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Climate Change Technology Initiative

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Joseph E. Aldy
10/21/98 09:20:23 AM

Record Type: Record

To: Janet L. Yellen/CEA/EOP, Jeffrey A. Frankel/CEA/EOP, Alan S. Polasky/CEA/EOP, Quindi C. Franco/CEA/EOP

cc:

Subject: CCTI

I spoke with Bob Tuccillo yesterday afternoon, and he gave me a brief overview of how much of the Administration's CCTI request was included in the final budget deal. We had asked for about \$1.3 billion, and received just over \$1 billion. Almost all of this is for R&D. Bob thinks that the only tax credits/incentives in the budget were extensions of existing credits (e.g., the tax credit for wind and biomass energy). If you want details on specific programs within the CCTI, let me know, and I'll see if Bob can compile something for us.

Joe

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ENVIRONMENT

White House Secures \$476 Million for Projects

By The New York Times

WASHINGTON, Oct. 15 — After vowing for weeks to block spending provisions it said would be bad for the environment, the Clinton Administration won many concessions in the final budget agreement but gave ground on other disputed policies.

In the end, the environmental deals were sweetened with money for both sides. The White House said it had won an additional \$476 million for favored programs involving climate change, water quality and conservation lands. At the same time, Republican lawmakers won provisions to spend millions more on items including logging and transportation projects in Alaska.

The grueling negotiations were a classic exercise in compromise, and a few main issues remained in dispute after negotiators declared late on Wednesday that they had outlined a deal.

In two provisions settled today, Congressional Republicans would block new oil royalty rules that would require big oil companies to pay \$64 million a year more for oil from public lands. And Congressional negotiators pushed through a proposal by indus-

try, environmentalists and local government in Quincy, Calif., that would increase logging in national forests in the Sierra Nevada. Both proposals had been opposed by Senator Barbara Boxer, a California Democrat who is in a tough re-election race.

The White House declared victory on the environmental issues, with President Clinton saying, "We honored our obligations to the next generation by strongly protecting the environment."

But Gene Karpinski, the head of U.S. PIRG, the Washington lobbying office for state Public Interest Research Groups, said: "This bill deserves to be vetoed, not celebrated. It contains far too many unacceptable anti-environmental provisions that will weaken public health provisions and plunder public resources."

The Administration accepted a one-year delay in new regulations governing mining on public land, the second such delay. It accepted a provision to make it easier for ranchers to renew grazing permits on public lands without comprehensive environmental reviews. And it accepted a delay in the schedule for phasing out methyl bromide, a farm pesticide that damages the atmosphere's protective ozone layer.

But Congress removed proposals that would have required an 18 percent increase in timber harvests on national forests, required the Forest Service to cut down trees before setting fires to clear underbrush, delayed revisions to forest management plans and put off work to remove logging roads from forests.

After intense negotiations with the powerful Alaskan delegation, the Forest Service agreed to increase by \$12.5 million its spending on timber sales in the Tongass National Forest in Alaska, increasing the supply of timber 25 percent above targets and encouraging the Louisiana Pacific Corporation to build a mill in the region. In exchange, the Alaskans dropped other provisions that would have increased logging even more.

The Administration also agreed to spend \$37.5 million on a medical clinic, airport improvements and a possible road and ferry system to help residents of the remote fishing village of King Cove, Alaska. In exchange, the Alaskans dropped their plan to build a road to the town on a route that would have crossed a wilderness area of the Izembek Wildlife Refuge.

Congress agreed to increase spending on the President's clean water proposals, in-

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Congress agreed to increase spending on the President's clean water proposals, including controls on polluted runoff from farms, to \$1.7 billion, \$150 million more than Congress had proposed.

Spending from the Federal trust fund that pays for land acquisition would increase to \$325 million, \$55 million more than last year.

And spending for energy related research programs intended to stave off global warming by reducing emissions of heat-trapping gases from burning carbon fuels would total slightly more than \$1 billion, \$120 million more than Congress had proposed but less than the Administration's request for \$1.3 billion.

Disputes over the management of salmon in the rivers of the Pacific Northwest were resolved mainly in the Administration's favor.

JOHN H. CUSHMAN Jr.

Senate resists \$6.3bn funds to fight global warming A1

Opposition to Clinton package could spark fierce protests around the world

By Leyla Boulton,
Environment Correspondent

President Bill Clinton is unlikely to secure the \$6.3bn he has sought from Congress to fund a US package to lead a global fight against climate change, according to an administration document and US officials.

Details of the internal document, made available to the Financial Times, show plans drawn up by the Senate do not allow for funding a programme to promote new technologies reducing greenhouse gases linked with global warming.

A failure to provide tax incentives and subsidies for more efficient fossil fuel use and renewable energy sources would almost certainly spark fierce protests around the world.

According to the document, the White House's Office of Management and Budget has concluded it is "safe to assume that the Senate resolution does not provide the necessary support for this important initiative". It says the Senate's response would not allow the government to fund the package "without seriously jeopardising other critical programmes".

The House of Representatives, which like the Senate has already expressed hostility to the international greenhouse gas emission curbs negotiated last December in Kyoto, will come up with its own budget blueprint for 1999. The final budget will be negotiated with the White House.

The package is seen by the White House as essential for reducing US emissions cost effectively and for securing concerted international action.

"This makes our life miserable," said one administration official of the Senate's current stance. "It means that our efforts to advance domestically will slow down to the point where attempts to advance international-

ally are going to be that much more difficult."

Anna Lindh, Sweden's environment minister, said that any failure by Congress to release the funds would be "alarming".

She said Sweden was spending SKr9bn (\$1.16bn) to promote energy efficiency, even though it was much smaller and generated only one-third of US per capita emissions.

"If the rest of the world is to take this problem seriously, it is very important that the US, the biggest emitter, should take it seriously," she said.

Joe Romm, a senior Department of Energy official, said the programme was the most cost-effective way for the US, the world's single biggest source of greenhouse gases, to meet its own 7 per cent emissions reductions target, agreed at Kyoto.

The programme is also necessary to convince fast-growing developing nations such as China and India to take action of their own. This in turn is a condition for the Senate to ratify the Kyoto treaty, which committed only developed countries to legally binding targets for reducing emissions by 2010.

Mr Romm, whose department would distribute the subsidy part of any package, still expressed hope that Mr Clinton and vice-president Al Gore would manage to salvage a large part of the programme in the "end-game" of budget negotiations later this year.

