RESOURCES *for the* FUTURE

A year of recalibration for climate policy in the United States

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A three-part story

- What's happening now: A digest of current US climate policy and society

- What could move forward in the near term

- A vision for progress in the longer term

Whatever America hopes to bring to pass in the world must first come to pass in the heart of America

— Dwight D. Eisenhower, 1953 inaugural address

President Eisenhower and Resources for the Future share a history

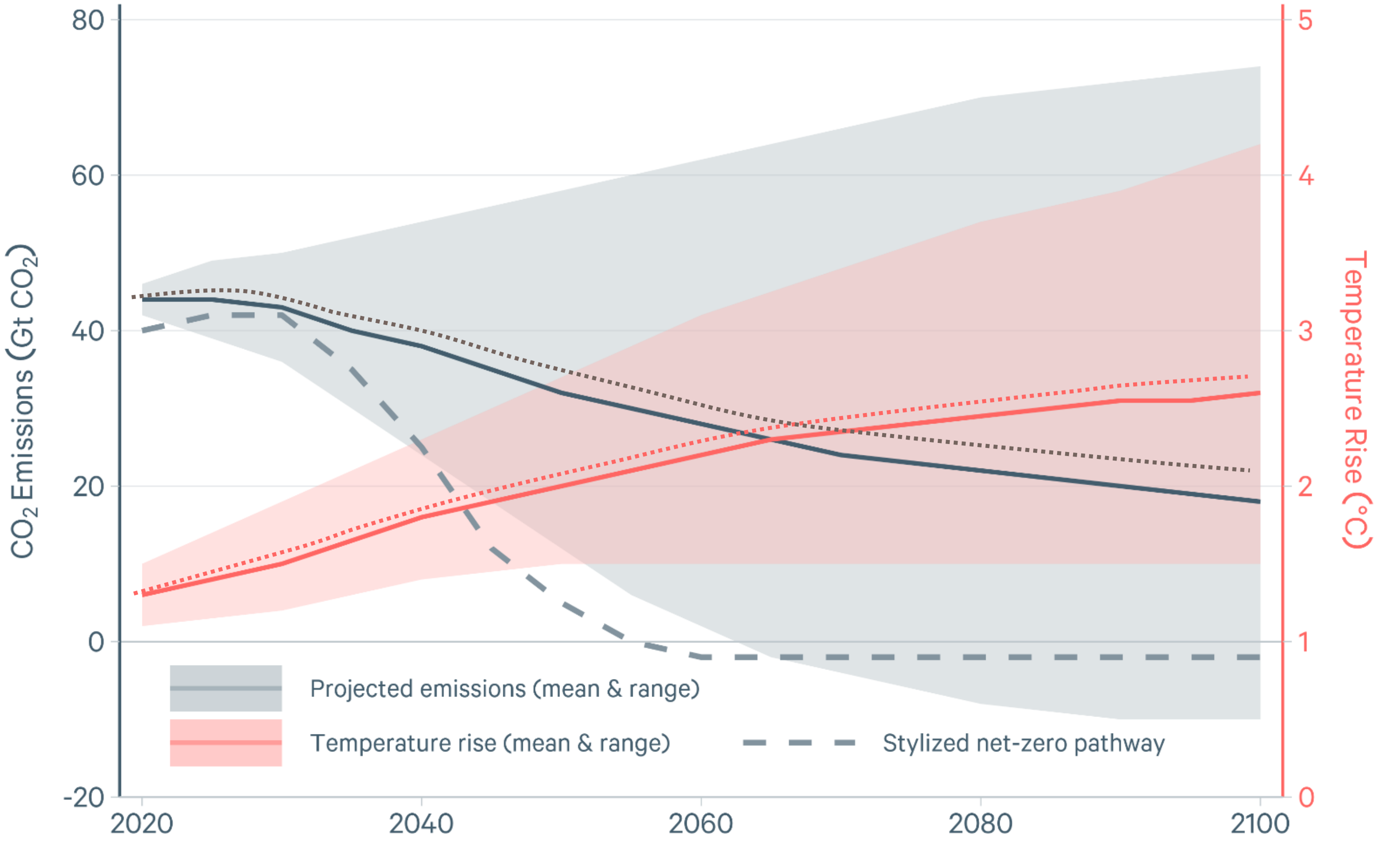
- At a Resources for the Future conference in 1953, the President remarked that when it came to natural resources: “We must think in terms of decades rather than months or even the next election”
- He observed that the debates of his time over natural resource problems had “more froth and fury than good sense” and cautioned that “we've got to be intelligent and not let pressure groups or extremists lead us into erroneous directions”
- The past year has witnessed a remarkable reversal of climate policy in the United States, as well as a broader shift in policy, suggesting three lessons from Eisenhower:
    - The current climate policy landscape is probably not a good benchmark for where policies will land; but perhaps neither were those before them. Both may represent “more froth and fury than good sense”
    - Similarly, the broader policy landscape is not a good benchmark for where we will be in four years
    - I believe many stakeholders, particularly in the private sector, recognize this—particularly the inevitable tail wind of an eventual energy transition driven by worsening climate change. These people “think in terms of decades rather than months”

The world, along with America, is on track for worsening climate damages

- Probabilistic models can be used to project emissions (grey) and temperature change (red) over the next century
- A certain amount of worsening climate damage is “baked in”—temperatures will certainly rise for the next few decades, if not many. Worsening droughts, flood damages, extinction rates, and ocean acidification
- One way to view events of the past year is slightly shifting this distribution. If the median prediction prior to last year was 19 Gt and 2.6 degrees of warming in 2100, perhaps that is 20 Gt and 2.7 now…
- *But we don’t know exactly—we have not repeated this analysis (from 2022)*

