

## Climate Change

### Keep Electricity Bills Affordable

**Issue.** The U.S. and other countries have debated how to address the increase in greenhouse gases in the atmosphere for more than 20 years. Carbon dioxide (CO<sub>2</sub>), the primary greenhouse gas (GHG), is also a product of fossil fuel combustion. CO<sub>2</sub> has increased in atmospheric concentration from a pre-industrial level of 280 parts per million to about 383 parts per million today. Many scientists believe high GHG concentrations will result in a warming of the earth's atmosphere and changes in the climate, melting of the polar ice caps and sea level rise. Congress and the Administration are considering proposals to address climate change.

The objective of America's 900-plus electric cooperatives is to help Congress develop and pass a simple, affordable, flexible, and effective piece of legislation to address the nation's energy and climate change objectives. In 2009, electricity is intertwined with every American's quality of life and the nation's economic productivity. In 1932, President Franklin Roosevelt declared that electricity was a necessity, not a luxury. He committed to making it available and affordable to all Americans. We must not turn back on that commitment from over 70 years ago. We do not have to, and should not, in climate change legislation. Maintaining the affordability of electricity is the principle against which cooperatives will judge all climate change and energy legislation.

### Carbon Reductions and New Costs are Coming, by Either Legislation or Regulation

The legislative effort to address climate change concerns by limiting emissions of carbon dioxide (CO<sub>2</sub>) and other greenhouse gases as a part of the national energy strategy has taken center-stage in Washington. President Obama's budget jumpstarted the debate by proposing that Congress auction 100 percent of all emission allowances under a cap-and-trade system and use the tens of billions in revenue to fund low- and middle-class tax cuts. Congressional leaders continue to press for legislation to place a cap on emissions, even as the Environmental Protection Agency (EPA) has started the process of regulating emissions using the Clean Air Act. No matter the option, consumers and the economy are facing new costs as CO<sub>2</sub> emissions are priced and controlled.

### The Environmental Protection Agency has the Authority to Act on Climate

Spurred by the U.S. Supreme Court 2007 decision that EPA has the authority under the Clean Air Act to regulate CO<sub>2</sub>, the agency has begun to take action. In April, EPA proposed an "endangerment finding" that, when finalized, will open the door to EPA regulations. Unfortunately, the Clean Air Act is not well-suited to addressing global climate change. It was developed primarily to address local and regional air quality issues, not global scale issues. Further, the framework established by the act would create a confusing and complicated regulatory system that would lead to what Rep. John Dingell (D-MI) called "a glorious mess." Well-crafted legislation is a better solution.

### Many Components of Climate Change Proposals Will Impact Electric Cooperatives

Several bills have been introduced in the U.S. House of Representatives this year, each addressing the issue with a different type of "cap-and-trade" or carbon tax programs. At this point, cap-and-trade legislation is the preferred route by most in Congress. Such a system will require Congress to decide many critical details, each of which will have a significant impact on the cost of the program to electric cooperatives and our member-consumers. While Congress must decide numerous details in developing legislation to reduce CO<sub>2</sub> emissions, several key issues deserve particular attention:

- Stringency and timing of caps – this has the biggest impact on the program’s cost and will determine the public’s willingness to sustain the policy over time.
- Allocating carbon emission allowances to keep the program affordable, or auctioning them to the highest bidder to raise revenue.
- Whether to allow Wall Street speculators to drive up emission allowance prices, thereby setting electricity prices for all electricity consumers.
- Inclusion of an “economic safety valve” to protect against energy price spikes and allow for prudent planning and robust economic growth.
- Scope of the program (covering the entire economy or only specific sectors).
- Whether to allow use of agricultural and other “offsets.”
- How to promote advanced technology research, development, and deployment.
- How to address other countries’ emissions that make up over 75 percent of worldwide emissions.

## Cap-and-Trade of Carbon Emissions

Under a “cap-and-trade” plan, Congress would set a national cap on the number of tons of CO<sub>2</sub> emissions that would be allowed each year by the plan. The cap would decline over time. EPA would then develop emissions permits, called allowances, equal to the number of tons allowed annually under the cap. How those allowances are distributed is a key question under any cap-and-trade plan. EPA could auction them to the highest bidders, or give them away for free.

Either way, at the end of every year, each entity that is regulated under the plan would need to submit one allowance to the EPA for every ton of CO<sub>2</sub> they emitted during the year. They could submit allowances they were given by the EPA or bought from the EPA at the auction, or they could buy allowances from another entity with more than it needs to comply with the legislation in a given year.

Alternatively, companies could submit “offsets” to the EPA in lieu of allowances. Offsets are projects, like planting trees, which take CO<sub>2</sub> out of the atmosphere as a way of “offsetting” the emissions added to the atmosphere from a power plant or other source. Finally, if the legislation includes an “economic safety valve” provision, regulated entities could buy additional allowances from the EPA at a fixed maximum price to ensure there is a hard ceiling on the program’s costs.

**Status.** On June 26, the House voted 219-212 to pass an energy-climate bill (H.R. 2454) that mandates GHG emission reductions to 17 percent below 2005 levels in 2020 and 83 percent in 2050 and a full auction of emission allowances by 2030. The Senate Environment and Public Works Committee voted on Nov. 5 to report a climate bill (S. 1733) that mandates GHG emission reductions to 20 percent below 2005 levels in 2020 and 83 percent in 2050. These bills do not meet the test of keeping electricity affordable for all Americans.

**NRECA Position.** Electric Cooperatives are prepared to work with Congress to develop responsible climate change legislation. NRECA urges Congress to

- Oppose auctioning of allowances in the electricity sector.
- Give allowances to retail electric utilities, based upon CO<sub>2</sub> emissions associated with the production of electricity sold by the retail utility.
- Set CO<sub>2</sub> caps consistent with the commercial availability of technology.
- Do not allow Wall Street speculators to set electricity rates by treating CO<sub>2</sub> allowances as just another money-making commodity.

for more information  
**Brian Cavey, NRECA**  
 703.907.5815  
 brian.cavey@nreca.coop  
<http://www.nreca.coop>

