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EEI

EDISON ELECTRIC
INSTITUTE

ROBERT A. BECK
Vice President
Environmental Affairs

May 1, 1997

The Honorable Eileen B. Claussen
Assistant Secretary for Oceans and International
Environmental and Scientific Affairs
U.S. Department of State
Washington, D.C. 20520

Dear Secretary ~~Claussen~~: Eileen

Thank you for meeting with me and other representatives of the Edison Electric Institute (EEI) and the electric utility industry on April 28. We appreciated the opportunity to share information with you regarding the intergovernmental negotiations on a protocol (or another legal instrument) to the Framework Convention on Climate Change (FCCC) and look forward to similar, periodic sessions during the course of the negotiations.

We discussed our positions on a range of issues, and we would like to work with you to encourage support of U.S. positions by other governments on matters of common interest. The purpose of this letter is to provide input on two of the matters on which you requested further information: 1) credit for early actions (*i.e.*, actions prior to the first emissions reduction budget period), and 2) credit for emissions reduced, avoided or sequestered by joint implementation (JI) projects. We request that you incorporate our proposals into the interagency process so as to have the maximum impact on the U.S. positions on these issues.

Moreover, in order to avoid claims by other governments that these issues are *ultra vires* to the negotiations because they were not contained in the negotiating text communicated to Parties on June 1, we respectfully request that you tender the following proposals to the FCCC Secretariat and instruct it to communicate them to the Parties prior to June 1.

With the following recommendations, EEI does not concede the appropriateness of the Administration's position favoring legally binding targets and timetables.

Credit for Early Actions

In your letter of August 15, 1996, to EEI President Thomas Kuhn, you committed to EEI that utilities that take early action will receive credit toward future targets. That commitment has since been publicly reiterated on several occasions by numerous Administration officials. Nonetheless, the U.S. proposal for a protocol framework does not provide credit for these early actions.

Because it is clearly beneficial to the environment to encourage early actions for emissions reductions by all nations, it is appropriate in the Kyoto agreement to provide full credit for early actions. Moreover, such an incentive for the private sector to take early actions to reduce emissions will help to "jump start" mitigation activities by all industries and governments well before the compliance period begins. Furthermore, credit for early actions provides an incentive to continue voluntary programs until the start of the first budget period. We also believe our position is consistent with the views of the Environmental Defense Fund, which in material distributed at the sixth session of the Ad hoc Group on the Berlin Mandate stated that for countries adopting budgets, entities could get ahead on greenhouse gas "savings accounts" by using an energy scorecard (modeled on the Department of Energy's section 1605(b) reporting program).

It has been argued by some that the Administration should not provide credit for early actions in the Kyoto agreement because it can provide this credit within the domestic allocation of the national obligation in the Kyoto agreement. We believe this view overlooks several significant considerations. First, since this Administration cannot bind future Administrations or Congresses, the time to act is now, with a provision in the Kyoto agreement. Second, the larger issue is properly viewed as credit for early action by the United States, with the narrower issue being credit for the U.S. electric utility industry or any other domestic industry. Deferral of the issue until domestic implementation would only hamper the U.S.'s ability to meet its international obligation. Finally, allowing pre-budget period banking -- which is what credit for early actions really is -- is conceptually the same as allowing banking between budget periods.

Accordingly, EEI recommends that in order to implement the Administration's commitment for credit for early actions, the U.S. amend its January protocol proposal by submitting a placeholder provision. The provision could simply state:

> Parties will receive credit for actions taken prior to the beginning of the first budget period and may apply such credit against any post-2000 obligations.

Pursuant to our agreement at our April 28 meeting, we will begin meeting with Administration officials to work out the details of how this concept will be implemented.

Credit for JI Projects

The U.S. proposal for a protocol framework defers to later action by the Parties the adoption of criteria for JI projects, including methodologies for calculating credits (*i.e.*, the tonnes of carbon-equivalent emissions generated by JI projects). In the case of the FCCC, the deferral of the adoption of criteria for JI led to later adoption of criteria prohibiting credits for reductions. A repeat of this circumstance must be avoided. The electric utility industry is an active participant in 11 of the 25 U.S. Initiative on Joint Implementation (USIJI) projects. It is difficult to imagine that future investment under the USIJI would proceed without credit for JI projects. Therefore, we request that the criteria for JI, including methodologies for calculating credits, be included as an integral component in any protocol (or another legal instrument) adopted at the third session of the Conference of the Parties.