Other officials said, however, that the department was being naive. "I would be surprised if we get even half the money," said one. Mr Clinton's criticism of the Senate resolution did not even mention climate change but focused instead on more important priorities such as Medicare and education.

Shell quits lobby, Page 5

Microsoft starts US legal fightback

By Richard Wolffe
in Washington

Microsoft said yesterday that no computer makers had chosen to leave out its internet browser software since a court last year ordered it to stop forcing manufacturers to include it with Windows 95.

Launching its legal fightback against the US government, the software company said the amended version of its operating system had been overwhelmingly unpopular.

The US Justice Department had argued that Microsoft was breaching a 1995 antitrust settlement, by using its monopoly in operating systems to prevent competition in internet software, particularly from Netscape Communications.

Microsoft agreed to separate its browser from Windows by offering computer makers the choice of a version which left the browser's icon hidden from view.

The appeal seems likely to have little practical impact on sales as the company is in the final stages of prepar-

ing to launch the latest version of its operating system, Windows 98, in June.

Instead, both the company and the Justice Department view the appeal as a preliminary skirmish in a wider battle over Microsoft's future. The Justice Department is currently considering whether to bring a wide-ranging antitrust action against the company, possibly before the launch of Windows 98.

Douglas Melamed, for the Justice Department, argued the government wanted to give more freedom to computer makers and users to choose their own browsing software. After an hour of largely technical and complex legal argument, the judges adjourned the appeals hearing. Their final decision is not expected for several weeks.

Microsoft is also appealing against an earlier court decision to appoint Lawrence Lessig, a Harvard law professor, as a "special master" to advise on legal and technical issues. The company says the court had delegated too much power to Mr Lessig.

● Paul Taylor in London adds: Jim Barksdale, chief executive of Netscape Communications, in London yesterday said: "What I would like to see the Justice Department do is to cause Microsoft to stop exclusionary contracts and predatory pricing in tie-in sales.

"That is easier said than done in the software industry, but what I don't want them to do is to stifle innovation at Microsoft or anywhere else. I don't want them to restrict consumer choice, I want them to open up consumer choice." He suggested the US courts should "break up the lock Microsoft has on the distribution channel because no PC shipped in the world ships without Windows 95.

"We have not argued that they necessarily have to break Microsoft up in order to do that, but Microsoft's behaviour would indicate that they regard a lot of this as sort of fun and games and they historically have not been willing to abide by restrictions."

.....
Intranets, Page 21



cc: JLY, JAF,
RMB, MJ

DEPARTMENT OF THE TREASURY
OFFICE OF TAX ANALYSIS
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WASHINGTON, DC 20220

Number of pages to follow: 8

Date: June 3, 1998

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Comments: Draft Treasury testimony on climate change tax incentives.

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UNCLASSIFIED

Draft 3: June 2: 6:45pm

For Release Upon Delivery
Expected at 9:30 a.m.
June 4, 1998

STATEMENT OF JOHN KARL SCHOLZ
DEPUTY ASSISTANT SECRETARY (TAX ANALYSIS)
DEPARTMENT OF THE TREASURY
BEFORE THE
SENATE COMMITTEE ON ENERGY AND NATURAL RESOURCES

Mr. Chairman and Members of the Committee:

I appreciate the opportunity to discuss with you today the Administration's climate change tax incentives.

As you know, a few months ago, in the Administration's budget for FY 1999, the President presented to the Congress his plan to begin addressing climate change. That plan includes \$3.6 billion of tax incentives that will encourage energy efficiency and renewable energy sources. The proposed tax incentives are part of a larger package of technology initiatives. In addition to the \$3.6 billion of tax incentives, the Administration proposed \$2.7 billion for R&D and deployment of energy efficiency, renewable energy, and carbon-reducing technologies. These provide a total of \$6.3 billion in new funding and tax incentives over five years. We believe that these initiatives will stimulate the development and use of technologies that can help to improve energy efficiency and reduce greenhouse gas emissions.

My comments today will focus on an explanation of the Administration's proposed tax incentives.

ADMINISTRATION PROPOSALS

Individuals and businesses may underinvest in energy-saving technologies because the private benefits from those investments may be lower than the benefits to society. Private incentives may be too low because the market prices that serve as the signals that influence investment decisions do not take into account national security and environmental benefits attributable to energy savings. Investments in energy-saving technologies can reduce dependence on oil imports and slow the buildup of greenhouse gases in the atmosphere. Tax incentives are a potentially appropriate method for addressing the failure of market prices to achieve the socially desirable level of investment in energy-saving technologies because they can increase the private return from the investment by reducing its cost.

The proposed tax incentives are intended to reduce energy consumption and greenhouse gas emissions by encouraging the deployment of technologies that are highly energy-efficient and that use renewable energy sources. By designing the tax incentives with these considerations in mind, we linked the ability to claim a tax incentive with a performance objective. Credits can only be claimed for items that meet high standards for energy efficiency, use renewable energy sources, or reduce emissions of certain highly potent greenhouse gases. If the credits are successful and are claimed by taxpayers, there will be significant energy savings and reductions in greenhouse gas emissions. If they are unsuccessful and are not claimed by taxpayers, there will be no revenue loss.

Specifically, we designed the incentives to take into account the following considerations:

- (1) **High threshold for eligibility.** The eligible items must presently account for a small share of the market. This minimizes windfalls for purchases that would have been made anyway.
- (2) **High up-front costs compared to conventional equipment.** The targeted technologies have substantially higher purchase prices than conventional equipment and, at current market prices, are not universally cost-effective. These high up-front costs are another reason not many would be purchased without the credit.
- (3) **Superior energy efficiency compared to conventional equipment.** The eligible items must meet high standards for energy efficiency or use renewable energy sources. This ensures that scarce public resources are being used to reduce greenhouse gases because the creditable equipment is highly energy efficient compared to conventional equipment or uses renewable energy sources that produce little or no greenhouse gases.
- (4) **Available.** The items must be commercially available or near commercialization. This ensures that the incentives encourage the deployment of new technologies that private markets have already developed, rather than attempting to pick future technological winners.
- (5) **Administrable.** The items must be able to be defined precisely enough so that IRS can administer the credits. This ensures that credits are claimed only for items for which they are intended.

