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THE WHITE HOUSE

WASHINGTON

September 8, 2000

Dr. Bernard J. Bulkin
Vice President
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Dear Dr. ~~Bulkin~~: Bernard

Thank you again for taking time to get together while I was in London. You and Roddy were very generous with your time, and it was great talking to you both. It was especially helpful to me to hear your perspectives on the many common issues we deal with, albeit in different ways.

As we discussed, I would be happy to try and arrange a few minutes for Sir John Browne and the President to talk about climate change. Please let me know when your boss plans on being in the area.

Thanks again for a great dinner, and I look forward to hearing from you or Roddy.

Very truly yours,

Roger S. Ballentine

Deputy Assistant to the President for
Environmental Initiatives and Chair, White House
Climate Change Task Force

Cc: Mr. Roddy Kennedy

March 5, 1999

MEMORANDUM FOR TODD STERN

FROM: Dirk Forrister
Janet Anderson

RE: Carbon Reduction Ideas from Industry Consultations

During our upcoming discussion on the industry consultations, it will be valuable to review a short list of the top suggestions to come out of our industry consultations to date. Since none of the consultations has reached an end point, these should not be characterized as formal recommendations that they all support.

Nonetheless, the list below covers the best prospects for actions we could take to pave the way for more carbon-friendly action -- apart from credit for early action legislation. That said, these could be considered on their own or in combination with that topics.

1. **Blended Cements.** The cement industry proposed several ways that the government could help encourage use of cement with lower carbon emissions (from more recycled content such as coal ash or slag) and educate states to follow suit. They want us to alter federal procurement rules and practices to require or encourage the purchase of blended products. The cement industry has estimated that as much as 10 MMTEs could result.

- *ACTION TAKEN:* In response, we issued letters to ASTM and ASHTO to urge adoption of improved technical specifications that would advance limestone intergrinding and blended cements. ASTM was unable to change the intergrinding specification. ASHTO is still considering a blended product change. In addition, we have prepared language for a Presidential Directive to require agencies to use more blended cements.

- *NEXT STEPS:* The President could issue a directive with the federal energy executive orders pushing this forward. EPA and DOT could collaborate on a pilot program with a few interested states to demonstrate the benefits of these products. EPA and DOT could issue information packets to state highway offices about the benefits of blended products. EPA could label a "Climate Wise" label for the best blended products, making it easier for users who want to use environmentally friendly products.

2. **Biomass & Black Liqueur.** The forest products industry is serious about commercializing black liquor and biomass gasification technologies for paper mills. Their estimates for the black liqueur option alone is between 30 and 80 MMTCE, given the large number of aging paper mills ripe for replacement in the next 10-15 years.

- *ACTION TAKEN:* This is a top priority in the CCTI program package, but industry questions whether enough money will be available to move commercial scale demonstration projects on both black liqueur and biomass. Additionally, our new version of the tax package might offer some benefit, but industry has not reacted yet.

- *NEXT STEPS:* We could consider ramping up this program even further in FY01. Additionally, we could review our tax package with the industry to determine whether the new biomass and CHP changes provide adequate incentive to prompt more projects.

3. **Clean Coke.** The coke industry (including coke ovens operators and steel companies) urge us to reconsider clean coke tax incentives. They say advanced coke technology is nearly 50% better than conventional "bee hives"-- but they want a new Sec. 45 tax credit to make it economically viable.

- *ACTION TAKEN:* Given financial constraints in our FY2000 tax package, we were unable to expand into new areas. The industry is forming a coalition and is working the Hill on this idea.

- *NEXT STEPS:* Treasury, DOE and EPA could scope out their tax incentive proposals and examine the economic/energy/environmental benefits to determine whether we want to pursue.

4. **Landfill methane recovery**. Industry is currently developing a report on the role better waste management systems could play in meeting emission reduction goals and what policies would be necessary to attain them (likely through a production tax credit). Initial estimates are up to 50 MMTCE.

- *ACTION TAKEN:* We have received overtures from several organized segments of this industry, including electric power developers, landfills and municipalities. Since we were not expanding our tax package, this idea was not pursued. Some of them are working this issue on the Hill.

- *NEXT STEPS:* Treasury, DOE and EPA could scope out their tax incentive proposals and examine the economic/energy/environmental benefits to determine whether we want to pursue.

