



Investor Network on CLIMATE RISK

February 25, 2009

The Honorable Harry Reid
Majority Leader
United States Senate
Washington, DC 20510

The Honorable Mitch McConnell
Minority Leader
United States Senate
Washington, DC 20510

Dear Majority Leader Reid and Republican Leader McConnell:

We are 35 treasurers, comptrollers, institutional investors, asset managers, and other leaders representing over \$3.2 trillion in assets. With the stimulus bill, the President and Congress have made a significant public investment in the transition to a clean energy economy. Now we urge you to move quickly to pass other legislation – including on energy, transportation, and climate change – that will create a framework in which private investment can drive energy efficiency, renewable energy, and reduce greenhouse gas emissions and that will change public transportation investment to lower oil use and greenhouse gases. Today, our investments face an uncertain policy environment, making it difficult to invest in the clean energy approaches we need. As long-term investors, we need stable national policy to help guide the companies in which we invest so that they can be profitable over the next several decades in a low-carbon, clean energy economy.

Making that long-term future a reality requires action now, and the major opportunity in the short-term is energy efficiency. The American Council for an Energy-Efficient Economy (ACEEE) suggests that the U.S. could cost-effectively achieve energy savings of 25-30% or more over the next 20-25 years,¹ and the McKinsey Global Institute similarly suggests that global energy demand growth could be cut by at least half by 2020 with additional investments in energy efficiency.² As fiduciaries and long-term investors, we recognize that energy efficiency and conservation are the fastest, easiest, and cheapest ways to significantly reduce greenhouse gas emissions and improve the bottom line of the companies and real estate in which we invest, especially with demand for energy increasing. Furthermore, electricity markets generally do not reward energy efficiency, which means there is a need for this highly-regulated arena to have policies that send the right signals to utilities and that remove barriers to efficiency.

Accordingly, **we urge you and your colleagues to enact a strong national Energy Efficiency Resource Standard (EERS)**. According to the Federal Energy Regulatory Commission (FERC), more than ten states already have a stand-alone EERS (and about the same number include energy efficiency as part of their renewable energy goals);³ several others are considering such a standard. But the important national economic and energy security ramifications here necessitate national focus and leadership. Energy efficiency should be the “fuel of first choice”, and setting national energy savings targets can help ensure that all states share in the benefits of energy efficiency – including saving consumers money, reducing air

¹ Karen Ehrhardt-Martinez and John A. “Skip” Laitner, American Council for an Energy-Efficient Economy, “The Size of the U.S. Energy Efficiency Market: Generating a More Complete Picture,” May 2008, <http://www.aceee.org/pubs/e083.htm>

² McKinsey Global Institute, “The case for investing in energy productivity,” February 2008, http://www.mckinsey.com/mgi/publications/Investing_Energy_Productivity/

³ Federal Energy Regulatory Commission, “Energy Efficiency Resource Standards,” December 2008, <http://www.ferc.gov/market-oversight/mkt-electric/overview/elec-ovr-eeeps.pdf>

pollution, and promoting economic development. ACEEE estimates that a robust national EERS (15% electricity savings and 10% natural gas savings by 2020) will create 260,000 net jobs and save utility customers a net \$144 billion.⁴ Energy efficiency is the cheapest form of power we can produce, and it is time for national policy to step in and tell electric utility companies that they need to shift their business practices to deliver a lot more of it.

Renewable energy similarly requires forceful national policy, to drive both short-term action and long-term investment. In the short-term, we need to facilitate rapid deployment of existing and emerging technologies. Accordingly, **we urge you and your colleagues to enact a strong national Renewable Portfolio Standard (RPS)** (also often referred to as a “Renewable Electricity Standard”). By FERC’s count, twenty-eight states plus the District of Columbia have already adopted such a standard.⁵ Doing so at the national level will help restore capital flows to renewable energy projects by assuring investors that renewable technologies will be a fundamental part of our nation’s energy portfolio. As investors, our ability to continue to invest in the renewable energy industries, and accelerate the growth of these industries, depends on a comprehensive and stable set of supportive policies, and a national RPS is a critical piece of that policy package.