Global greenhouse gas emissions locked in for 2-4°C by the century's end

Projected CO_2 emissions ($Gt\ CO_2$) and temperature rise vs. pre – industrial



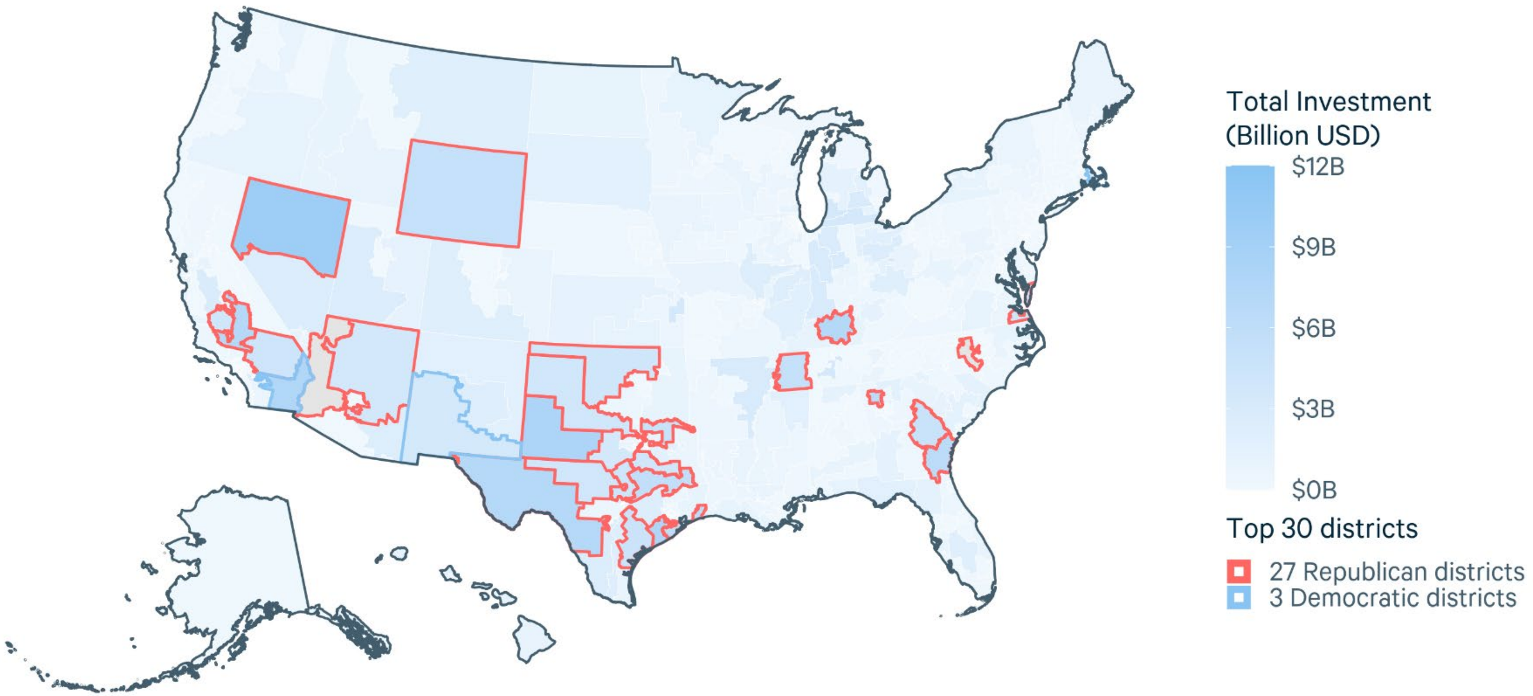
Sources: RFF Social Cost of Carbon Explorer; IPCC

Most clean energy tax credits were repealed, but some remain (despite or because of clever political economy?)

- President Trump's One Big Beautiful Bill Act:
  - Repealed tax credits for wind and solar
  - Repealed tax credits for electric vehicle purchases
  - Repealed incentives for residential clean energy investments
  - **Geothermal, nuclear, and battery installations, as well as certain fuel cells and clean fuels, still qualify for credits**
  - **Manufacturing tax credits for a variety of clean energy products (except wind) remain**
- *Was this better or worse because of efforts to move funds quickly and towards Republican districts?*

Top 30 Congressional Districts for Clean Investment

Cumulative actual investment, 2022-Q3 to 2025-Q3 (119th Congress boundaries)



Source: Rhodium Group/MIT-CEEPR Clean Investment Monitor

Note: Colored borders indicate party affiliation of Representative among the top 30 districts

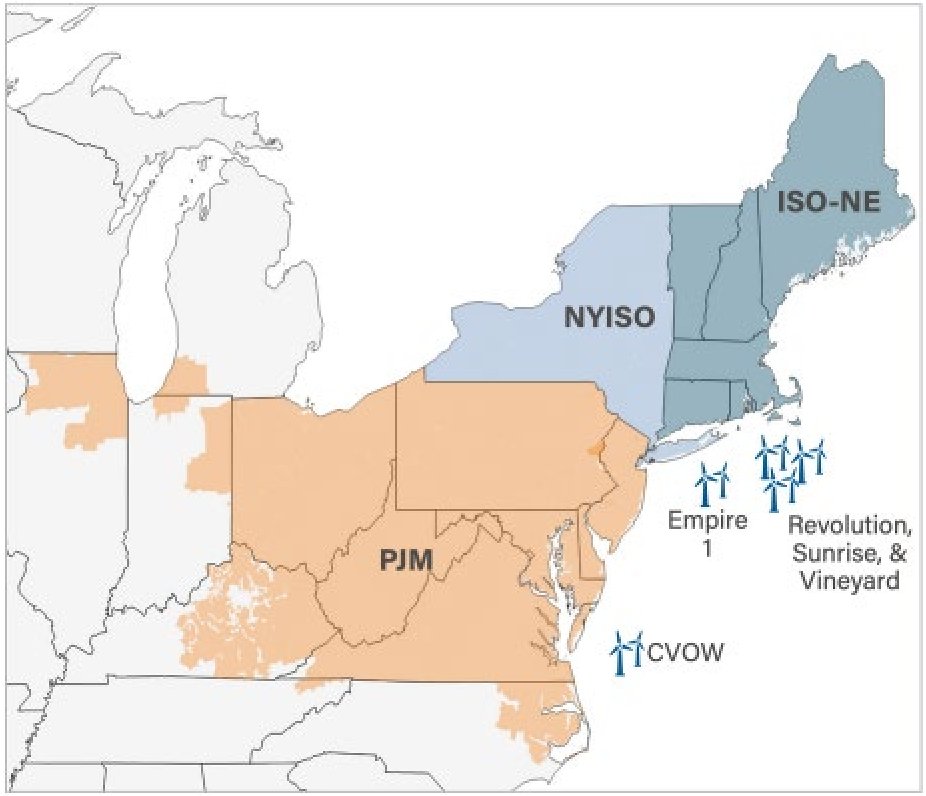
Beyond reversal of tax incentives, administrative and legal moves challenge climate policies

- On the international stage, the administration has sought to promote increased and sustained markets and opportunities for US and US-controlled fossil fuel resources. This “fossil fueled” diplomacy is best exemplified by the US-EU energy deal and the recent US-India IEEPA tariff negotiation
- At the same time, the US has withdrawn from the Paris Agreement, the UNFCCC, and the IPCC (among other international organizations)
- The federal government has cancelled funding—including funds obligated by Congress—for clean energy demonstration and local climate adaptation projects. Across several programs, terminated projects amount to over $5 billion dollars
- The administration has changed how agencies conduct benefit-cost analysis, ending the use of both the social cost of carbon in government decision-making and mortality benefits (value-of-statistical-life) in air quality regulations
- Most recently, the EPA repealed the 2009 “endangerment finding” that provided the basis for GHG regulation under the Clean Air Act

