AAA Framework for Climate Policy Leadership | U.S. Federal Climate Policy Priorities
July 1, 2022

Introduction

There is a narrow political window this year to enact public policies that meaningfully address the climate crisis, and the need for business leadership is urgent.

Companies and investors have a vital role to play in advancing the public policies needed to meet both the U.S. Nationally Determined Contribution (NDC) and their own climate goals and targets. Now is the time for every company to make climate a top advocacy priority – on par with tax or trade or any other core business issue – and drive that advocacy from the C-suite.

The following are top climate policy priorities for corporate advocacy in 2022, as agreed by the NGOs that endorse the AAA Framework for Corporate Climate Leadership:

- **Decarbonize electricity**
- **Decarbonize transportation**
- **Decarbonize industry**
- **Limit methane emissions**
- **Advance nature-based climate solutions**
- **Enact an economy-wide carbon price**
- **Manage climate risk**

In addition to being critical to meet the NDC, all of these policy priorities will drive economic recovery, create well-paid jobs in the United States and boost U.S. competitiveness. They can and must also be designed to promote environmental justice and economic equity, by reducing climate and air pollution in overburdened communities and by ensuring a just transition for fossil fuel workers.

This document provides the rationale for each priority, key policies to support and timeline for business engagement. Policies of particular relevance to certain sectors are noted accordingly; all are relevant to investors seeking to reduce climate risk and improve ESG performance in their portfolio companies.

Climate Provisions in Budget Reconciliation

The $550B in clean energy tax credits and investments passed by the House last year are still in play as part of budget reconciliation (see here and here). Business advocacy remains key for these provisions, which would unlock investments in clean energy, clean transportation, and U.S. manufacturing at the scale needed to drive lasting change.

It is hard to overstate how critical these investments are to meeting corporate climate commitments as well as our U.S. NDC. Budget reconciliation may be our last, best shot to enact impactful climate legislation at the federal level for years to come.

Here's what you can do to make your voice heard:

1. Reach out directly to Senate leadership and your members of Congress to tell them you want to see the clean energy investments signed into law ASAP.
2. Call the White House and ask them to prioritize this legislation and to help broker a deal.
3. Publicly support the clean energy investments via a company statement, op-ed, letter to the editor or other prominent communication.

Decarbonize Electricity

Relevant to: All companies and investors.

Rationale: Decarbonizing electric power generation is critical to meet the U.S. NDC and achieve net-zero emissions economy-wide by 2050. Renewable energy is also becoming more and more cost-competitive with fossil fuels as a new power generation option. To ensure that our increasingly electrified economy is powered with clean energy and the power sector's emission trajectory continues to bend downward, new policies are needed to ramp up deployment of zero-carbon electricity generation, modernize the grid and accelerate clean energy innovation. Together, policies should ensure that climate pollution from the power sector drops at least 80% below 2005 levels by 2030 on a path to 100% clean by 2035, and with prioritized action in communities bearing a disproportionate burden of air pollution.

Key Policies to Support

<u>Federal Administrative Action</u>

- FERC: Enact new market rules and permitting standards that drive energy investments away from natural gas and toward renewable and clean energy technologies.

<u>Federal Legislation</u>

- Clean Energy and Manufacturing Tax Credits:
    - Make all clean energy tax credits refundable
    - Transition to streamlined, technology neutral, emissions-based clean energy tax credit
    - Expand clean energy tax credits to accelerate the growth of renewable energy, energy storage, transmission, nuclear energy and clean fuels.
    - Establish credits for the domestic manufacturing of clean energy components, which is needed to help accelerate the production of cheaper, cleaner energy in America
- Grid modernization and transmission infrastructure:
    - Enact an investment tax credit (ITC) for high-voltage transmission.
    - Ensure funding from the Infrastructure Investments & Jobs Act (IIJA) for the US DOT Transportation Finance Investment Act program (TIFIA) and Smart Grid Investment Grants
- Clean Energy Research, Development & Demonstration (R&D&D)
    - Increase funding for ARPA-E to support commercialization of breakthrough technologies in FY23 Appropriations Cycle.
    - Increase funding for the CarbonSAFE Initiative for safe carbon capture and storage in FY23 Appropriations cycle.