5. **Hydro & Nuclear Relicensing.** The electric power industry urged us to address the complex, lengthy relicensing processes for hydro (at FERC) and nuclear power (NRC). These technologies represent large amounts of carbon free generation, and if these delays resulted in plant shut-down, emissions would increase (nuclear avoids 150 MMTCE a year, hydro avoids 89 MMTCE a year). EIA predicts some of these plants to retire on their own economic terms, but the relicensing uncertainties could exacerbate the problem.

- *ACTION TAKEN:* DOE and CEQ (Reicher & Lance) agreed to review hydro options with an interagency team. DOE (Reicher/Magwood) agreed to review nuclear options.

- *NEXT STEPS:* After these reviews, we may want to consider how to approach FERC and/or NRC with recommendations.

6. **Gas Pipeline Permitting.** Natural gas pipelines and electric power companies urged us to improve natural gas siting/construction permitting processes to avoid delays. To meet expected demand for natural gas, an unprecedented construction of pipeline systems will have to occur between now and 2010. The industry has determined it is possible, but only with changes in the siting/regulatory arena.

- *ACTION TAKEN:* CEQ/McGinty suggested an ad-hoc "reg review" group (EPA, CEQ, FERC, DOE), but it has not been formally convened. Two weeks ago, we discussed with FERC General Counsel, and they are open to discussion.

- *NEXT STEPS:* We should convene a review team to examine problems and review options.

7. **Advanced Aluminum Electrodes.** The aluminum industry urges us to work with them to commercialize the wettable cathode and inert anode technologies. Aluminum emissions are already declining under our "business as usual" projections due to efficiency improvements and PFC reductions -- but the new anode/cathode could offer another 14% reduction beyond BAU).

- *ACTION TAKEN:* This option is a high priority in CCTI, and industry is engaged in determining a site for a demonstration project of these two technologies.

- *NEXT STEPS:* We could consider ramping funding up further in FY01.

8. **Clean Air Improvements.** Several industries have suggested that we consider improving their ability to meet Clean Air Act requirements along with carbon targets (forest products, steel, electric power, natural gas). This would include "New Source Review" improvements, as well as possible expedited permit provisions for advanced technology demonstration projects (ala "Project XL") Although there are no concrete proposals or specific carbon reduction estimates, these changes could encourage pioneering technologies, efficiency upgrades at existing plants as well as simplifying installation of combined heat & power systems.

- *ACTION TAKEN:* EPA has an active process with the electric power industry.

- *NEXT STEPS:* EPA/DOE could convene a rump group of experts from the other industries to scope out their problems and potential solutions.

9. **Nuclear Decommissioning.** Some electric power companies urge us to improve the tax treatment of nuclear decommissioning funds. Industry says it could help assure viability of existing nuclear capacity. They provide no tonnage estimate, but EIA estimates nuclear capacity declining by nearly 40% by 2015 due to retirements, some of which industry believes is exacerbated by tax uncertainty.)

- *ACTION TAKEN:* At least one utility has met with Treasury; no official reaction.

- *NEXT STEPS:* DOE and Treasury could meet with industry experts to review potential and report back on whether to pursue.

MEMORANDUM FOR DIRK FORRISTER

From: David Festa (482 2266)

Subject: Two Possible Agenda Items

Date: March 8, 1999

I would like to get your thoughts on two possible industry activities. Provided you think that there is enough hear to stimulate a discussion, perhaps we could add them to the agenda for our next meeting (currently scheduled for Tuesday, March 9, 1999).

1. American Petroleum Industry Offer to Co-Sponsor a Conference
Bill O'Keefe of API, expressed a desire to open a positive dialogue on climate change between his industry and the Administration. He acknowledged considerable constraints but said that there may be some common ground around best practices. His proposal, which is attached, is for API and DOC to sponsor a conference on best practices to reduce greenhouse gas emissions in the petroleum sector. I am inclined to find a way to take API up on their desire to change the tone of the dialogue. My concern is whether or not this is the right first step. Among the specific questions I would like to discuss are the following:

- How much bang for the buck would we get from a conference like this?
- How does it fit in with Task Force industry consultations?
- Have DOE or EPA done similar things on which this could build?
- Assuming we go forward, would other Dept be interested in co-sponsoring with DOC?
- Assuming we do not go forward with this idea, we should have a counter offer. Ideas?