The administration focus on offshore wind (and its consequences) has been particularly noteworthy

- Bloomberg NEF's 2035 offshore wind projection before the Trump administration took office reached nearly 40 GW. Today, the 2035 projection is 6.1 GW—an 85% reduction
- The revised projection is a result of both the tax credit repeal and the halting of new offshore leases and permits by the federal government
- The administration has sought to stop work on existing projects, but those have all been successfully challenged in court. Nonetheless, these actions have had a further "chilling effect" for the sector

Key Offshore Wind Projects

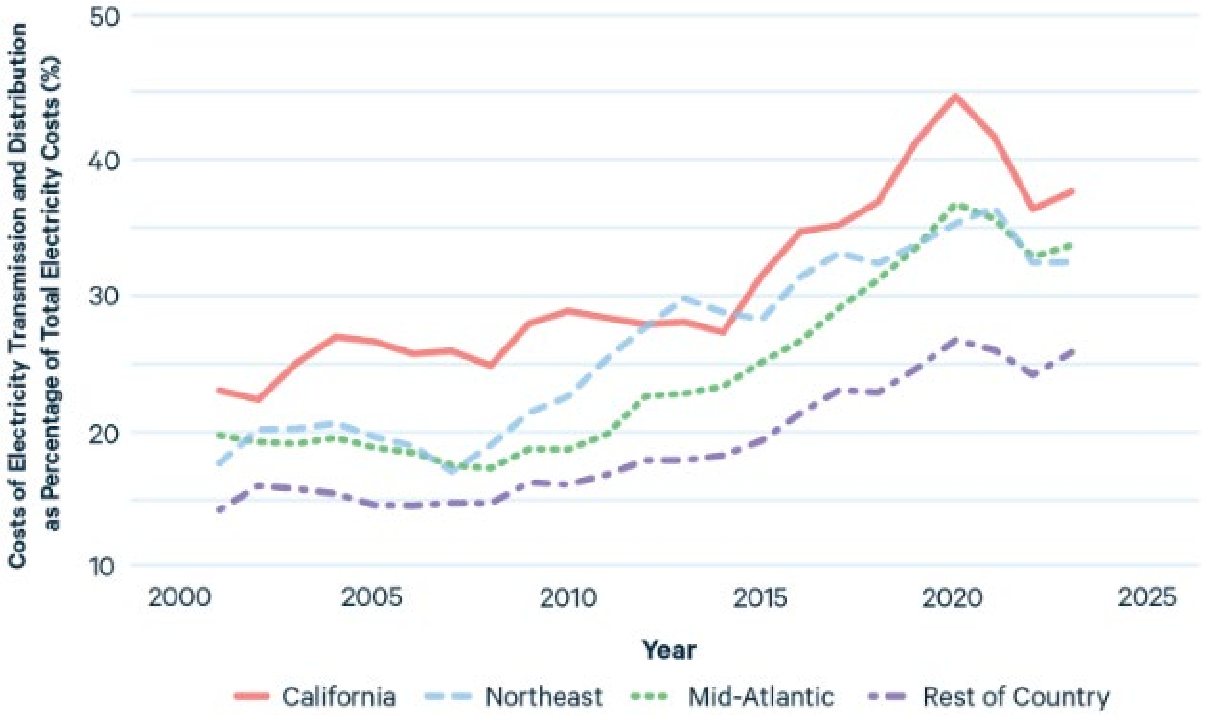


Source: American Clean Power Association

New household concerns about electricity affordability

- A number of state governors in the Northeast, Mid-Atlantic, and Midwest are facing new political pressure over rising electricity prices
- RFF analysis of the drivers of higher electricity costs found significant variation across the U.S.
- Some regions have faced higher generation costs when natural gas prices have risen, in turn due to domestic and global demand
- Wildfire liability and mitigation has fed increases in California
- But the most consistent driver of long-term electricity price increases across the U.S. is rising transmission and distribution costs, stemming from aging grid infrastructure and weather-related damage and resilience costs