We also targeted tax incentives to address certain emissions of highly potent greenhouse gases that have atmospheric lifetimes thousands of times greater than carbon dioxide, the most abundant greenhouse gas.

The tax incentives the Administration has proposed cover the four major carbon-emitting sectors of the economy (buildings, industry, transportation, and electricity).

Buildings

Buildings currently account for about one-third of energy consumption and the related greenhouse gas emissions. The proposed tax incentives for the buildings sector would encourage investment in a new generation of energy-efficient building equipment, highly energy-efficient new homes, and rooftop solar systems.

Tax credit for highly energy-efficient building equipment

A 20 percent tax credit would be provided for the purchase of certain highly energy-efficient building equipment (subject to caps). This credit encourages the purchase of equipment that will improve the energy efficiency of both residential and commercial buildings. The items covered are certain fuel cells, electric heat pump water heaters, natural gas water heaters, electric heat pumps, natural gas heat pumps, and advanced central air conditioners. Only very energy efficient equipment of each type would be eligible. The credit would be temporary -- for equipment purchased between January 1, 1999 and December 31, 2003 (fuel cells would be delayed one year). The revenue cost of this incentive is estimated to be \$1.4 billion for FY 1999 - 2003.

Eligible items embody new, cutting edge technologies, generally capturing less than 1 percent of market sales. Therefore, few of the credits would go for purchases that would have been made anyway. These top-tier technologies have substantial purchase prices and are not universally cost-effective, but offer superior energy efficiency compared to conventional equipment. For example, compared to typical units on the market, the eligible advanced air conditioning systems and electric heat pumps are 40 percent more efficient and eligible electric heat pump water heaters and natural gas heat pumps are about twice as efficient. Eligible items are currently available, not speculative. Energy efficiency standards are available for the eligible equipment so that items could be defined precisely enough for IRS to administer the credit.

Through 2008, we estimate that over 7 million taxpayers will purchase energy efficient equipment eligible for the credit. As noted above, eligible units are substantially more energy efficient than the typical units on the market.

Tax credit for new energy-efficient homes

Residences account for about one-sixth of US greenhouse gases and offer one of the largest sources of energy saving potential. Almost one million new homes and manufactured homes are built and sold each year. Some states and certain Federal programs require new houses to meet Model Energy Code standards for insulation and related construction standards, and for heating, cooling and hot water equipment. But the energy efficiency of new homes could be improved by 50% or more through the use of energy efficient building practices and more efficient heating and cooling equipment.

To encourage the purchase of new highly energy-efficient homes, a tax credit would be provided equal to one percent of the purchase price (up to a maximum credit of \$2,000) of new homes that use at least 50% less energy for heating, cooling and hot water than the Model Energy

Code. The full credit would be available for homes purchased between January 1, 1999 and December 31, 2003, and would phase out in 2006. The revenue cost of this incentive is estimated to be \$0.2 billion for FY 1999 - 2003.

Again, we have set a high threshold for eligibility for the credit. Eligible houses would be super energy efficient compared to present standards. Energy used in housing eligible for the credit would be reduced by 80 percent compared to existing housing and by over 50 percent compared to new housing.

Tax credit for rooftop solar systems

Solar energy systems, which accounted for .02 percent of electricity generation in 1996, have the potential to reduce greenhouse gas emissions and energy costs for businesses and individuals. The tax credit for the purchase of rooftop photovoltaic (PV) systems and solar water heating systems solar systems would make these systems more affordable and encourage their purchase. The credit would be 15 percent of qualified investment up to a maximum credit of \$2,000 for PV systems and \$1,000 for solar water heating systems. The credit would be available from January 1, 1999 and December 31, 2003 for solar water heating systems, and December 31, 2005 for rooftop PV systems. The revenue cost of this incentive is estimated to be \$0.1 billion for FY 1999 - 2003.

This tax initiative will help to achieve the President's goal of one million solar roofs by 2010. Heat and electricity produced from solar energy systems produce no greenhouse gases.

Industry

The proposed tax incentives for industry would promote energy efficiency by encouraging investments in combined heat and power systems that use energy that is otherwise wasted in producing electricity by more conventional methods. Tax credits are also provided to encourage the replacement of certain electricity circuit breakers that are prone to leak a potent greenhouse gas and equipment that recycles certain greenhouse gases used in the semiconductor industry.

Tax credit for combined heat and power (CHP) systems

CHP systems use thermal energy that is otherwise wasted in producing electricity by more conventional methods. These systems increase energy efficiency, lower the consumption of primary fossil fuels and reduce carbon emissions as compared with conventional methods by using energy that is wasted.

To encourage and accelerate investment in CHP equipment, a 10 percent tax credit would be provided for investments in CHP systems that meet certain energy efficiency requirements. A qualified system would be required to produce at least 20% of its total useful energy in the form of both thermal energy and electric or mechanical power, and would have to meet certain efficiency standards. The credit would apply to property placed in service between January 1,

1999 and December 31, 2003. The revenue cost of this incentive is estimated to be \$0.9 billion for FY 1999 - 2003.

Current cogeneration capacity is approximately {45?} gigawatts. The credit should increase that capacity by about ten percent. Eligible CHP systems should reduce input energy requirements by about one-third compared to conventional systems. This saving is achieved by capturing the current waste heat that is created during the generation of electrical energy and using that waste heat in a thermal application. This saves fuel costs and generates fewer greenhouse gas emissions.

Tax credit for replacement of certain circuit breaker equipment

Certain older, large power circuit breakers used in the transmission and distribution of electric power are particularly prone to leak sulfur hexafluoride (SF6). This equipment, using a dual pressure technology that was no longer used after 1985, is particularly prone to leak as the seals corrode over time. The purpose of the tax incentive is to encourage utilities to replace the old equipment with new equipment. To prevent the old equipment from being sold to another utility in the US or abroad, the old equipment must be certified by an appropriate third party to have been destroyed.

To encourage the replacement of leaky circuit breakers, a 10 percent credit would be provided for cost of new equipment. The credit would apply to new equipment placed in service between January 1, 1999 and December 31, 2003. The revenue cost of this incentive is estimated to be less than \$50 million for FY 1999 - 2003.

