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**Testimony of Christopher Berendt**

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**Before The Committee on Environment and Public Works**

**United States Senate**

**Hearing On**

**America's Climate Security Act of 2007, S. 2191.**

**November 15, 2007**



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Good morning, my name is Christopher Berendt. I am the Director of Environmental Markets & Policy for Pace, which is a global energy & carbon management consulting firm. Pace has experience in all types of energy throughout the entire energy value chain from exploration, production & generation, to the transmission and distribution to the individual U.S. energy consumer. Pace's clients include energy companies, electric utilities, financial institutions, energy project developers, and energy-intensive industrial companies.

My company and I appreciate the opportunity to come before this committee to provide our perspectives and recommendations regarding this important environmental and economic legislation – America's Climate Security Act of 2007 (S. 2191).

The Nation's need for new power generation is colliding with the uncertainty created by the Supreme Court's decision in *Mass v. EPA*. Without a clear federal response to the global climate change issue ... the U.S. is now running headlong into decreased energy security, higher prices for the U.S. consumer, and more carbon dioxide, CO<sub>2</sub>, emissions on a global basis.

Under the Supreme Court's April decision, CO<sub>2</sub> is now deemed a "pollutant" by the highest court in the land, thereby creating a regulatory void all the way down to the local level. The impact of this void is evidenced this year by the TXU agreement to cancel coal plant investment and more recently in Kansas where for the first time CO<sub>2</sub> emissions were cited as the reason for rejecting an air permit bringing an end to the Holcomb plant expansion.



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Our clients increasingly advise us that they cannot build any coal plants, no matter how clean the technology, and that the only generation options in the near-term are renewables and natural gas.

While renewables will be an important part of a diverse portfolio approach to generation, alone, they will not be able to meet the 120,000 MW of incremental generation capacity needed over the next 10 years, even under the most optimistic expectations. Further, there is no clear roadmap for increased nuclear generation within this same time period.

Therefore, should this carbon uncertainty persist, the near-term options for electricity generation in the U.S. will likely be highly reliant on natural gas. We at Pace have estimated that if natural gas-fired generation is tapped to fill the entire gap left by coal ... our nation will require substantial incremental natural gas supply, about 6% above current projections by 2017.

The U.S. has become a natural gas importer in recent years. While most of these imports have come from Canada, growth in deliveries of liquefied natural gas, or LNG, in the past two years have become important. Pace expects that an increase in natural gas demand of 6% by 2017 could increase imports by 33% and that increase will come from foreign sources of LNG. This would expose our economy to the prospects of greater natural gas price volatility.



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With that in mind, I would like to offer the following comments about carbon market mechanisms.

Should this Committee choose to enact a market mechanism to clarify the carbon price signal, it is important to ensure the U.S. carbon markets will have the functionality and liquidity to establish a forward curve for carbon and encourage the financial community to outlay capital for the development of new clean energy technologies.

Stimulating the creation of a vibrant offset market is also important. Innovation in carbon offsets may be the most cost-effective means of making a real difference, especially if both non-covered and covered entities that deploy advanced low carbon technologies are allowed to generate offsets. Further, a healthy supply side market mechanism for carbon is also one of the best ways to control price.

The creation of a consolidated national carbon market is a “must” such that generators are not forced to deal with state-by-state vagaries. A national market will provide a more efficient design versus balkanized efforts at the state and regional levels.

The present new build environment does not have clear carbon price signals nor the incentives required to develop high capital cost, clean energy technologies. Until these issues are dealt



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with, new technologies will not be able to be deployed and natural gas imports will be required to meet a large share of the 120,000 MW of new generating capacity needed over the next ten years – this could negatively impact our energy security and the economics of power generation for the U.S. consumer.

The Supreme Court decision has created a situation of stark uncertainty for U.S. power generators. We laud this Committee's efforts to utilize market based mechanisms to ensure that the energy markets operate efficiently and we retain the U.S. tradition of advanced technology development & adoption.

Thank you.