Transmission and Distribution Costs as a Percentage of Total Electricity Costs

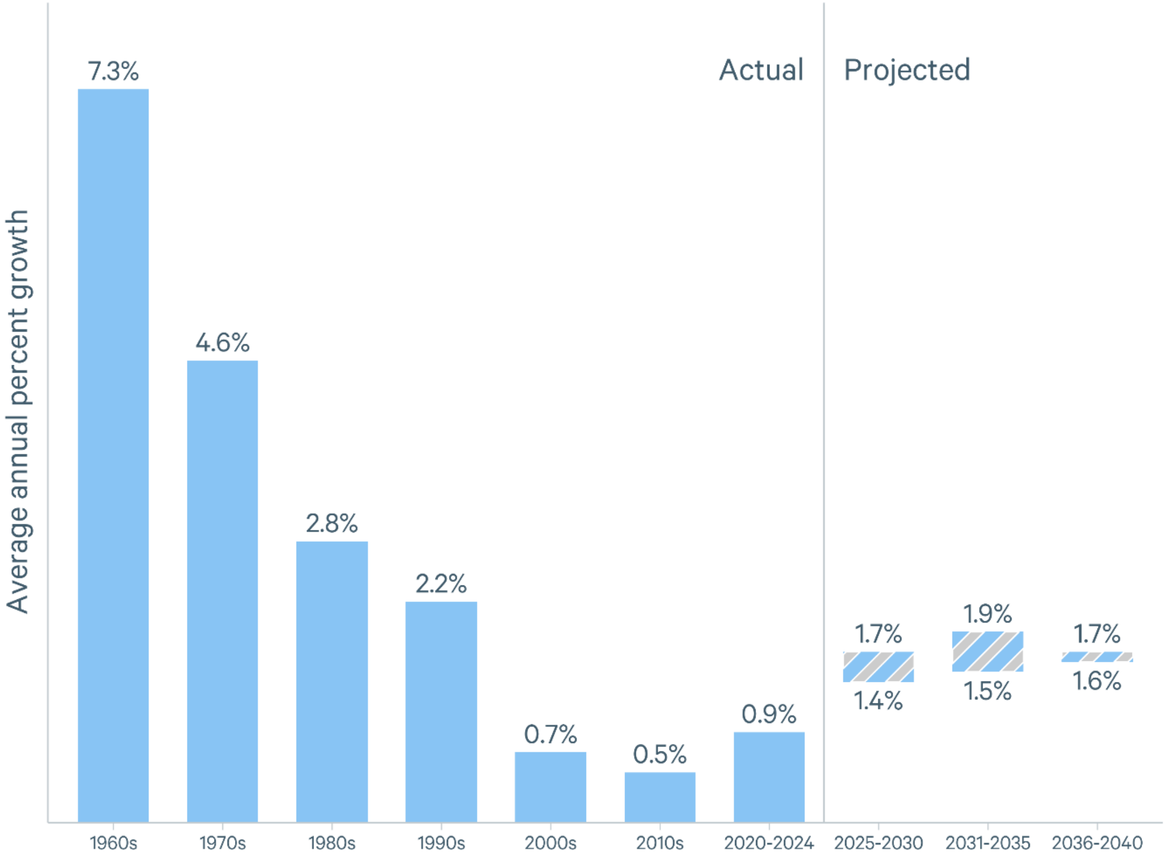


Source: Resources for the Future

The United States is entering a period of unprecedented demand growth

- While subject to significant uncertainty, demand for power from data centers and electrification are expected to increase US energy demand
- There is considerable concern about who bears the cost of this growth and how to ensure affordability for ordinary customers—particularly given existing concerns
- Requirements for firm power have heightened interest in geothermal and nuclear, with many companies having a high willingness to pay for clean firm power, but also natural gas
- Demand growth collides with a national problem in building big things: only 13% of projects that submitted requests to join grids from 2000-2019 were operating by the end of 2024

Growth in US Electricity Demand in Recent Decades



Source: Rhodium Group

Near-term opportunities for climate policy

- Permitting reform and building faster
- State climate policy leadership
- Electricity market design
- Trade and industrial policy

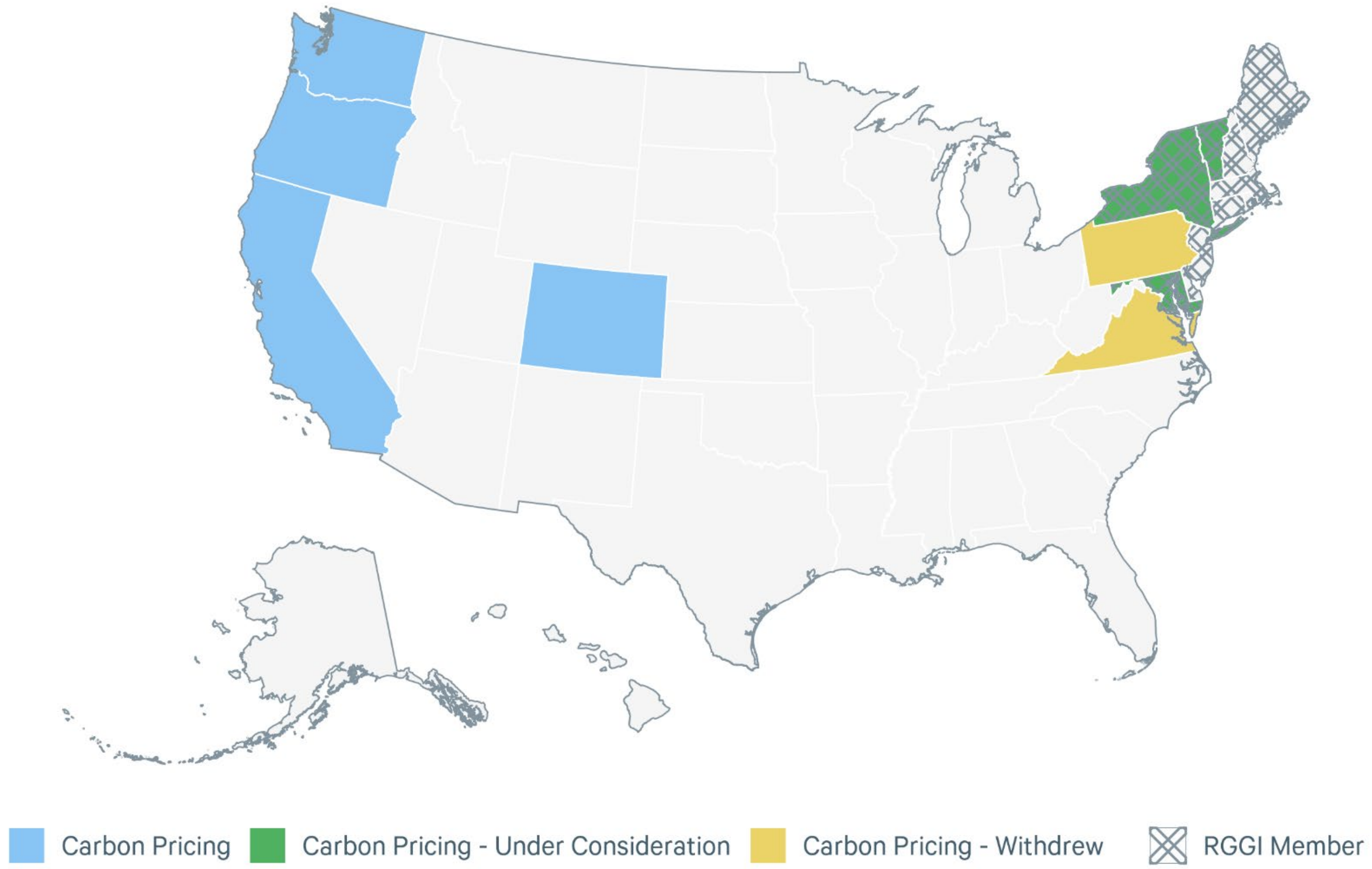
Permitting reform and building faster

- There is a bipartisan interest in building major energy projects faster and lowering permitting costs
- During Biden-era permitting debates, bipartisan consensus was forged through combining provisions favorable to the oil and gas industry with reforms to promote transmission, which may improve adoption rates of clean technologies. RFF and other analysis showed this proposal (the Energy Permitting Reform Act of 2024) be a net positive for the environment—but it did not pass
- There is a possibility of new legislation with the SPEED act that recently passed the House, but the proposal would need to appeal to a subset of Democrats in the Senate by incorporating transmission reform or another shared policy objective. More importantly, there would need to be assurances that permitting would not be used against renewables (e.g., guarantees that the noted efforts against offshore wind would stop)
- Many permitting decisions are made at the state and local level, with local governments at times opposing projects. In recent years, states have consolidated environmental reviews, preempted local township zoning regulations, and established statuary deadlines for regulatory milestones. E.g., in 2023, Illinois made it illegal to issue county bans on renewable development

State climate policy leadership

- Despite the shift in federal policy, a variety of states continue to pursue or expand state-level carbon pricing
- In 2025, California extended its cap-and-invest program through 2045 and expanded the California Climate Credit, using proceeds from utility allowance auctions to provide direct bill credits to households
- New York State is developing an economy-wide cap-and-invest system
- In 2024, Washington's Cap-and-Invest Program survived repeal and is actively pursuing linkage with California and Quebec
- Though Virginia withdrew from RGGI in 2023, new state leadership is seeking to rejoin the market
- Maryland is considering expanding carbon pricing from the power sector to an economy-wide cap-and-invest program

