that will benefit Wisconsin, including conservation and efficiency technologies, to be recovered in rates. In particular, the state should support significantly increased R&D funding for renewable and other low carbon technologies to enable Wisconsin to become a leader in these areas, as well as for 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.

In addition to research on GHG mitigation technologies, the Task Force should acknowledge that changes related to increased levels of GHGs in the atmosphere are already underway and should recommend federal and state funding to advance research to enhance Wisconsin's ability to adapt to changes in the climate. An example of such work is the Wisconsin Initiative on Climate Change Impacts, a partnership between the UW-Madison and the Wisconsin Department of Natural Resources.

- 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, with an audit and tracking mechanism that ensures that such funding is used to the benefit of the consumers of these fuels.
- vii. The Energy Efficiency in Schools Template should 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 endorsed or 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.

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 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, along with appropriate funding support. 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, along with appropriate funding support, 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. Adoption of this policy Template would foster development of bio-energy sources to provide essential feedstock for producing fuels to aid in meeting low-carbon fuels standards and 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 (including in comments on this Proposal provided by the public at the end of our process), a number of ideas have been proposed that the Task Force has not been able to analyze and recommend. Some of these possible additional

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 some of the ideas that have been raised but have not been analyzed by the Task Force, recognizing that this list is incomplete and is provided for illustrative purposes only.

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
- A SF₆ (sulferhexafluoride) emissions reduction requirement
- Anaerobic digesters at food processing facilities and wastewater treatment plants, and increased use of landfill gas
- 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 ideas and 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, credible 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 cover all large point sources, as well as the other sectors and sources proposed in the Task Force's Work Group Cap and Trade Template. The cap, and the rate of decrease of the cap, should be set to be science-based, 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 broad, multi-sector, federal C&T Program with broad coverage of sectors and sources as recommended by the Cap and Trade Work Group, 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, subject to protecting the environmental integrity of the Program, (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; (iv) states should be granted reasonable flexibility on Program implementation and share in administration and (v) provisions should be developed to protect industry from unfair competition from competitors whose GHG emissions are not regulated.

- ii. At the same time, Wisconsin should continue to actively participate in and play a leadership role in the development of the regional, multi-sector Cap and Trade Program being pursued by members of the Midwestern Governors Association (MGA). Participation of more states, and links to other markets, will be very important to the success of a regional Program

and to keeping allowance costs reasonable. When the cap and trade agreement and model rule developed in the MGA process are completed, Wisconsin should promptly initiate the process for the state to review, consider and take such actions on the agreement and rule, as are required and determined to be appropriate.

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 increase pressure for prompt development of a federal program, 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 Wisconsin and regional interests and needs related to any such Program in order to more effectively influence Program design.

- 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 a transition period of up to the first ten (10) years, a substantial majority of the allowances (such as 90%) needed by industry and Wisconsin utilities (including municipal and cooperative utilities) should be allocated to such entities at a fixed fee (such as \$2), adjusted annually for inflation and the remainder of the available allowances in the Program should be auctioned. The percentage for allowances allocated to energy intensive industry subject to global competition may be somewhat higher than the percentage used for allocation to Wisconsin utilities for the first five years of the transition period. Alternatively, the level of the fee may be somewhat lower for such industry for such period to ease the transition. In addition, allowances for emissions from biomass facilities should be exempt from the program for all or a portion of the transition period. A gradual increase in the amount to be auctioned should occur after the transition period.

This recommendation is based on (i) separate, substantially increased Wisconsin funding through utility rates for the enhanced energy conservation and efficiency policy recommended in the Task Force's Interim Report and enactment of the enhanced renewable resource portfolio standards recommended above, neither of which may be the case in other states and (ii) use of allowance fees and auction proceeds for key programs generally as described below. . Also, this recommendation recognizes that (i) the allocation versus auction issue is highly contentious and that Task Force members have divergent, strongly held views on it and (ii) positions taken on this issue by members of the Task Force in the federal and MGA debates will depend on other aspects of the Program as they develop, as well as positions that develop through coalitions with which Task Force members may ally. The purpose of this recommendation is to recognize and emphasize the importance of cost mitigation for Wisconsin consumers and industry and to stimulate debate on ways to both protect the environmental certainty of a cap and trade approach and also provide funding for programs needed to reach targets, with cost certainty and protection, given the considerable uncertainty as to prices and impacts of a large auction regime.

- The structure of the Program, including the allocation methodology for allowances, should be designed to [not in order of priority] (i) avoid windfalls (including but not limited to those that would arise from overallocation), (ii) prevent significant leakage, (iii) minimize speculation and prohibit and prevent market manipulation, (iv) protect the environmental integrity of the Program and cost mitigation objectives, and, (v) reward efficiency and promote reductions of emissions from existing sources. 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 be legally available to be used solely to fund programs to reduce GHG emissions and climate change adaptation strategies. These programs should include, but not be limited to, 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 broad 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. Some Task Force members believe that limits should be set on the extent of offsets that can be used to meet compliance requirements.

- 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 Targets.

The emission reduction targets recommended by the Task Force should apply to net GHG emissions within the state of Wisconsin. Net GHG emissions consist of total direct emissions of all 6 Kyoto GHGs from all activities that take place within the geographic boundaries of the state less net carbon sequestration from Wisconsin's forests, prairies, soils and other activities.

Emissions that result from the use within Wisconsin of electricity and other products produced outside the state will not be included in the targets. 2005 Wisconsin net emissions levels should serve as the baseline to which targets and progress towards them will be compared. In order for Wisconsin to take on its proportional share of global emission reduction in order to stabilize atmospheric concentrations of GHGs at safe levels state reduction targets should be:

- a. A return to 2005 levels not later than 2014, consistent with the range of information provided by the TAG related to the high fuel cost scenario.
- b. A 22% reduction from 2005 levels (roughly equivalent to 1990 levels) by 2022. This recommendation provides for a 10-year period after the assumed implementation of a Cap and Trade Program, as advocated in this Proposal.
- c. A 75% reduction from 2005 levels by 2050 (roughly equivalent to 70% below 1990 levels, the mid-point of the range set forth in Order 191).

Establishing the 2005 baseline and measuring progress towards emission reduction targets will require robust, frequent and comprehensive inventories and assessments of GHG emissions and sinks in Wisconsin. These needs are especially critical for areas where data are currently sparse such as net sequestration from soils and forests. All GHG data should be made available and easily accessible to the public.

In recommending these targets for Wisconsin at this juncture, the Task Force Co-Chairs recognize that Task Force members will have diverse and strongly held views on the both the adequacy and the achievability of the proposed targets, and that positions taken by Task Force members related to goals in the federal and MGA debates will depend on a variety factors, similar to the factors mentioned above related to Cap and Trade Program details. The Co-Chairs believe that agreement on these targets by the Task Force at this time for purposes of our Task Final Report will provide a significant challenge for Wisconsin and recognize the seriousness of the problem being addressed. These targets should be regularly re-evaluated based on current science, progress and technology. The objective of members of the Task Force and the state should be to translate the Task Force's recommendations into action promptly to meet or exceed the targets.