2. Roundtable with industry on CEA and EIA economic assessments of climate policy
As you may remember, this idea came up at one of Todd Stern's meetings on climate change and has gained some momentum. The idea builds on a similar session that EPA had with utilities. At that session our modeling experts presented their studies and discussed differences and similarities. By most reports, it helped demystify the modeling and built credibility among key middle-of-the-road stakeholders for the Administration's position. We could hold a similar event for a wider cross-section of industry. At the earlier meeting, I volunteered DOC's Industry Sector Advisory Committees (ISAC) as a forum. The ISAC members represent all major industry sectors and invest considerable time to be on the ISACs (for example, they all need to get security clearances.) I've attached an ISAC list. Before going further, I would like to:

- Make sure we still think this is a good idea (preliminary conversations suggest that it is);
- See if there are any major concerns or suggestions; and,
- Assemble a small group to help design the session (DOC can organize and manage the session but I would like some input on content and who should be invited).

Attachments

Draft 2/23/99

Climate Change Best Practices Workshop Proposal

Issue: A proposed plan for a jointly-sponsored workshop or symposium on voluntary best practices used by the oil, natural gas and other industries to reduce or limit greenhouse gas emissions.

Background: API has begun collecting information on techniques oil and gas companies are using to limit their GHG emissions. They include: operational processing techniques, cogeneration, product improvements, participation in government programs, partnerships with the automotive industry, academic institutions and others, renewable energy sources, and sequestration. The Climate Change Steering Committee suggests that this information needs to be shared broadly among domestic and international oil and natural gas companies, government agencies and other industries. The Department of Commerce has already expressed interest in co-sponsoring a workshop. Other agencies with relevant programs (e.g., DOE & EPA) could also be approached as co-sponsors. This forum will enable some companies to identify valid emission reduction activities that they are unaware of, while assisting other companies making decisions about alternative reduction steps and partnership opportunities that are available.

Proposed Scope: The purpose of a best practices workshop would be two-fold: to provide a forum for a range of industry perspectives by API members and others to exchange information on known voluntary best practices and partnership opportunities; and, secondly, to identify other practices that some companies may be using, but have not reported or discussed with a broad audience. To expand distribution of the information on emission reduction techniques following the actual event, a series of materials could be prepared (e.g., symposium proceedings, a technical summary report, and public communication materials). The technical report would be a synopsis of the presentations and other program materials intended primarily for industry use. Publishing a summary report, rather than a best practices standard, would avoid delays inherent in the normal standards development and approval process, and would speed the dissemination of the information.

The event could be organized into at least two major sessions. The first session would permit presentations and discussions regarding government programs, partnership opportunities with different industries, academic institutions, and non-government organizations, and their policy implications. Agenda items could include a keynote presentation on future climate change, carbon sequestration and tree planting/sinks, internal industry trading schemes, fuel/auto techniques, cogeneration, and regulatory impediments and tradeoffs. The second workshop session would provide an opportunity for frank, technical discussions among industry participants about potential processing and product improvements. Topics to be covered in the industry portion could include improved processing technologies, product improvements, and related R&D. Depending upon the level of interest, the symposium could be organized as a series of concurrent sessions with different tracks focusing on best management practices of interest to different industries.

Location: Site selection for the workshop depends in part on whether the workshop focuses on technical and/or policy issues, and whether the Department of Commerce, and/or other government agencies, associations, or organizations choose to co-host the event. The best location to ensure maximum API member participation would be Houston, or some other southwestern city. If the symposium focuses primarily on government programs, other partnership opportunities and policies, then Washington seems a logical choice. Another option would be to hold one day of the workshop in Washington and the second day in Houston; this might generate the broadest participation.

Target Date: To permit adequate time for Steering Committee approval, planning sessions with co-hosts, site/hotel arrangements, speaker invitations, event promotion and registration, the preferred time for the event would be in September or October 1999. A more difficult alternative would be to hold the event in June 1999.

Funding & Costs: Upfront costs for workshop planning and other administrative expenses can be covered from the existing climate change budget. Registration fees would be used to recover much, if not all, of these costs.