U.S. State Carbon Pricing Policies



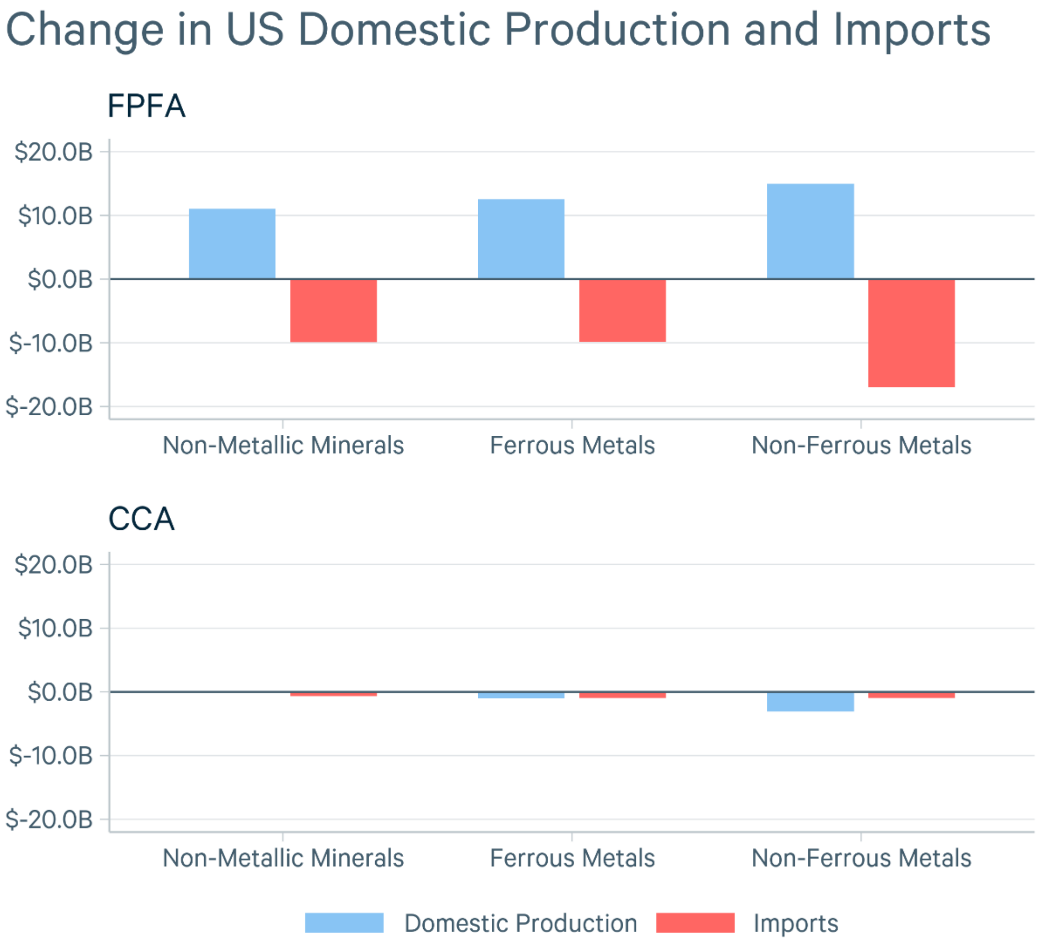
Source: International Carbon Action Partnership

Electricity policies to support affordability, reliability, and (sometimes) environmental outcomes

- Federal and state governments are focused on both affordability and reliability in the face of demand growth and priority to meet data center demand. Some states and companies are simultaneously trying to address decarbonization
- Specific programs (for example, federal incentives and policies in California, Nevada, and New York) can be designed in ways to incentivize resource attributes like firm dispatch, storage, and (sometimes) clean.
- Rate structures as well as interconnection agreements for large loads can be designed to shift more cost burden to data centers
- More fundamental market reforms (e.g., improved capacity market design or planning tools) could support reliability
- Additional programs may be necessary to protect the poorest households

Trade and industrial policy

- The EU CBAM is creating spillovers, incentivizing other jurisdictions to enact carbon pricing
- The EU CBAM creates incentives for the US to leverage its "carbon advantage." RFF has evaluated major proposals including:
  - The Foreign Pollution Fee Act (FPFA – Republican proposal) applies a carbon tariff without a domestic performance requirement
  - The Clean Competition Act (CCA – Democrat proposal) pairs carbon tariffs with declining performance benchmarks
- Language from the PROVE IT Act was added to a recent DOE appropriations bill signed by the President, directing NETL to conduct a carbon-intensity analysis of US goods covered by EU CBAM
- This administration has created renewed interest in tariffs as a tool (versus a traditional free-trade focus)