Tax credit for perfluorocompound (PFC) and hydrofluorocarbon (HFC) recycling equipment

PFCs and HFCs are among the most potent greenhouse gases because of their extreme stability in the atmosphere and strong absorption of radiation. Because of the rapid anticipated growth of the semiconductor industry, the use of these gases is expected to grow at rates of 20 to 30 percent per year for the next ten years. A 10 percent tax credit would be provided for the purchase of equipment to recycle and recover PFCs and HFCs used in the production of semiconductors. The credit would apply to equipment placed in service between January 1, 1999 and December 31, 2003. The revenue cost of this incentive is estimated to be less than \$50 million for FY 1999 - 2003.

These two tax credits are targeted toward emissions of very potent greenhouse gases that have an atmospheric lifetime of thousands of years and a global warming potential thousands of times greater than that of carbon dioxide, the most abundant greenhouse gas.

Transportation

The proposed tax initiatives in the transportation sector include tax credits for the purchase of highly fuel-efficient cars and light trucks, and an incentive to encourage public transportation and vanpools.

Tax credits for highly fuel efficient vehicles

Cars and light trucks (including minivans, sport utilities, and pickups) currently account for 20 percent of greenhouse gas emissions. Tax credits for highly fuel efficient vehicles will help to move vehicles that are ultra efficient from the laboratory to the highway. Thus this credit complements the partnership for a new generation of vehicles (PNGV program) that will develop the technology for these vehicles.

Two tax credits would be provided:

- \$4,000 Credit for vehicles with triple the base fuel economy for its class. This credit would be available for purchases of qualifying vehicles beginning January 1, 2003. The credit amount would phase down to \$3,000 in 2007, \$2,000 in 2008, and \$1,000 in 2009, and would phase out in 2010.
- \$3,000 Credit for vehicles with twice the base fuel economy for its class. The \$3,000 credit would be available for purchases of qualifying vehicles beginning January 1, 2000. The credit amount would phase down to \$2,000 in 2004, \$1,000 in 2005, and would phase out in 2006.

These credits would be available for all qualifying vehicles, including cars, minivans, sport utility vehicles, pickup trucks, and electric vehicles. The revenue cost of this incentive is estimated to be \$0.7 billion for FY 1999 - 2003.

Again, we have set a very high threshold for obtaining these credits. Eligible vehicles must be two or three times as efficient as today's comparable vehicles. Tripling a car's fuel economy reduces its emissions of carbon dioxide by 67 percent; doubling a car's fuel economy reduces its emissions of carbon dioxide by 50 percent. If this credit is successful and transforms the market for cars and light trucks, the benefits will be significant in the out years.

Equalize the tax treatment of parking and transit benefits

Under present law, qualified transportation fringe benefits provided by an employer are excluded from income. Qualified transportation fringe benefits include parking, transit passes, and vanpool benefits. Beginning in 1998, parking is excludable from gross income even when provided in lieu of other compensation payable to an employee. Transit passes and vanpool benefits, however, are only excludable if provided in addition to, and not in lieu of, any compensation otherwise payable to an employee. In 1998, the amount of employer-provided benefit that is excludable from income per month is \$175 for parking and \$65 for vanpool and transit benefits.

This initiative would equalize the tax treatment of parking benefits and transit and vanpool benefits. To encourage public transportation and vanpools, employers would be allowed to provide tax free transit and vanpool benefits in lieu of compensation, up to the same amount that they can provide for parking beginning January 1, 1999. The revenue cost of this incentive is estimated to be \$0.1 billion for FY 1999 - 2003.

Electricity

Extension of tax credit for electricity produced from wind and biomass

Wind energy systems accounted for about .09 percent of electricity generation in 1996. What is deployable today is the result of successful R&D in the past. To encourage the production of electricity from wind and certain biomass, a 5-year extension is proposed for the present 1.5 cent per kilowatt hour tax credit (adjusted for inflation after 1992). The present credit, which applies to facilities placed in service before July 1, 1999, would be extended for five years. The revenue cost of this incentive is estimated to be \$0.2 billion for FY 1999 - 2003.

This tax credit helps to make electricity from these systems competitive with other forms of electricity generation. Electricity produced from wind energy systems produces no greenhouse gases.

COMMENTS ON GAO'S REVIEW

GAO criticizes the tax incentives that I have described because the Administration has not chosen to make speculate estimates about the greenhouse gas reduction benefits attributable to the proposals. Our goal has been to design the best possible tax incentives to achieve reductions in greenhouse gases and to increase energy efficiency. The preceding discussion makes clear that the proposed incentives were designed with those objectives in mind. The tax incentives have well-defined goals that they were specifically designed to achieve. Eligible items offer superior energy efficiency, use renewable energy sources, or reduce emissions of extremely potent greenhouse gases. If taxpayers claim the credit, it is for items that produce energy savings and emissions reductions. If the credits are not effective, there is no revenue loss.

The impact of the incentives in this package on greenhouse gases will increase significantly in the out years, those distant effects that by their very nature are the most difficult to predict. I would like to illustrate this point with one example. I stated earlier, with respect to the tax credit for highly energy-efficient building equipment, that the affected equipment presently captures less than one percent of market sales. With the credit in place, we expect this fraction to increase significantly in the short-run. We also expect that after the credit has expired the share of the market for highly efficient building equipment will be much larger as a result of the credit. But whether it will double, or triple, or multiply by a factor of 10 is unclear. Obviously, the impact on emissions reductions will be proportionate to the increase in market share. Any estimate hinges

on the assumption about the market response to the tax incentives -- and all such assumptions are equally assailable.

The focus of this discussion belongs on whether the tax incentives are the right ones. We think they are. Speculation about the heroic assumptions that would underlie any estimates of the long-term quantitative impact on greenhouse gases would divert attention from this main issue.

CONCLUSION

In conclusion, Mr. Chairman, we believe that the Administration's proposed tax incentives represent sound policy that will have long-term benefits for the Nation. We look forward to working with the Congress on this matter.

Mr. Chairman, that concludes my formal statement. I will be pleased to answer questions that you and the Members of the Committee may wish to ask.

post 2:30 comments

GCC mtg 1/12/97

Peter: extensive engagement of industry can come later

David Gardiner: Let's get a more detailed schedule. We should get started right away. Not clear how list relates to current, base, programs

Dan R: For example, we could get back to original funding for PNGV.

TJ: First need to determine goals, then assess the appropriate \$ level.

Dan R: Standard setting doesn't require much money.

Peter Orszag: Principals need to decide where tax cuts are going.

David Doniger: Should we be thinking how to structure programs as tax cuts?

Karl Scholz: The paper we're working on is in good shape. Your input will probably be too late.