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Detailed Results

Agriculture

- Industry developing outline for possible structure of consultations
- Groups working on proposal for Administration
- Major workshop on soil sequestration
- FY2000 USDA request for assistance to sector under CCTI

Aviation

- Possible international standards through ICAO process
- Ongoing discussions with EPA on local air requirements and climate implications
- January scoping meeting brought commitment from industry to work with Administration

Aluminum

- CEO meeting in July 1998
- Working through Association on industry-wide report with recommended actions for industry and Administration
- Ongoing work on PFC reductions with EPA under *Voluntary Aluminum Industry Partnership*

Cement

- CEO meeting in July 1998
- Ongoing commitments and estimates of reductions under EPA's *Climate Wise*
- Beginning discussions with DOE on possible *Industries of the Future* program
- Possible inclusion of cement procurement rules in Federal Energy EO or PDD

Commercial Buildings

- Negotiating draft agreement with EPA and DOE for 30% efficiency improvements to new and existing buildings by 2010

Chemicals

- Set-back due to EPA rule on numbers of chemicals tested for toxicity
- Inter-agency/industry sponsored Chemicals Technology Review

Electric Power

- Two CEO meetings in July 1998
- Public Power and Independent Power companies have sent pledge letters to the Administration agreeing to work on possible emissions targets
- Ongoing discussions with EPA on streamlining Clean Air Act requirements with possible future climate requirements and New Source Review issues
- DOE leading effort to streamline nuclear relicensing process; CEQ leading effort to address issues with hydro relicensing
- Leading effort with Congress on Credit for Early Action legislation

Electronics

- On hold
- Individual companies setting targets (IBM, United Technologies)

Forest Products

- CEO meeting in July 1998
- Peer reviewing industry-wide report on emissions and possible actions for reductions
- Involved in Sinks workshops and negotiations
- Ongoing discussions with DOE on demonstrating black liquor gasification project

Gas Pipelines

- CEO meeting in September 1998
- Issue paper available through Interstate Natural Gas Association
- Set-back due to EPA rules on compressor stations

Glass

- Working with DOE on industry-wide review of emissions

Metal Casting

- Working with DOE on industry-wide review of emissions

Oil

- Individual companies setting voluntary targets (British Petroleum, Royal Dutch Shell)
- Growing interest in CEO meeting

Steel

- CEO meeting in July 1998
- Working with DOE and EPA on measurement, verification and reporting issues

Other

- Coke industry looking at possible development and tax incentives for replacing old, inefficient processing facilities
- Solid Waste - developing report to outline areas of cooperation with the Administration

Status of Industry Consultations

March 9, 1999

Background on Industry Consultations

- Launched in President's October 1997 Policy Address.
- Purpose: Achieve private industry commitments for voluntary reductions.
- Build on new paradigm for protecting the environment without sacrificing economic growth.
- Interagency efforts led by White House Task Force.

Overall Objective of Consultations

- Agreement from industry sectors/individual companies on four items:
  --Inventory of direct emissions and plan for ongoing measurement;
  --Options review for practices/technologies to reduce emissions;
  --Stretch goal for emissions reductions; and
  --Action plan for meeting goal.

What We Offer

- Research and development
- Technical assistance
- Check-up for regulations
- Improved procurement policies
- Targeted tax incentives
- Credit for early action
- Presidential recognition

What Has Been Accomplished

- Verbal commitment from 6 groups of CEOs to continue to work with the Administration (aluminum, steel, natural gas pipelines, cement, forest products, electric power--investor-owned, non-utility generators, municipalities, cooperatives).
- Varying levels of interaction with 8 other industries (airlines, agriculture, commercial buildings, chemicals, electronics, glass, metal casting, oil).
- Initial engagement of labor groups into process to identify their concerns.
- Common understanding of emissions opportunities and barriers.
- Work underway to address barriers and enhance and create opportunities.
- Improved credibility with industry.

Today's Reality

- Growing level of interaction with industries on climate change issues.
- Wide range among and within industries of depth on issues.
- Perceived level of seriousness by White House has direct impact.
- Important to build on existing EPA/DOE voluntary programs.
- Credit for Early Action predominant interest--commitments unlikely prior to legislation.
- Small steps build good will.
- Engagement should not be politicized.

Outlook

- Industry-wide reports with recommended actions and potential benefits--but no firm commitments.
- Coalitions will work on Early Credit legislation.
- Leadership companies want plaudits.
- Consultation process prioritizes policy agenda (domestic, diplomatic, legislative).
- No action forcing event at present.
- Increased engagement of CEOs can improve results.