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Policy Applications for the Social Cost of Carbon

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CENTER FOR CLIMATE AND ENERGY SOLUTIONS

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About Center for Climate and Energy Solutions

- Independent, nonpartisan, nonprofit organization
- Working to advance strong policy and action to address the twin challenges of energy and climate change
- Founded in 1998 as the Pew Center on Global Climate Change
- Became C2ES in 2011

Social Cost of Carbon in a Price-Based System

- Policy Justification for Setting a Floor Price
  - Address allowance surplus mechanically
  - Maintain R&D and capital investment signals at proper minimum levels over time
- Potential interaction with complementary policies designed to do the same thing.
  - Where complementary policies direct actions, they depress carbon prices.

Social Cost of Carbon in Regulatory Systems

- The benefit-cost framework easily incorporates a social cost of carbon.
  - Regulations should not have a cost burden that exceeds the social cost of carbon.
  - However, the SCC is a marginal cost, and regulatory approaches aren't designed to be effective on the margin, especially over time.

Potential Issues with Social Cost of Carbon

- Should the US base regulatory stringency on global cost impacts?
- A potential time frame misalignment between the marginal social cost dollar and the marginal capital investment dollar.
  - The SCC reflects the present value of a sum of social costs over time from a single ton emitted today.
  - Long-term capital investments are based on the present value of a sum of expected returns over time.

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FOR MORE INFORMATION

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