Peter Orszag: Principals will decide based in part on calculation of legislative politics. (Tax cuts go through Congress more overtly)

embargoed until 2/2/98

Climate Change Technology Initiative (CCTI)

Last fall, the President announced a nine-point plan to begin addressing climate change, including a five-year, \$5 billion package of tax incentives and research and development spending to spur energy efficiency and help develop low-carbon energy sources. With the historic agreement in Kyoto in December 1997 to reduce greenhouse gas emissions, the President is now proposing a \$6.3 billion initiative over 5 years -- \$2.7 billion in increased spending and \$3.6 billion in tax incentives. (See Table 1.) For FY 1999, the budget shows \$473 million in increased spending on climate-change related technologies (\$1.292 billion vs. \$819 million in FY 1998) and \$421 million in tax incentives, for a total first-year initiative of \$894 million.

TABLE 1

Direct Programs & Tax Incentives	Dollars in Millions				
	1997 Actual	1998 Estimate	1999 Proposed	Dollar Change: 1998 to 1999	Total Increase 1999-2003
BY AGENCY					
Energy	657	729	1060	+331	+1,899
Environmental Protection Agency	86	90	205	+115	+677
Housing and Urban Development	--	--	10	+10	+10
Commerce	--	--	7	+7	+38
Agriculture	--	--	10	+10	+86
R&D Program Total	743	819	1,292	+473	+2,710
Tax Incentives	--	--	421	+421	+3,635
Climate Change Technology Total	743	819	1,713	+894	+6,345

TABLE 2

Direct Programs	Dollars in Millions		
	1998 Estimate	1999 Proposed	Dollar Change: 1998 to 1999
BY AREA OF EFFORT			
Buildings	146	264	+118
Industry	156	216	+60
Transportation	246	356	+110
Electricity	220	332	+112
Carbon Sequestration and Cross-Cutting Research	0	42	+42
Policy Analysis, Market Incentives	6	26	+20
Program Direction	45	57	+12
Climate Change Technology			
Direct R&D Total	819	1,292	+473

Columns may not add due to rounding.

The principal focus of the initiative is an R&D portfolio that covers the four major carbon-emitting sectors of the economy (buildings, industry, transportation, and electricity), plus carbon removal and sequestration, Federal facilities, and crossing cutting analyses and research. (In Table 2, Federal Facilities are included under Buildings.)

BUILDINGS

- ***Accelerate the deployment of existing technologies.*** Major improvements in the energy efficiency of both residential and commercial buildings can be obtained through better labeling of highly efficient technologies and appliances (such as the easily identified Energy Star label), through demonstrations and partnerships with builders and developers, and through two related tax credits:
 - one that encourages the purchase of certain highly efficient building equipment (electric heat pumps, natural gas heat pumps, advanced central air conditioners, and fuel cells for power generation); and,
 - one that provides a credit for the purchase of highly-efficient new homes.
- ***Partnerships for Advanced Technologies in Housing (PATH).*** HUD will lead a team that includes DOE and EPA to work with the building industry to develop, demonstrate, and deploy housing technologies and practices that are inexpensive, highly efficient, and attractive to consumers. This effort will also focus on streamlining Federal, state, and local codes and regulations, education outreach, and creating local markets for PATH housing using pilot sites and demonstrations.
- ***Million Solar Roofs.*** In June of 1997, the President announced an initiative to encourage the installation of one million solar hot water and solar photovoltaic (PV) installations on buildings over the next 10 years. DOE will fund cost-reduction R&D for solar thermal and rooftop PV systems, and will establish partnerships with communities, builders, and other Federal agencies to promote the use of building-mounted solar systems.
 - In addition, a tax credit is proposed to encourage the purchase of rooftop solar thermal and PV systems.
- ***Increased R&D.*** In addition to encouraging the deployment of the best available technologies, DOE is also increasing its research on building systems modeling, to help architectural engineers, and on major components such as next-generation heat-pumps, cooling systems, furnaces, and lighting.

INDUSTRY

- ***Partnerships with industry.*** DOE works closely with industry on technology roadmaps and plans to reduce energy consumption and secure early reductions in greenhouse gas emissions. Industries already engaged in this effort include aluminum, steel, glass, paper and forest products, metal casting, and chemicals. These technology roadmaps form the basis for cost-shared R&D with industry teams and consortia.
 - This work will be enhanced within DOE, and complementary efforts will be undertaken by EPA, USDA, and DOC (NIST), which will lead to voluntary greenhouse gas reduction programs within industry.
- ***Combined heat and power.*** This is an advanced form of cogeneration that integrates power generation with the provision of useful thermal energy in a factory or building.
 - R&D will be accelerated on advanced turbines, fuel cells, and other technologies, and new approaches to capturing useful work or heat through several temperature stages (e.g. electric generation, industrial process steam, steam building heat) in factories or commercial buildings will be demonstrated. When commercially accepted, these systems will allow us to capture the waste heat the Nation now throws away.
 - A 10 percent tax credit is also proposed for investments in combined heat and power systems that have depreciation recovery periods of 15 years or longer.
 - Tax credits are also proposed for certain investments to remove or recycle fluorine and fluorocarbon compounds that act as highly-potent greenhouse gases.

TRANSPORTATION

- ***Partnership for a New Generation of Vehicles (PNGV).*** A government-industry effort to develop an attractive, affordable car that meets all applicable safety and environmental standards and gets up to three times the fuel efficiency of today's cars, or roughly 80 miles per gallon. Five agencies participate in PNGV -- DOE is the largest player, followed by EPA, DOC, NSF, and DOT.
 - The program will lead to "concept cars" in the year 2000 and production prototypes in 2004.
 - This winter, industry and the government have announced the designs that they will pursue -- hybrid vehicles that combine a power source (a piston engine or fuel cell) with battery storage and electric motors.