Source: Resources for the Future

Long term opportunities for climate policy

 **Light duty vehicle electrification**

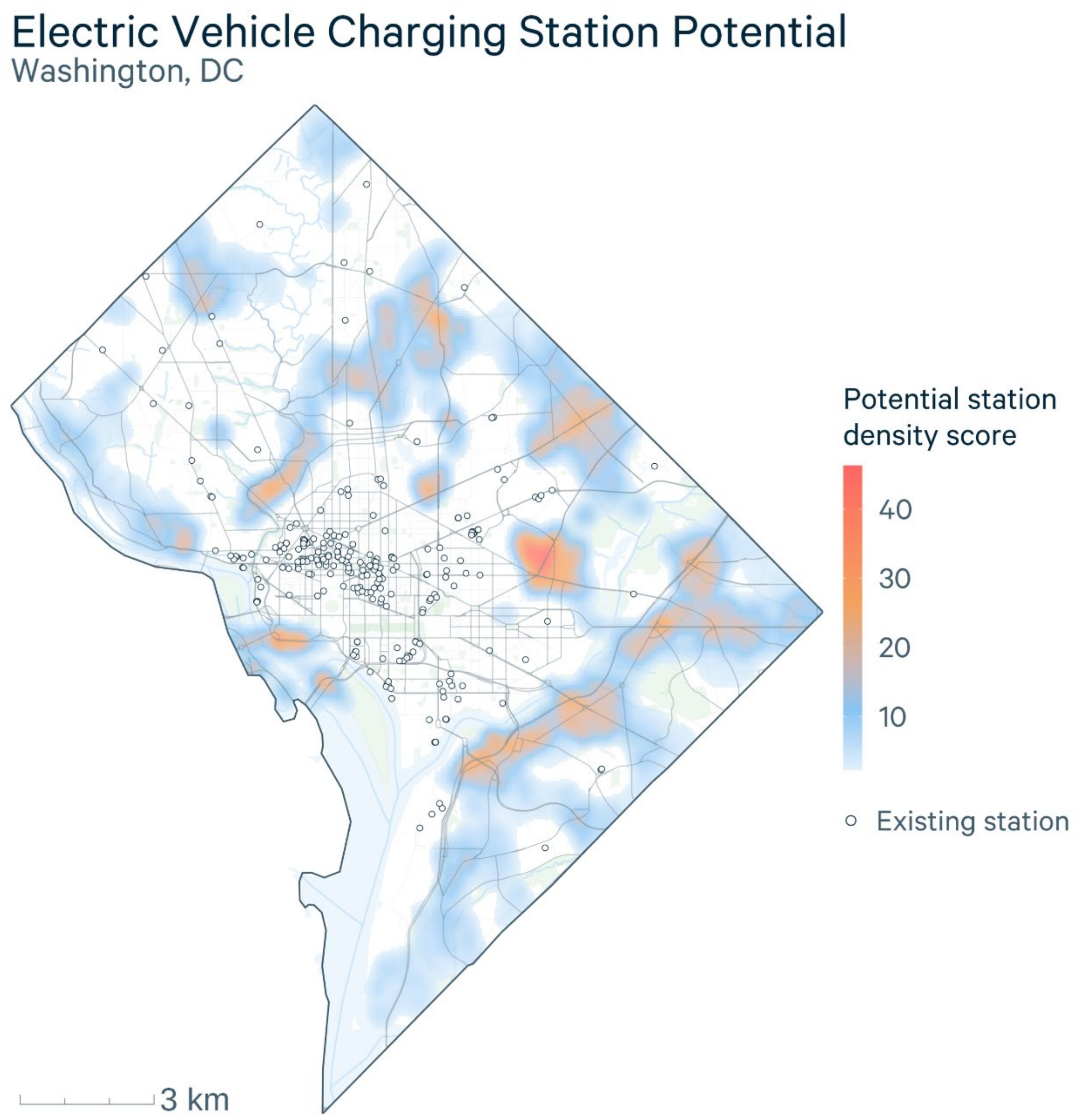
 **Industrial decarbonization**

 **Power sector**

 **Innovation policy**

Light duty vehicle electrification

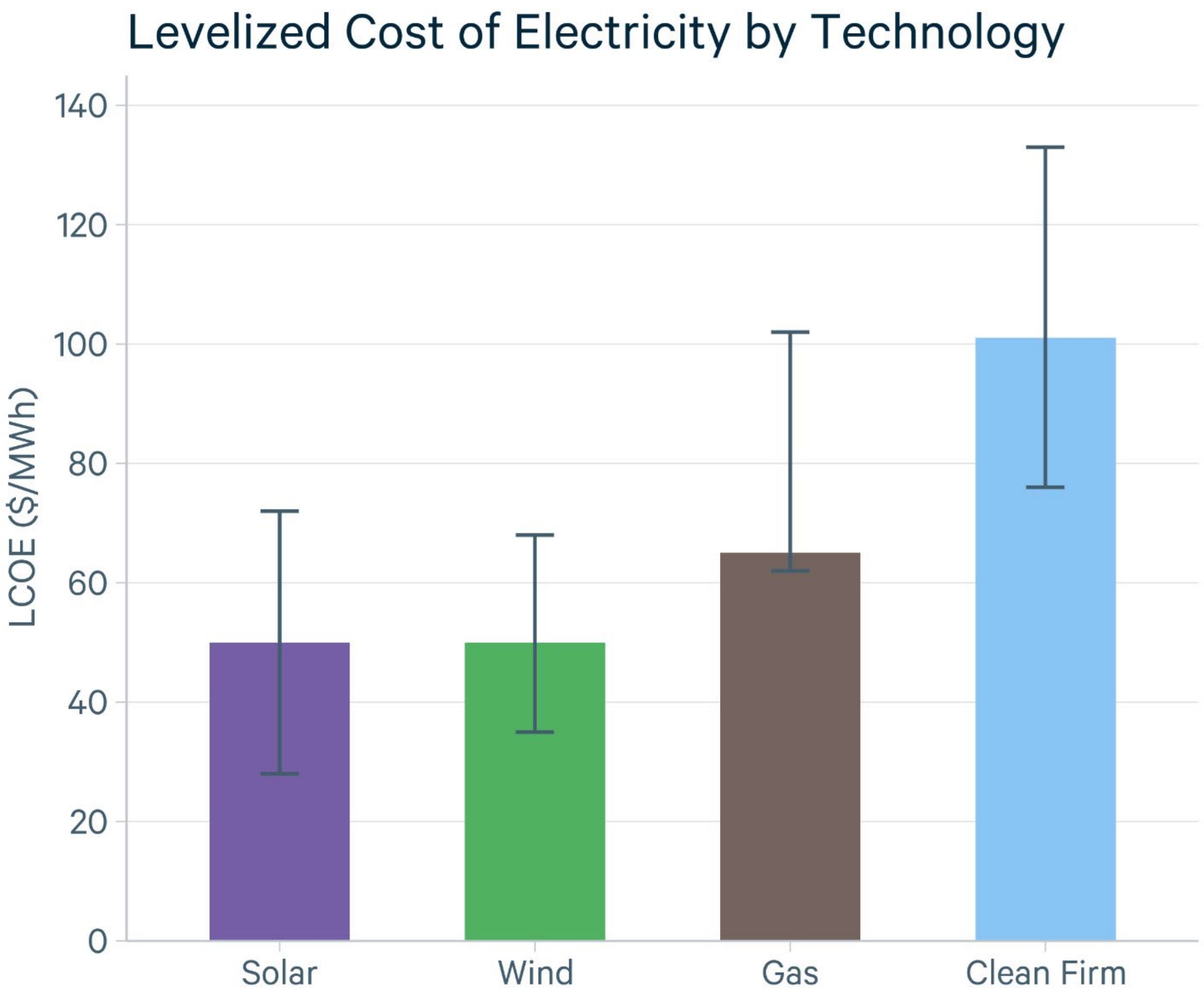
- Renewed tax incentives / industrial policy could focus on EV supply chain build out
- EV incentives could be focused on the on-road fleet rather than new car sales: targeting scrappage and creating used EV credits could be more cost effective
- Polices could be tailored to support the full range of vehicles including hybrid electric vehicles, which are exceeding adoption expectations
- Focus charging infrastructure policy to compliment private sector success, utility interconnection challenges, and intercity, multifamily, and rural gaps



