CLIMATE CHANGE LEGISLATION
Keep Electricity Bills Affordable

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_2) 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_2 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_2, 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 called "a glorious mess." Well-crafted legislation is a better solution.

Many Components of Climate Change Proposals Will Impact Electric Cooperatives

Several bills have already been introduced in the U.S. House of Representatives so far 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_2 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 more than 75 percent of worldwide emissions.

Cap-and-Trade Overview

Under a "cap-and-trade" plan, Congress would set a national cap on the number of tons of CO_2 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_2 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_2 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.

U.S. House of Representatives Moving Quickly

The House has forged ahead on the climate change issue, with multiple committees holding hearings. On March 31, the Energy and Commerce Committee circulated a "Waxman-Markey discussion draft" of legislation that would create a national cap-and-trade system (as well as several other energy-related provisions). The Energy and Environment Subcommittee began hearings on that draft legislation in April, and the full Committee is expected to formally consider the bill in a "mark-up" session in May. Committee Chairman Henry Waxman (D-CA) has said he wants to have a bill on the floor by Memorial Day.

Unfortunately, the discussion draft does not meet the test of keeping electricity affordable for all Americans. Very importantly, the bill does not address how allowances will be initially distributed, leaving the door open to a complete auction of those allowances. If cooperatives have to buy allowances at an auction to the highest bidder, our consumer-owners will wind up paying an electricity tax.

Further, the legislation:

- includes emission caps that are too stringent in the early years of the program;
- opens the door to Wall Street speculators;
- fails to include an economic safety valve to contain costs;
- is overly restrictive in allowing the use of offsets and biomass;
- inadequately addresses existing laws that could be used to require emission reductions; and
- includes unnecessary and duplicative regulations that will further drive up the cost of electricity.

U.S. Senate Taking a "Wait and See Approach"

While several Senators are considering developing climate change legislation, the Senate leadership is taking more of a "wait-and-see" approach to the issue, with no specific plans for when to consider a climate bill. The Senate has unsuccessfully considered major climate change legislation in the past (2003, 2005, and 2008), and Senate Majority Leader Harry Reid (D-NV) has indicated the Senate will wait until the House has considered its legislation before acting on climate change.

NRECA urges Members of Congress to:

- Oppose auctioning of allowances in the electricity sector.

- Give allowances to retail electric utilities, based upon CO_2 emissions associated with the production of electricity sold by the retail utility.

- Set CO_2 caps consistent with the commercial availability of technology.

- Do not allow Wall Street speculators to set electricity rates by treating CO_2 allowances as just another money-making commodity.

- Support an "economic safety valve" that limits CO_2 allowance prices.