- In FY99, the combined request for PNGV-related work in those agencies is \$277 million, up from \$227 appropriated in FY98.
- Tax credits are proposed to encourage the purchase of this type of highly-efficient vehicle, and to help make them more affordable. A \$3,000 credit will be available starting January 1, 2000 for vehicles that are twice as efficient as the norm for their class, and a \$4,000 credit will become available January 1, 2003 for vehicles that are three times as efficient as the norm. (The \$3,000 credit would phase out by 2006, and the \$4,000 credit would phase out by 2010.)
- ***Partnerships for Light and Heavy Trucks.*** Similar government-industry efforts are proposed to develop more efficient diesel engines for both light trucks and heavy trucks.
 - DOE has been engaged in R&D on more efficient large truck engines for several years, and that effort will be stepped up in FY99, in coordination with increased work on large diesel engines at EPA and DOD.
 - A government-industry partnership is currently being formed for R&D on smaller diesel engines suitable for light trucks and sport-utility vehicles (SUVs), which are the fastest-growing class of passenger vehicles. A clean, efficient diesel engine could improve the fuel-economy of light trucks and SUVs by 50 percent.
- ***Sustainable Transportation.*** This initiative would promote alternatives to single-occupancy vehicle travel using pilot projects in selected communities modeled after the highly successful approach adopted by the Portland, Oregon metropolitan region.
 - The sustainable transportation programs in EPA and DOE will be coordinated with existing and planned DOT programs. (DOT is not funded within the Climate Change Technology Initiative, however.)
 - An amendment is proposed to current tax law to equalize treatment of parking and transit benefits. To encourage public transportation and vanpools, employers would be allowed to provide tax free transit and vanpool benefits in lieu of compensation, up to the same amount that they can provide for parking.

ELECTRICITY

- ***Renewable energy.*** Expand research partnerships for key renewable technologies such as wind, photovoltaics, geothermal, biomass, and hydropower to accelerate price reductions and improve performance. The same programs will also be supporting increased R&D in hydrogen production and storage and in superconductivity.
 - The FY99 budget proposes a \$100 million increase in DOE for solar and renewable energy R&D -- a 37 percent increase over FY98.

- A 5-year extension is proposed for the tax credit for electricity produced from wind and biomass.
- The photovoltaic (solar electric) component of the Million Solar Roofs initiative (described above under "Buildings") also can be described as an electricity-sector initiative, providing "distributed generation."
- ***Electricity Restructuring.*** DOE and EPA will work with States and utilities on the restructuring of the electricity sector, to ensure that the restructuring does not create barriers to the adoption of renewable and low-carbon generating technologies.
- ***Nuclear power-plant life extension.*** DOE will initiate an R&D effort addressing the critical technology needs to allow currently-operating nuclear power plants to safely extend their operating lifetimes by 10 to 20 years.
 - Under current NRC licences, approximately 60 gigawatts of electric generating capacity would have to be retired between now and 2015. (Most of that comes between 2005 and 2015.)
 - Providing the technologies necessary to safely operate these plants for another 10 to 20 years will make the transition to other low-carbon energy sources, such as solar and renewable energy, much easier.
 - (NRC has indicated that they would probably not grant any plant more than one life extension.)
- ***Innovative coal combustion technologies.*** In FY99, DOE will initiate a research program on innovative new approaches to coal combustion that offer the possibility of much lower carbon emissions than existing technologies.

CARBON REMOVAL AND SEQUESTRATION.

- ***Sequestration R&D.*** Research initiatives are being funded in both basic and applied research to find ways to remove carbon dioxide (CO₂) from combustion gases and sequester (store) the carbon so that it does not enter the atmosphere.
 - DOE's basic science office will engage in biochemical and microbial research.
 - DOE's fossil energy office will conduct an applied sequestration R&D program, jointly managed with the basic science office.
 - USDA will initiate research on enhancing the carbon-sequestering capabilities of agricultural species. NIST will support complementary biotechnology work on plant metabolism and carbon use.

CROSSCUTTING ANALYSIS AND RESEARCH

- ***Emissions credits, incentives, and trading.*** EPA will lead an effort, assisted by DOE, to evaluate options for a domestic trading system and early reduction program in industry. The Federal government will work with stakeholders to understand their views and interests, and to build the institutional capacity needed to implement a carbon emissions credit and trading system.
- ***Program and science assessments.*** DOE will lead efforts to assess the implications of new research results produced by the Global Change Research Program, in order to determine what geographic and technological responses may be appropriate.

3-10-98

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Report to Congress on Federal Climate Change Expenditures

Pursuant to Section 580 of Public Law 105-118

Office of Management and Budget
March 1998

In response to Section 580 of Public Law 105-118, "Foreign Operations, Export Financing, and Related Agencies Appropriations Act of FY 1998," the following is a summary of Federal agency programs most directly related to global climate change.

Domestic Programs

The Climate Change Technology Initiative is a five-year research and technology program to reduce the Nation's emissions of greenhouse gases. Led by the Energy Department (DOE) and the Environmental Protection Agency (EPA), the initiative also includes activities of the National Institute of Standards and Technology (NIST) and the Departments of Agriculture (USDA) and Housing and Urban Development (HUD). The initiative includes a combined \$2.7 billion increase over five years for these agencies for research and development on energy efficiency, renewable energy, and carbon-reduction technologies. The initiative also includes \$3.6 billion in tax incentives over five years to stimulate the adoption of more efficient technologies in buildings, industrial processes, vehicles, and power generation.

The Global Change Research Program, led by the National Aeronautics and Space Administration, builds understanding of climate change and variability, atmospheric chemistry, and ecosystems. Program results help in the development of climate change policies. The 1997 launch of the Tropical Rainfall Measurement Mission satellite will provide previously unavailable, detailed, and accurate rainfall measurements, filling a significant gap in our understanding of the Earth system. In 1998 and 1999, the program will launch more satellites, and will focus on investigating regional climate changes.

A more complete description of these programs can be found in Chapter 6 ("Promoting Research") of the President's FY 1999 Budget.

International Programs

Last June, the President announced a \$1 billion, five-year commitment to address climate change in developing countries. This initiative includes at least \$750 million (\$150 million per year) for the U.S. Agency for International Development (USAID) to support climate change-related activities in developing countries, particularly programs in energy efficiency, forestry, and agriculture. USAID will also use up to \$250 million of its new credit authority to provide partial loan guarantees for projects in developing countries that address climate change.

The Global Environment Facility (GEF) is the world's leading institution for protecting the global environment and avoiding economic disruption from climate change, extinction of valuable species, and collapse of the oceans' fish population. The \$300 million proposed for 1999 includes \$193 million for U.S. contributions previously due and \$107 million for the initial contribution to the GEF's second four-year replenishment (1999 to 2002). Approximately 38 percent of the total U.S. annual contribution to the GEF supports climate change-related projects in developing countries.