Timeline for business engagement

- **July - September:** Watch for opportunities to support FERC rulemaking.
- **July – August:** Advocate for clean energy provisions as part of a budget reconciliation bill.

Decarbonize Transportation

Relevant to: Companies with significant GHG emissions associated with transportation; companies with zero-emission fleet and/or shipping goals; vehicle and engine manufacturers, battery and component suppliers; companies that build or install zero-emission vehicle charging equipment and infrastructure; aircraft manufacturers and fuel producers.

Rationale: The transportation sector is the largest source of U.S. GHG emissions, as well as air pollution responsible for 20,000 premature deaths a year. Trucks are responsible for a large and rapidly growing share of vehicle pollution. Despite being only 4% of vehicles on the road, trucks account for 25% of the transport sector's CO_2 emissions, almost half the NOx and 60% of fine particulates. Market forces are moving in the right direction: in many applications, light-duty ZEVs are already less expensive than their ICE counterparts on a total cost of ownership basis, and the same is true in some medium and heavy-duty applications. But the pace is not nearly fast enough. Without policy action, more than half of the trucks and 30% of the cars on the road are projected to be gas and diesel in 2050.

To meet the U.S. NDC, updated standards are required to ensure that no later than 2035, all new cars, and by 2040, all new trucks and buses sold in the U.S. are ZEVs, while accelerating the transition for freight vehicles operating in ports, distribution facilities and urban centers. These standards, combined with legislation that accelerates deployment of ZEVs and charging infrastructure, will supercharge transformation of vehicle fleets, cutting climate pollution while improving air quality in communities across the country.

New policies are also required to limit emissions from the rapidly growing aviation sector. Aviation accounts for 3.5% of today's global warming impact and 2.5% of global CO_2 emissions, which are projected to triple by 2050. Aviation policies must address all global warming impacts from air travel, including both CO_2 and non-CO_2 warming effects, and set mandatory emissions targets that are science-driven and consistent with achieving net-zero emissions by 2050. High-integrity sustainable aviation fuels have the potential to fully decarbonize aviation by 2050, making the right policy and regulatory incentives crucial to support the uptake of these technologies.

Key Policies to Support

Federal Administrative Action

- EPA: (1) Establish new long-term multi-pollutant standards for passenger vehicles consistent with eliminating pollution from all new vehicles sold by 2035 and ensuring that at least half of new vehicles are zero-emitting by 2030. (2) Establish new long-term multipollutant truck standards that require deployment of zero emitting vehicles in urban and community applications prior to 2030 and are consistent with eliminating pollution from all new medium- and heavy-duty vehicles by 2040.
- EPA/FAA: Establish multi-pollutant, technology-forcing standards under the Clean Air Act to limit aircraft emissions.

Federal Legislation

- Tax credits for ZEV procurement and manufacturing
    - Extend and expand the 30(c)-tax credit for ZEV charging infrastructure
    - Extend and expand the 30(d) EV procurement tax credit to include point-of-sale rebates or refundable tax credits, and expand it to include medium and heavy-duty ZEVs.
    - Reauthorize the 48(c)-manufacturing tax credit and expand it to include medium and heavy-duty ZEVs, infrastructure, batteries and other component parts.
- Build off the initial investments in the bipartisan infrastructure bill for ZEV manufacturing and charging infrastructure:

    - Expand funding for EV charging stations especially for medium and heavy-duty trucks -- in order to maximize climate and health benefits in communities hit hardest by air pollution. And low income communities. Support additional investments to reduce truck emissions at ports and fund grant programs for zero-emission drayage vehicles.
    - Fund additional investments for heavy duty vehicles.
- Incentives to scale sustainable aviation fuels that meet the sustainability criteria and traceability and information transmission requirements like those developed by ICAO,
- Support the inclusion of e-fuels in the next phase of the Renewable Fuels Standard.

