



CLEAN ENERGY JOBS AND AMERICAN POWER ACT: POLLUTION REDUCTION AND INVESTMENT

OVERVIEW

Pollution Reduction and Investment (PRI) is a mechanism that sets pollution reduction targets, then uses market incentives to find the most affordable paths to achieve them.

PRI rewards companies in every sector that find ways to reduce carbon pollution by using cleaner technologies or improving efficiency. The goal is to increase America's energy independence, strengthen our economy, and dramatically reduce the carbon pollution that causes climate change. This unique system of incentives is designed to keep America competitive as we transition to a clean energy economy.

Key principles:

- Steadily reduce carbon pollution emitted in America
- Ensure that these reductions target the fewest businesses at the lowest cost possible
- Reward those companies that reduce carbon pollution
- Protect America's consumers and vulnerable industries

POLLUTION REDUCTION

Based on the successful bipartisan plan that reduced acid rain in the 1990s, PRI establishes a market-based system to meet ambitious targets to decrease, year by year, the carbon pollution that endangers the health of our families and causes climate change.

PRI applies only to the largest polluters in the country—initially around 7,500 facilities belonging to even fewer businesses and accounting for nearly three-quarters of U.S. carbon pollution. Over 98 percent of American businesses and all farmers are not covered by this system.

Instead of using a “command and control” model where government tells individual companies where and how to reduce pollution, PRI is designed to let the private sector seek out the most cost-effective ways to meet our pollution reduction goals. Major polluters will be required to turn in one “carbon credit,” essentially a voucher for the right to pollute one ton of carbon.

These vouchers can be bought or sold, giving companies flexibility in how they reduce pollution. Those that can't quickly or affordably do so can buy vouchers instead. Other companies better able to cut pollution can sell their vouchers to those who need them. Either way, PRI makes it profitable to reduce pollution by creating an important new incentive.

By limiting the total number of vouchers available in a given year, PRI will allow America to meet hard targets for carbon reduction. As the total number of vouchers available each year shrinks, America's



carbon pollution will drop 20% by 2020 and 80% by 2050 from 2005 levels. These firm reduction targets will help the U.S. push developing nations with significant carbon pollution levels to act as well. Scientists consider the 2050 target to be the minimum necessary reduction worldwide to avoid catastrophic climate change.

INVESTMENT

PRI creates powerful incentives to spark new investment to improve every sector of our energy economy. Every voucher the government issues will allow us to invest in the energy future of this country without adding to the deficit. Whether they are coal plants or wind farms, companies that reduce their carbon-based pollutants stand to gain significantly. They will have to purchase fewer vouchers than their competitors, providing an economic advantage. And they can also profit by dramatically reducing carbon pollution and selling their vouchers to others.

These incentives also act as a signal that steers investment toward the most innovative and efficient companies, transforming the ability to reduce carbon pollution into a new source of profit and a sign of global competitiveness. Investors are already recognizing the financial benefits that accrue to companies that are smart about carbon pollution. PRI will accelerate that process. Meanwhile, factories that reduce pollution will attract more capital, hire additional workers, and gain market share.

Under PRI's incentives, renewable fuel sources such as wind and solar will become increasingly central to the way Americans use energy. Because they don't emit carbon pollution, they won't be required to turn in vouchers. Energy efficiency improvements—what many call the “low-hanging fruit” of our efforts—will become too profitable to ignore.

Initially some of these vouchers will be distributed to industries that require additional investment to transform. PRI will help the coal industry to reinvent itself as a clean, homegrown energy source. Our most efficient coal producers will be rewarded for installing advanced technology to capture and store carbon pollution. Similarly, vouchers will be distributed to other energy generators, including natural gas, nuclear power, and renewable sources to ease the transition.

SMOOTHING AMERICA'S TRANSITION

PRI is designed to maximize the market signals that shape companies' investment and long-term planning decisions, while minimizing the dislocation felt by workers and consumers.

The system only regulates facilities emitting over 25,000 tons of carbon pollution annually, equivalent to the output of 2,300 homes, 4,600 automobiles, or 130 railway cars of coal. Office buildings, apartments, homes, malls and stadiums fall well below the threshold. Over 98 percent of America's businesses are not covered—including America's farmers and nearly all small businesses.

PRI also offers additional support to energy-intensive and trade-exposed industries, like the chemicals industry, so that no advantage is given to companies that simply relocate their pollution overseas.



Agriculture, too, will be helped by PRI. While the agricultural sector is not covered in this program, farmers that change their practices to reduce carbon pollution or to sequester more carbon in plants or soil can earn vouchers they can sell to other companies.

Perhaps most importantly, PRI contains special protections for everyday American consumers of electricity and fuel. To ensure access to affordable energy, low- and moderate-income Americans will receive rebates on their energy bills. A market stability fund will keep voucher prices stable by selling additional vouchers into the market should prices rise above a certain level.

Finally, while it is important for companies to be able to exchange carbon pollution vouchers freely, it is equally important that this market be strictly regulated. The system contains strong policing measures above and beyond those regulating other commodities to ensure that the new carbon marketplace remains transparent, fair, and accountable.