Domestic and International Spending Directly Related to Climate Change
(Discretionary budget authority and tax incentives in millions of dollars)

	1997 Actual	1998 Estimate	1999 Proposed	Increase 1998 to 1999
<u>Climate Change Technology Initiative (CCTI)</u>				
Energy	657	729	1,060	331
Environmental Protection Agency	86	90	205	115
Housing and Urban Development	---	---	10	10
Commerce	---	---	7	7
Agriculture	---	---	10	10
Subtotal -- CCTI Spending	743	819	1,292	473
Tax Incentives	---	---	421	421
Subtotal -- CCTI Spending & Tax Incentives	743	819	1,713	894
<u>Global Change Research Program</u>	1,818	1,867	1,864	-3
Subtotal -- Domestic (CCTI + Other Domestic)	2,561	2,686	3,577	891
<u>International</u>				
Agency for International Development				
- Grant Assistance	147	150	150	0
- Loan Guarantees (non-add)	---	---	(100) ^{1/}	(100)
Global Environment Facility (GEF)	13	18	114 ^{2/}	96
State	3	5	8 ^{3/}	3
Subtotal -- International	163	173	272	99
Total -- Domestic & International	2,724	2,859	3,849	990

Notes:

1/ USAID will use its new credit authority to make up to \$100 million in guaranteed loans for climate change-related projects.

2/ Represents 38 percent of the total US annual contribution. FY 1999 includes \$193 million for payments in arrears.

3/ Includes funding for climate change secretariat and Intergovernmental Panel on Climate Change (IPCC). Does not include salaries and expenses related to international negotiations.

DOE 11/12/97

Expand Use of Combined Heat and Power

Preliminary Draft Action Plan

Note: The milestones, schedule and other details below are based on ongoing deliberations of a recently established working group and have not undergone any agency review. As such, they could change substantially and appear here for illustrative purposes only.

Goals Increase the use of efficient combined heat and power systems to improve overall efficiency of fuel utilization in the U.S.

Approach Specific actions to overcome impediments to greater use of CHP systems will be designed and implemented and actions that accelerate deployment of those systems in federal facilities will be undertaken. Impediments to be addressed include:

- environmental permitting of new equipment is complex, costly and time consuming and discourages retrofitting of new, more efficient equipment.;
- tax treatment of CHP is less favorable than other alternative on-site investments;
- infrastructure for purchasing and selling power and connecting to the grid is in flux and may be subject to prohibitive costs; and
- CHP use is not encouraged in federal facilities and military bases - despite often favorable physical infrastructure.

Milestones/Schedule

10/97	DOE, EPA and CHP community establish working group to formulate draft plan, identify market impediments and formulate draft actions	
11/97	Working group findings transmitted to DOE and EPA management and CHP community and formal interagency group established to formulate detailed action plan	
1998	Submit Administration legislation on electricity restructuring	
1998	Develop streamlined permitting process for CHP systems	[EPA]
	-Allow permit by rule for systems that meet efficiency/emission standards	
	-Pre-certify qualifying standard package systems as compliant	
1998	Incorporate off-site emissions reductions created by CHP in local CAAA decisions	[EPA]
1998	Reduce tax depreciation life to 7-10 years for CHP projects to be comparable to other industrial investments and recognize equipment turnover due to changing technology and environmental requirements	[Treasury]
1998	Recognize CHP as an efficiency measure and exempt CHP from exit fees as some states have done	[FERC]
1998	Allow expedited access to open market power for back-up	[FERC]
1998	Convene an expedited utility/non-utility process to develop appropriate and interconnect standards for all generators	[FERC]
1998	Issue Executive Order to promote CHP use throughout government	[DOE]
1999	Promote CHP through funding demonstration projects in State capitals	[DOE]
2000	Shift CAAA implementation to output-based and market-based cap systems without prescriptive technology requirements	[EPA]

- 2000 Develop information, training and assistance to help agencies implement CHP systems in federal facilities [DOE, DOD]
2001 Accelerate fuel cell technology development and deploy in federal buildings [DOE, DOD]

Metrics

- 1998 Streamlined EPA permitting process for CHP
1998 Flexible implementation of CAAA in EPA regions to foster low emissions facilities
1998 FERC rulings on to remove regulatory impediments to CHP
2002 X CHP systems in federal facilities, reducing emissions by Y mmt
X CHP systems in private industry, reducing emissions by Y mmt
2005 X CHP systems in federal facilities, reducing emissions by Y mmt
X CHP systems in private industry, reducing emissions by Y mmt
2010 X CHP systems in federal facilities, reducing emissions by Y mmt
X CHP systems in private industry, reducing emissions by Y mmt

External Coordination

Initial working group includes representatives from DOE, EPA, NGOs and the CHP industry.
Formal interagency group will include broader representation from government and industry - including DOE, EPA, FERC, Treasury, DOD, DOC, OSTP, additional NGOs, the utility industry and the CHP industry.
Ongoing reviews of the business plan and its implementation will be conducted in collaboration with appropriate partners.
Specific actions will be implemented in close collaboration with appropriate partners.

Resources

TBD

The Challenge

Problem is complex:

- many actions
- diverse stakeholders
- actions
- long time period
- many actors
- interdependent

Plan must be understandable to:

- agencies
- stakeholders
- Congress
- partners
- general public
- international community

Plan must be synergistic:

- actions are interdependent and should be designed accordingly
- actions having broad effects should be coordinated with others
- different skills of agencies and partners should be used in harmony

Plan must be dynamic:

- market conditions will change
- technologies will change
- performance of actions will vary
- economic conditions may change
- appropriations support uncertain

Lessons from CCAP

Critical Success Factors

- **Vision-based strategy understandable to partners and stakeholders (not myriad of independent, competing parts)**
- **Extensive external input in design stage**
- **Effective coordination among agencies**
- **Actions fully integrated with “base” programs**
- **Vigorous and sustained support of partners**
- **Active Presidential support in appropriations and legislative process**

Proposal Details

Phase I: Establish Strategic Framework

- Establish implementation framework that shows interrelationships among actions and provides strategic foundation for development of detailed plans

November

Phase II: Develop detailed plan and launch early actions

- Develop detailed draft plan for broad external review - focusing on “signature actions”
- Seek targeted external input
- Launch early actions that have solid plans and partner input

November-January

Phase III: Engage industry and public

- Conduct extensive industry and public consultations to finalize plan and maintain public dialogue on climate mitigation
- Finalize and distribute plans