Timeline for Business Engagement

- **July - December:** Support long-term multi-pollutant emission standards for cars and freight trucks and buses. Urge the administration to introduce these standards in 2022 and finalize them in Fall 2023 at the latest (the administration has not yet announced a timeline). Strong support from business *ahead of* the EPA regulatory timeline is critical to raise ambition and urgency.
- **July - August:** Advocate for ZEV-related tax credits and investments in a budget reconciliation bill.
- **July - September:** Support new emission standards for aviation and advocate for bills that incentivize development of sustainable aviation fuels.

Decarbonize Industry

Relevant to: Companies in the industrial sectors (such as cement, steel, chemicals, pulp and paper) and companies that use industrially produced materials as inputs (such as construction, vehicle manufacturing).

Rationale: Industry contributes 23 percent of U.S. greenhouse gas emissions, making it the third highest-emitting sector after electricity and transport. If CO_2 emissions from electricity generation required for industry are also included, the industrial sector emits 30 percent of total US emissions, making it the largest emitting sector in the US economy. Three-quarters of industrial emissions are direct emissions, produced on-site from fuel use for power and heat, chemical reactions, and process or equipment leaks. One-quarter of industrial emissions are indirect emissions, from the electricity used at industrial facilities. Demand for energy from the industrial sector is expected to grow 34 percent from 2021 to midcentury, and emissions are expected to increase by nearly 18 percent.

Policies will be necessary to incentivize decarbonization of the industrial sector. To meet 2050 decarbonization goals, the US industrial sector must reduce emissions from energy use by approximately 74 percent from 2019 levels by the year 2040, and industrial process emissions must also be reduced.

Key Policies to Support:

<u>Federal Administrative Action:</u>

- Clean procurement: Use the federal government’s market power to purchase materials that embody lower emissions to grow the market for decarbonized products.
    - Improve transparency and disclosure of embodied emissions in materials through use of Environmental Product Declarations.

    - Leverage federal funds at GSA, DOT, and other agencies to procure infrastructure materials – particularly concrete and steel – with lower embodied carbon.

Federal Legislation:

- Clean Energy and Manufacturing Tax Credits:
    - Allow a direct pay option for clean energy and industrial tax credits that help reduce industrial carbon emissions. This includes Section 45Q for geologic storage and beneficial utilization of captured carbon; Section 45 for renewable electricity production; and Section 48 investment tax credit for solar, power plants, combined heat and power, fuel cells, energy efficiency, and other energy and industrial technologies that support decarbonization of industrial sectors and include eligibility for industrial sector retrofits that reduce emissions.
    - Eliminate 45Q tax credit minimum eligibility thresholds for industrial facilities and carbon utilization projects that deter technology innovation and emissions reductions
    - Extend the 45Q tax credit to incentivize deployment of additional projects and increase the credit value for industrial projects to sufficiently compensate for the cost of capture.
    - Renew and expand the Section 48C Advanced Manufacturing Tax Credit Program to lower the cost of investing in new production lines for designated clean technologies.
- Appropriate funds for a temporarily expanded DOE cost-share program for commercial-scale technology demonstrations, front-end engineering and design (FEED) studies, and characterization and development of saline geologic storage sites.
- Expand block grant funding for states to support industrial efficiency, with increased funds for states that establish programs to help build market demand for low-carbon products.
- Appropriate funds for decarbonization hubs and connective infrastructure that enable low-cost supply chains for decarbonized industry. Such hubs could include CO_2 hubs connecting capture, use, and storage or hydrogen hubs connecting clean hydrogen producers and difficult to decarbonize with end-uses like high industrial heat or heavy-duty transport.
- Increase federal funding for research, development and demonstration to support innovation in decarbonization technologies and low-carbon materials.

Timeline for business engagement:

- **July - September:** Watch for opportunities to support administrative action on Clean Procurement-related policy.
- **July - August:** Advocate for industrial decarbonization provisions as part of a budget reconciliation bill or other legislation.

Limit Methane Emissions

Relevant to: Oil and gas companies, electric utilities and natural gas providers; companies that use natural gas as a manufacturing input, major electricity users in states with gas-heavy grids, and companies responsible for methane emissions from livestock and organic waste including in landfills.