We request that you modify Article 7.2 of the U.S. proposal as follows:

2. ~~In addition to any criteria adopted by the Parties to this Protocol~~, tThe following criteria shall apply to joint implementation projects:

   (a) Joint implementation Pprojects must be compatible with and supportive of national environment and development priorities and strategies of participating parties ~~, as well as contribute to cost-effectiveness in achieving global benefits~~.

   (b) Joint implementation Pprojects must provide a ~~reduction in emissions that is additional to any that would otherwise occur~~ greenhouse gas benefit as defined in Article 1.

   (c) The carbon-equivalent emissions generated by a joint implementation project shall be calculated using the methodologies provided in Annex X.

Article 1 would define a greenhouse gas benefit as the tons of carbon-equivalent greenhouse gases that are reduced, avoided or sequestered by a project to mitigate climate change (as determined by application of the methodologies set forth in Annex X). Methodologies for calculating the tons of carbon-equivalent emissions from JI projects that reduce, avoid or sequester greenhouse gases would be listed by greenhouse gas in Annex X. These methodologies could be developed by the Subsidiary Body for Scientific and Technological Advice in parallel to negotiations in the Ad hoc Group on the Berlin Mandate on the protocol (or another legal instrument). To preserve this option, we request that you tender as an amendment to the U.S. proposal a placeholder for Annex X:

Annex X

Methodologies for Calculating Carbon-Equivalent Emissions

[Provide methodologies for calculating credits for carbon-equivalent emissions from joint implementation projects that reduce, avoid or sequester greenhouse gases.]

For your information, examples of a possible format for Annex X are provided in the enclosure to this letter.

We look forward to working with you on these issues. Please contact John J. Novak, Director, Environmental Activities, at (202) 508-5655 if you have any questions about our recommendations.

Sincerely yours,

John J. Novak for

Robert A. Beck
Vice President, Environmental Affairs

JJN:WLF
Enclosure

Enclosure

Annex X

Methodologies for Calculating Carbon-equivalent Emissions

[Methodologies for calculating carbon-equivalent emissions from joint implementation projects that reduce, avoid or sequester emissions of greenhouse gases.]

CO2

Methodology for calculating carbon-equivalent emissions from projects to reduce or avoid emissions of CO2 at existing electric power facilities:

> actual -- the actual reductions achieved by the project (measured by the subtracting the net emissions of the facility with the project from the net emissions of the facility without the project); or
>
> default -- the difference between the actual emissions per kiloWatt-hour (KWH) of the facility with the project and the annual average emissions per KWH of electric generating facilities in the country in which the project is located multiplied by the actual production of electricity from that facility.

Methodology for calculating carbon-equivalent emissions from projects to reduce or avoid emissions of CO2 at new electric power facilities:

> default -- the difference between the actual emissions per kiloWatt-hour (KWH) of the facility and the annual average emissions per KWH of electric generating facilities in the country in which the project is located multiplied by the actual production of electricity from that facility.

Methodology for calculating carbon-equivalent emissions from projects to sequester CO2 emissions:

> [provide]

CH4

Methodology for calculating carbon-equivalent emissions from projects to capture methane emissions from pipelines, landfills, coal mines [etc.]:

> actual -- the carbon-equivalent emissions of the quantity of methane recovered.

Methodology for calculating carbon-equivalent emissions from projects to capture methane emissions from rice cultivation:

[provide]

Methodology for calculating carbon-equivalent emissions from projects to capture methane emissions from animal husbandry:

[provide]

N2O

Methodology for calculating carbon-equivalent emissions from projects to reduce or avoid emissions of N2O:

[provide]

HFC's

Methodology for calculating carbon-equivalent emissions from projects to reduce or avoid emissions of HFC's:

[provide]

PFC's

Methodology for calculating carbon-equivalent emissions from projects to reduce or avoid emissions of PFC's:

[provide]

SF6

Methodology for calculating carbon-equivalent emissions from projects to reduce or avoid emissions of SF6:

[provide]

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EEI

EDISON ELECTRIC INSTITUTE

THOMAS R. KUHN
President

May 23, 1997

The Honorable Madeleine K. Albright
Secretary of State
Washington, D.C. 20520

Dear Madam Secretary:

I am writing on behalf of the Edison Electric Institute and our electric utility members to express one of our concerns about the U.S. proposal for a protocol to the United Nations Framework Convention on Climate Change (FCCC). As you know, this will be considered for adoption at the third session of the Conference of Parties (COP-3) to the FCCC this December in Kyoto, Japan. We have a significant concern that the administration's proposal does not provide credit for early actions to reduce, avoid or sequester greenhouse gas emissions -- actions that the electric utility industry has already begun.