Adapted from Andrew Melmed, University of Maryland

Power sector decarbonization, alongside reliability and affordability

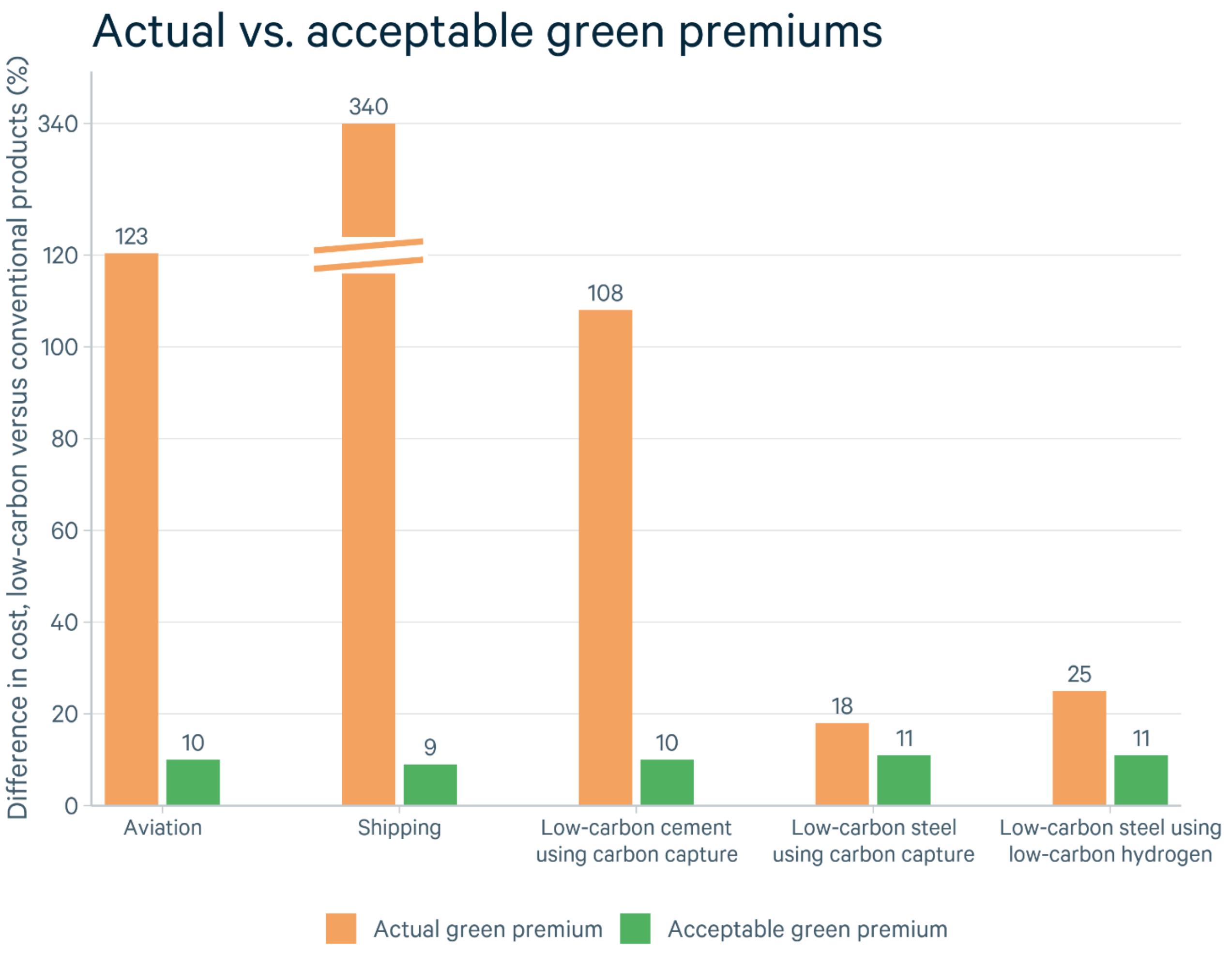
- In the long term, a national feebate or clean electricity standard could drive deep decarbonization without fiscal costs
- Market redesign and planning to support clean, firm electricity, as current wholesale markets undervalue key ancillary services: firmness, ramping, and multiday availability
- Targeted tax incentives, subsidies, or insurance could support initial at-scale deployment of new technologies, shifting the burden and risk from ratepayers to the broader public (who benefit from cost reductions after *n*th-of-a-kind deployment)



Source: Clean Energy Optimization Microsite

Industrial policy and decarbonization

- Industrial decarbonization has been particularly challenging because of limited commercially-viable abatement options, high upfront costs, and market competition with high-carbon incumbents
- Long term industrial decarbonization strategies will necessarily include three components:
  - National policies to address domestic carbon intensity of industrial goods.
  - Trade measures to address international competition
  - Innovation policy to bring down costs of low-carbon technologies