Rationale: Methane, the main component of natural gas, has 84 times the heat-trapping power of CO_2 over the 20 years after its release. Methane from human actions is responsible for at least a quarter of today's warming, and its primary sources are oil and gas operations, livestock and landfills. Other pollutants emitted alongside methane exacerbate respiratory illness and contribute to ground-level ozone and smog, increasing the risk of heart disease. These impacts fall disproportionately on low-income communities and communities of color. To meet the U.S. NDC, new policies are needed to reduce methane emissions economy-wide 40% below 2005 levels by 2030, and especially in the oil and gas sector, which the IEA says can achieve a 75% reduction below current levels globally with technologies available today. In the U.S., a recent analysis shows that oil and gas methane can be reduced at least 65% below 2012 levels by 2025.

Key Policies to Support:

Federal Administrative Action

- EPA: Strengthen proposed rules addressing methane emissions from the oil and gas industry by extending regular leak monitoring to all potentially significant sources of emissions, including smaller wells, and adding provisions to curtail routine flaring of associated gas.
- BLM: Update and strengthen rules requiring prevention of methane waste from oil and gas production on public and tribal lands by eliminating routine venting and flaring and updating royalties.
- DOT/PHMSA: Establish rules requiring use of advanced technologies to detect and repair methane leaks from gas gathering, transmission and distribution pipelines.

Federal Legislation:

- Support federal legislation to reduce methane emissions and to improve the accuracy of methane reporting.

Timeline for business engagement

- Administrative action:
  - **August - September:** Participate in the public comment process for EPA's proposed supplemental methane rule when introduced.
  - **July - September**: Participate in public comment processes for BLM and DOT rulemaking when new standards are introduced.
  - **August - September:** Participate in the public comment process for DOT/PHMSA rulemaking when new standards are introduced.
- Legislation:
  - **2022:** Advocate for methane-related provisions in legislation introduced this year.

Enact an Economy-Wide Carbon Price

Relevant to: All companies and investors.

Rationale: Numerous analyses show multiple pathways to meet the U.S. NDC of 50-52% by 2030, including through various combinations of aggressive sector-by-sector policies. However, not all pathways are created equal. While it is possible to get to 50% through sector-specific action alone, an enforceable declining limit and a price on emissions economy-wide will get there more quickly and affordably. Designed well, a carbon price acts as a magnet that aligns efforts to cut pollution across the entire economy, making sector-specific policies cheaper and easier to achieve, while driving investment in innovation and moving the U.S. more rapidly toward net zero. It also raises revenue that can be returned to citizens and/or directed to promote equity, invest in clean technologies and support communities impacted by the transition to a low-carbon economy. According to the RFF Calculator, a \$55/ton carbon price rising at 5% annually would yield roughly \$2.5 trillion over the next decade.

Carbon pricing faces headwinds in the current political climate, though champions still exist on both sides of the aisle and several carbon pricing bills have recently been introduced. Support from businesses is critical to keep carbon pricing a viable option in the near term (e.g., as a pay-for mechanism in an infrastructure or reconciliation bill), while also building bipartisan support to secure 60 votes in the next Congress.

Key Policies to Support

- Enact a carbon price as part of a legislation considered in 2022.

Timeline for Business Engagement:

- **2022:** Educate lawmakers -- especially Republicans and moderate Democrats -- on the business case for carbon pricing.

Manage Climate Risk

Relevant to: All companies and investors.

Rationale: Climate change presents grave risk across the U.S. economy including to corporations, their investors, and the markets and communities in which they operate. Unlike other financial risks, however, climate risk is not routinely disclosed to the public. Insufficient corporate disclosures have persisted despite the Securities and Exchange Commission (SEC)'s issuance of regulatory guidance on the topic, the emergence of voluntary disclosure frameworks and standards, and growing calls from major investors for improved disclosure. Given the inadequacy of the current regime, the SEC issued a new proposed rule on climate risk disclosure that will require publicly traded companies to disclose the financial risks they face from climate change. The comment period on that proposed rule will be open until May 20, 2022.

Key Policies to Support

- SEC: Issue new, mandatory disclosure regulations that will yield comparable, specific and decision-useful climate risk information.