February-April

Phase IV: Seek Congressional support and launch remaining actions

- Launch remaining early actions
- Obtain Congressional appropriations and tax code changes
- Launch actions that require new funding

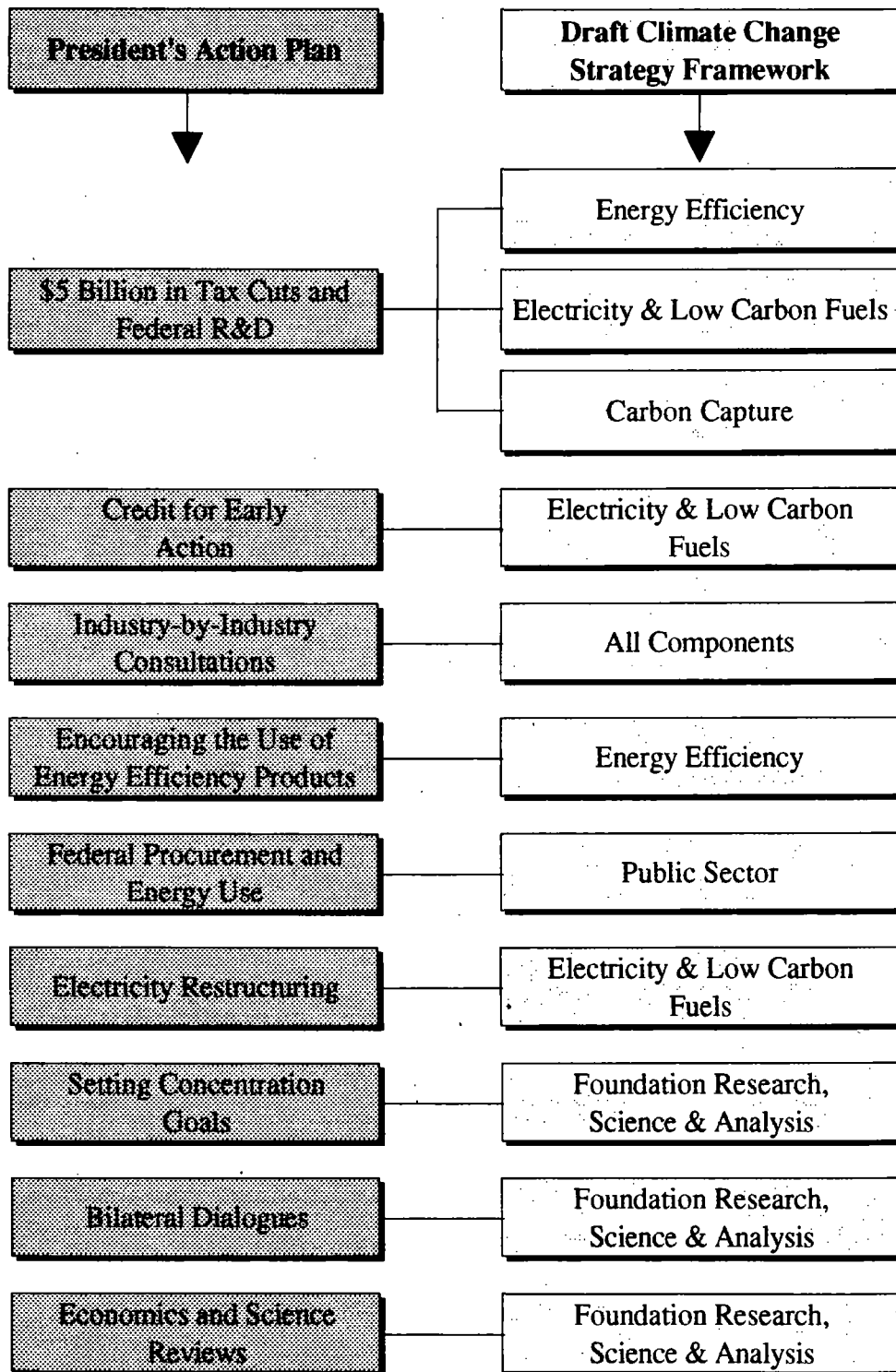
April-October

Draft Climate Change Strategy Framework

Components	Clusters	Signature Initiatives	Agencies
Energy Efficiency	Buildings	★ Energy Star Equipment	DOE, EPA
		Partnerships for the 21st Century	DOE, HUD, DOC, EPA
	Industry	Industries of the Future	DOE, DOC
		Efficiency Incentives	DOE, DOC, EPA
	Transportation	★ PNGV - Cars & Trucks	DOC, DOE, DOD, ETC.
		Advanced Aircraft	NASA, DOT, DOD
	Electricity	Voluntary Emissions Reductions	DOE, EPA
		Power Plant Efficiency	DOE, EPA
Electricity & Low Carbon Fuels	Buildings	Million Roofs Program	DOE, ETC.
	Industry	★ Combined Heat & Power	DOE, EPA, FERC
		Credit for Early Action	DOE, EPA
	Transportation	Low Carbon Fuels	DOE, USDA
	Electricity	Renewables R&D and Accelerated Deployment	DOE, EPA
		Optimize Existing Nuclear Power	DOE, NRC
		Advanced Natural Gas Generation	DOE
	Emissions Trading	EPA, DOE, DOC, ETC.	

Components	Clusters	Signature Initiatives	Agencies
Carbon Capture	Sequestration	Sequestration R&D	DOE, NAS
	Closed Loop Energy Systems	Energy Plexes R&D	DOE
Foundation Research, Science & Analysis	Climate Change Science	Adaptation Research	USGCRP
		Global Environmental Science	USGCRP
	Basic Energy Research	Cross-Cutting Energy Technology Research	DOE
	Economic Analysis	Program Evaluation	ALL
Public Sector	Buildings	Innovative Financing	DOE
	Transportation	Efficient/Alternative Fuel Vehicles	DOE, ALL
		Efficient/Alternative Fuel Vehicles	DOD
	Military	Facility Efficiency	DOD

Comparison: President's Action Plan and the Draft Climate Change Strategy Framework



Getting the Job Done

- **Feedback and modification of proposal**
- **Establishment of interagency working group**
- **Develop detailed plan**
 - **Goals**
 - **Approach**
 - **Milestones/schedule**
 - **Metrics**
 - **External coordination**
 - **Resources**