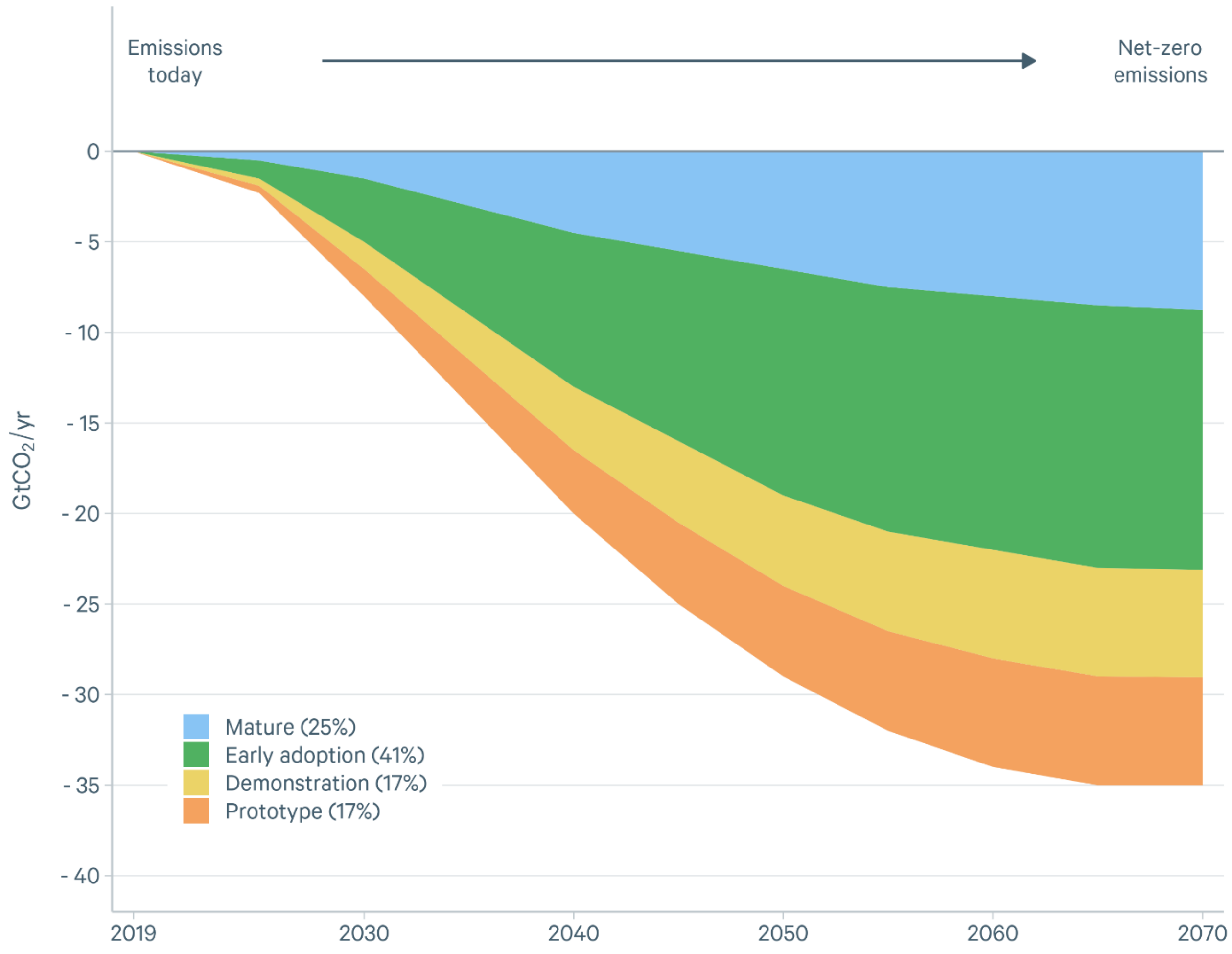


Capgemini Research Institute

Innovation policy

- Many promising innovations for climate exist already, but at varying levels of technology and market readiness
- Early-stage technologies require supply-push mechanisms for early research, development, and demonstration. More advanced technologies need demand-pull mechanisms to create markets for deployment
- RFF researchers are looking to evaluate which policies are most impactful along the innovation cycle
  - Early-stage ARPA-E style grants
  - Demonstration projects solicited by different programs
  - Tax credits for production and investment
  - Market mechanisms including advanced market commitments, contract for differences, auctioned put options

Decarbonization Potential of Innovations in the Energy Sector



International Energy Agency

Closing thoughts on US policy and the energy transition

- Recall Eisenhower's "froth and fury" comment: Neither the current nor past administration's policies are necessarily guideposts
- There are opportunities for near-term progress and long-term thought leadership
- Key to where we land in this picture is going to be technology and how much it lowers costs. Technology is driven by policy *but can also drive policy*
- Climate change has been described as "tailwind for clean energy finance." Investors and entrepreneurs who create lower-cost clean technologies will win. *Policy can make that happen faster, or lower-cost technologies (coupled with climate change itself) can eventually catalyze policy.*

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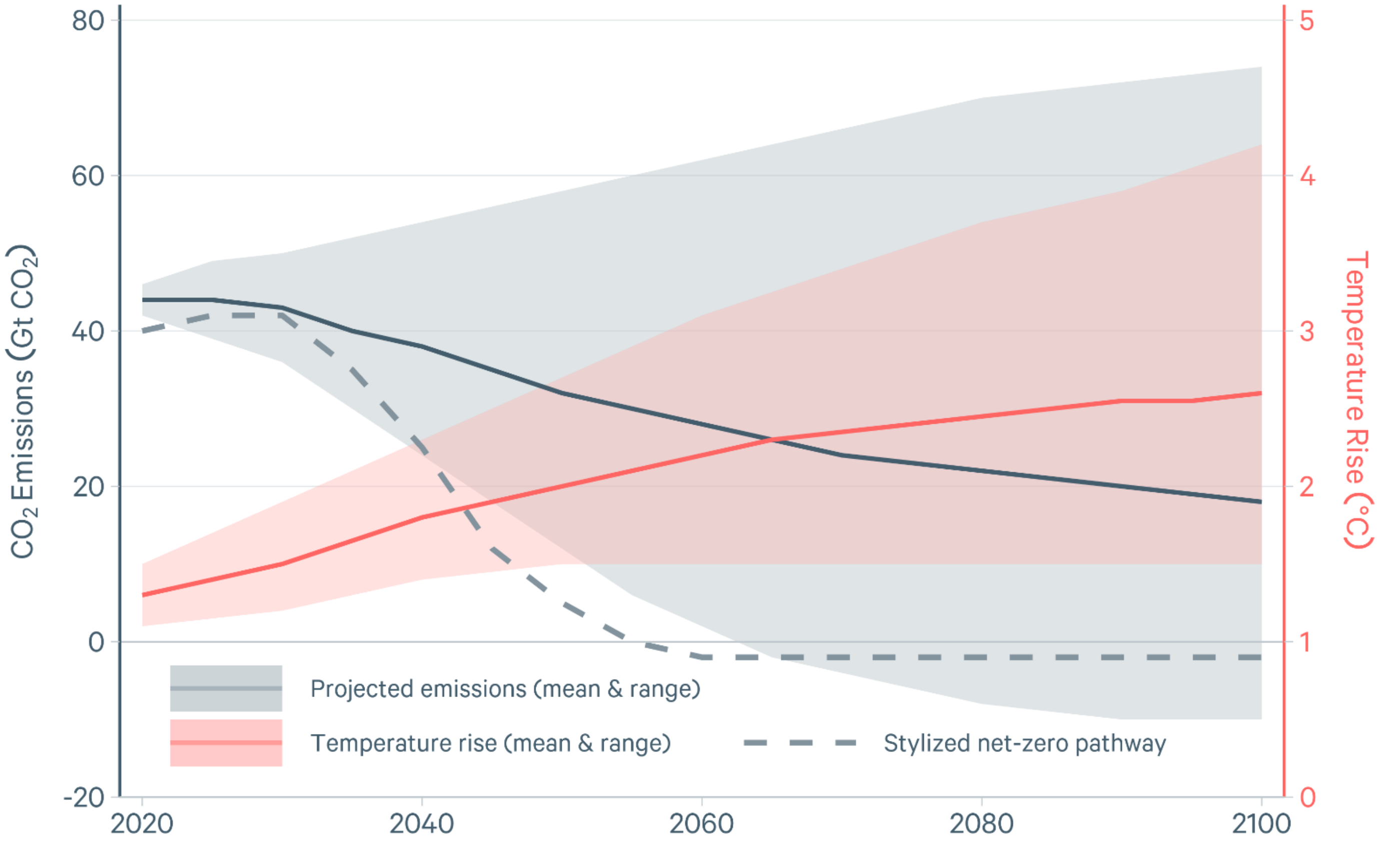

Sources: RFF Social Cost of Carbon Explorer; IPCC

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Thank you!