Timeline for Business Engagement

- **2022:** Continue to support SEC's mandate and authority to bring financial disclosure of climate risk level with other forms of financial risk and push the SEC to finalize its proposal as soon as possible.

Resources

General:

- Climate Policy Priorities for the New Administration and Congress (C2ES, 2021)
- Ceres 2022 Policy Outlook (Ceres, 2022)
- Corporate Support for Robust Climate Investments in Budget Reconciliation (Wakelet) (Ceres, 2021)
- Going "All In" -- A Climate Policy Guide for Business Leaders (ClimateVoice, 2021)
- Climate and Clean Energy Stimulus Policies to Power Up America (EDF, 2021)

Decarbonize Electricity

- Clean Energy Standards: State and Federal Policy Options and Considerations (C2ES, 2019)
- The Shape and Pace of Change in the Electricity Transition: Sectoral dynamics and indicators of progress (Commissioned by the We Mean Business Coalition, 2020)
- Unpacking the US CLEAN Future Act (WRI, 2021)
- What the Clean Energy for America Act Gets Right - And How it Can Improve (WRI, 2021)
- Grid Modernization: Creating Jobs, Cutting Electric Bills, and Improving Resiliency (WRI, 2020)

Decarbonize Transportation

- The Road to Fleet Electrification (Ceres, 2020)
- Key Policies to Drive the Electric Vehicle Transition in the US (Climate Group EV 100, 2021)
- Into the Fast Lane: Investing in the future of zero emission trucking (EDF, 2022)
- Technical Report: Medium and Heavy-Duty Electrification Costs MY 2027-2030 (EDF, 2022)
- Charging Forward: Recommendations for reducing charging infrastructure costs for heavy-duty trucks (EDF, 2021)
- Clean Trucks, Clean Air, American Jobs (EDF, 2021)
- Towards Equitable and Transformative Investments in Electric Vehicle Charging Infrastructure, (Georgetown Climate Center and MJB&A, 2021)
- The Shape and Pace of Change in the Transport Transition: Sectoral dynamics and indicators of progress (Commissioned by the We Mean Business Coalition, 2021)

Decarbonize Industry

- Evaluating Net-Zero Industrial Hubs in the United States: A Case Study of Houston (Center on Global Energy Policy, 2021)
- Transport Infrastructure for Carbon Capture and Storage: Whitepaper on Regional Infrastructure for Midcentury Decarbonization (Great Plains Institute, 2020)

Limit Methane Emissions

- Reducing Methane from Oil and Gas: A Path to a 65% Reduction in Sector Emissions (CATF, 2020)
- Major Investors Demand Ambitious Methane Regulations in the U.S. (Ceres, 2021)
- Action Guide: Reducing methane emissions from oil and gas operations (Climate Group, 2020)
- Investor Guide to Proposed EPA Methane Regulations (EDF, 2022)

Advance Nature-Based Climate Solutions

- The Role of Natural Climate Solutions in Corporate Climate Commitments: A Brief for Investors (Ceres, 2021)
- Food and Agriculture Climate Alliance Presents Joint Policy Recommendations (FACA, 2020)
- Seven Policy Proposals to Restore U.S. Trees: How Do They Compare? (WRI, 2021)
- What are nature-based solutions and how can they help address the climate crisis? (WWF, 2020)

Enact an Economy-Wide Carbon Price

- Carbon Pricing Proposals in the 116th Congress (C2ES, 2020)
- Recapturing US Leadership on Climate (EDF, 2021)
- Pricing Carbon in the United States (WRI, 2021)

Manage Climate Risk

- Ceres Climate Disclosure microsite (Ceres, 2022)

- Foresight is 20/20: Reporting Climate-Related Risks and Opportunities (C2ES, 2022)
- Implementing TCFD: Strategies for Disclosure (C2ES, 2020)
- Climate change creates financial risks. Investors need to know what those are (EDF, 2022)
- Stakeholder Guide to the SECs Proposed Rule on Climate-Related Disclosure (EDF 2022)
- Mandating Disclosure of Climate-Related Financial Risk (EDF, 2021)
- What Investors and the SEC Can Learn from the Texas Power Crises (EDF, 2021)