U.S. electric utilities are the world leader in early actions to address greenhouse gas emissions. In response to President Clinton's call to action on global climate change, the U.S. electric utility industry and the Department of Energy (DOE) initiated The Climate Challenge, a voluntary partnership to reduce emissions of greenhouse gases. On Earth Day 1994, at the signing ceremony for the Memorandum of Understanding memorializing the partnership, Vice President Gore added his personal endorsement for the program. Today, The Climate Challenge is the largest and most successful voluntary initiative to reduce greenhouse gas emissions in the world. Without question, The Climate Challenge is the flagship of the U.S. Climate Change Action Plan. DOE projects that the current commitments by the 638 participants in The Climate Challenge will reduce, avoid or sequester nearly 169 million metric tonnes of carbon dioxide-equivalent greenhouse gas emissions in the year 2000. Importantly, these substantial reductions will continue well into the next century.

As a result of our experience with The Climate Challenge, we believe that legally binding targets and timetables for greenhouse gas emissions reductions, as proposed by the U.S., are not needed to address global climate change. With the following recommendations, EEI does not concede the appropriateness of the Administration's position favoring legally binding targets and timetables. We firmly believe, as demonstrated by the success of The Climate Challenge and other voluntary programs, that emissions can be reduced through the implementation of flexible, cost-effective, voluntary measures. Of course, the key to the continued success of The Climate Challenge and other voluntary programs is assurance that electric utilities and other entities engaged in these activities will receive full credit for their efforts, including specifically any early actions to reduce, avoid or sequester greenhouse gas emissions.

Although in several forums the U.S. government has committed to provide credit for early actions, it is still not clear how that commitment is going to be fulfilled. By her letter to me dated August 15, 1996, your Assistant Secretary for the Bureau of Oceans and International Environmental and Scientific Affairs, Ms. Eileen B. Claussen, advised that electric utilities "**who take early action [will] receive credit.**" That commitment was reaffirmed by Administration officials (Assistant Secretary Claussen and others) in testimony before the Congress on September 26, 1996, and in a statement by the Deputy Secretary of the Department of Energy on March 19, 1997.

Notwithstanding the U.S. commitment on credit for early actions, the proposal for a protocol framework submitted to the Ad Hoc Group on the Berlin Mandate made no provision for credit for actions, such as The Climate Challenge, that are undertaken prior to the effective date of any obligation for emission reductions. We are concerned that, despite our repeated urging, you elected to omit credit for early actions from the U.S. protocol proposal. Some Administration officials have indicated informally that <u>in lieu</u> of credit in the protocol, a domestic credit will be provided for these actions. However, we continue to believe that it also is essential that this Administration ensure that a provision on credit for early actions be included in any agreement adopted in Kyoto.

Accordingly, we respectfully request that you:

- Amend the U.S. proposal for a protocol to include credit for early actions, *i.e.*, actions to reduce, avoid or sequester greenhouse gas emissions that are taken prior to the effective date of any obligation, and that you communicate that amended proposal to FCCC Parties prior to June 1, 1997, so that it may be considered at COP-3; and

- Instruct our delegation to ensure that any agreement adopted in Kyoto includes, as an integral component of any reduction obligation, credit for actions that reduce, avoid or sequester greenhouse gas emissions, such as actions under The Climate Challenge, that are undertaken prior to the effective date of the obligation.

It was through the electrification of our economy over the past 25 years that the United States was able to increase its economic productivity while it decreased its energy intensity and related emissions of pollutants and greenhouse gases. It is critical, therefore, to the success of any obligation to address climate change that it provide for continued growth in the supply of electricity. Through the continued electrification of our economy, enabling the increased use of energy-efficient electric technologies, we can reduce our national emissions of greenhouse gases without risking serious economic consequences.

Madam Secretary, we look forward to working with you to achieve agreement in Kyoto on credit for early actions.

Sincerely yours,

Tom Kuhn

Thomas R. Kuhn

TRK:wfn

cc: The Honorable Federico Peña, Secretary of Energy
Members of the Interagency Climate Change Team