We also need national policies that look to the medium- and long-term. You have at your disposal a range of policy measures to provide the incentives needed to stimulate research, development, and deployment of cleaner, more efficient technologies at the scale necessary. **We therefore urge you and your colleagues to also enact policies that support renewable energy R&D and technological innovation, as well as policies that direct government procurement towards new clean energy technologies** (and similarly provide incentives for state and local governments to be early adopters).

National policies to drive energy efficiency and renewable energy over the short- and long-term cannot be confined to the electricity sector, however; such policies are also needed in the transportation sector. We ask you and your colleagues to adopt a national low-carbon fuel standard, to support expansion of public transit, to promote legislation reducing vehicle-miles traveled (VMT), to adopt performance-based incentives to stimulate the development and deployment of new technologies, and to urge the Transportation Department to adopt the maximum feasible fuel economy standards. In other words, **we urge you to institute policies, including a low-carbon fuel standard, that prepare our transportation infrastructure – and the transportation companies in which we invest – for a clean energy, low-carbon economy.**

All of these measures are important, but perhaps of highest importance is to send a signal to the markets that greenhouse gas emissions will carry a price – a signal that will reinforce all of the policies described above. National legislation to address climate change will provide much-needed legal, regulatory, and market certainty. Establishing a national framework for significant emissions reductions will not only help asset managers and institutional investors manage climate risks and opportunities, but also will help to repair a serious and growing threat to the global competitiveness of U.S. businesses in a world where the energy-intensity and carbon-intensity of companies’ products, services, and supply chains are increasingly important. As the world begins to move to a low-carbon economy, U.S. businesses – which lack a domestic market that drives competitiveness by placing a cost on greenhouse gas emissions – are in danger of being left behind. National climate legislation operating in harmony with the market will facilitate greater investment in clean technologies and other climate change solutions and will enable the U.S. not only to compete globally, but to lead.

⁴ ACEEE, “Energy Efficiency Resource Standard (EERS) Retail Electricity and Natural Gas Distributors,” February 2009, http://www.aceee.org/energy/national/FederalEERSfactsheet_Feb09.pdf

⁵ FERC, “Renewable Energy Portfolio Standards,” February 2009, <http://www.ferc.gov/market-oversight/mkt-electric/overview/elec-ovr-rps.pdf>

As we have now called for several times over the past couple of years, **we urge you to enact a mandatory national policy to contain and reduce national greenhouse gas emissions economy-wide to levels called for by the most widely-accepted science and climate models.** The 2007 reports from the Intergovernmental Panel on Climate Change, the world's leading body of climate experts, suggested that developed countries would need to reduce emissions 25-40% by 2020 and 80-95% by 2050 in order to have a good chance of avoiding the most harmful climate impacts – and the IPCC reports are widely understood to be *conservative* estimates. Urgent and bold action is needed. We cannot look to 2050. Emissions must peak within the next few years and then start to decline significantly. We must start now or we risk making it much more difficult and costly to achieve the needed reductions.

Suggestions that strong climate action is inadvisable in the current economic environment are misguided – such action is in fact essential, while the costs of inaction could be economically debilitating. We are convinced that building our nation's low-carbon energy infrastructure is an important part of the solution to our current economic crisis. Given the dire state of both the economic and climate crises, it is imperative that Congress enact the climate, energy, and transportation policies we describe here. Delaying action on these policies will only deny U.S. families and businesses access to low-cost clean power, reduce our nation's energy security, and require more stringent, costly solutions to address climate change in the future. Congress must demonstrate leadership and commit to reducing greenhouse gas emissions domestically for the sake of American businesses, industry, and citizens – to protect our environment and economy.

We look forward to working with you and your colleagues as you move expeditiously toward establishing these essential policies.

In the meantime, please do not hesitate to contact Mindy Lubber, Director of the Investor Network on Climate Risk (INCR), at (617) 247-0700 ext.130 or via e-mail at lubber@ceres.org with any questions or for further information.

Sincerely,

PENSION FUNDS, LABOR, STATE TREASURERS, STATE/CITY COMPTROLLERS
California Public Employees' Retirement System
California State Controller
California State Teachers' Retirement System
California State Treasurer
Connecticut State Treasurer
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