

Sponsor: APPA CEO Climate Change Task Force

Principles for a Potential Federal Cap-and-Trade Program to Reduce Greenhouse Gas Emissions

Emissions of greenhouse gases (GHGs) and the linkage of these emissions to global climate change is the most significant environmental issue facing the electric utility industry, and one of the most pressing environmental issues confronting the nation. Congressional discussion, debate, and concern within the scientific community as well as with the general public regarding the effects of these emissions on the physical environment and the economic consequences of programs to reduce these emissions has prompted each branch of the federal government as well as state and local policymakers to take action on this issue.

The issue of climate change is one of the highest priorities of the American Public Power Association (APPA). In June of 2006, the APPA Board of Directors established a CEO-level Climate Change Task Force to help the Association evaluate and ultimately develop policy recommendations on legislative proposals to reduce GHG emissions and to provide practical advice to APPA members on programs and activities they can pursue locally to reduce GHG emissions in their own communities.

In 2007, APPA's membership approved a resolution sponsored by the CEO Climate Change Task Force (Resolution 07-03) that expresses support for congressional action to reduce greenhouse gas emissions in order to address climate change and sets out a series of principles to guide congressional consideration of related proposals. The resolution asserts that any federal program to address climate change must:

- Be economy wide;
- Consider the financial impact on consumers;
- Protect the ability of U.S. industries to compete in world markets and had to carefully consider the international competitive impact on U.S. jobs;
- Allow credit for early actions taken to reduce greenhouse gas emissions;
- Maintain reliability, protect national security and avoid over-reliance on any single fuel by recognizing the importance to the nation of preserving a diverse mix of electricity generation fuels, including coal, nuclear, natural gas, and all renewable energy sources including hydro;
- Place an enhanced and immediate economy-wide focus on energy efficiency for all energy uses; -ensure that tax-based or other incentives for the development and deployment of renewable and clean energy facilities and programs are provided on a comparable basis to all electric industry sectors including public power;
- Recognize and address regional differences that could impact the fairness and effectiveness of any program designed to address greenhouse gas emissions;

- Include additional and expanded federal support for research, development and deployment of cost-effective technologies to reduce, capture, transform, transport or sequester greenhouse gases from emission sources throughout the national economy; and
- Ensure that any generation portfolio requirements allow all low emission technologies.

Since the adoption of Resolution 07-03, the attention on climate change has continued to increase in Congress, with a sharpening focus on establishment of a cap and trade program as the general approach to addressing the issue. Many APPA members have strong concerns about the potential adverse consequences to their customers and the economy of such an approach. They would prefer that Congress adopt a direct tax-based approach, believing such an approach to be much simpler to administer and more equitable to consumers and the various economic sectors.

Many task force members share similar concerns. At the same time, the task force recognizes that a cap and trade program is currently the only approach being given serious consideration in Congress. For example, the bill to be considered by the full Senate in June of this year is a cap and trade bill. Thus, the task force believes it is prudent for APPA to adopt some specific principles with respect to a cap and trade approach in order to provide the staff and members with additional guidance in addressing this issue in a manner that protects public power utilities and their customers, and is consistent with the overarching principles already adopted above.

NOW, THEREFORE, BE IT RESOLVED: That the American Public Power Association urges Congress to consider carefully all potential solutions for reducing greenhouse gas emissions to address global climate change and, if it chooses to enact a federal cap and trade regime, to adhere to the following principles. Specifically, any federal legislation establishing a cap and trade program to reduce greenhouse gas emissions must:

- Achieve the goals established by Congress with the least possible adverse economic impact on consumers of energy and the U.S. economy. Thus, such a program must include a safety valve (which sets a maximum allowance price) or other stringent cost control mechanisms that mitigate price volatility and protect consumers.
- Minimize the initial auction amount to no more than five percent of total allowances to allow time for efficient markets to develop, to protect consumers and ensure continuing reliable operation of the electric system. In addition, the structure and operation of such an auction should be as transparent, simple and straightforward as possible.
- Require the federal government to conduct regular reviews of allocations and auctioning of allowances in order to ensure they do not create windfall profits. This will be a particular problem in deregulated and RTO-run wholesale markets where market-pricing mechanisms could allow generators and other market participants to reap windfall profits.

- Provide for effective market oversight, including strong enforcement and penalties, to prevent market manipulation so that costs to consumers are minimized, market participants retain confidence in the market, and the market produces the desired environmental benefits in the most efficient and cost-effective manner.
- Allow for all net proceeds generated from auctioning of allowances by federal or state governments to be used only for targeted R&D, energy efficiency, and mitigation of cost impacts on consumers.
- Be designed from the outset to slow, stop and then reverse U.S. greenhouse emissions over a reasonable period of time. This period should be consistent with the need to maintain the reliability of electricity to consumers with the time needed to develop low carbon generation technologies and implement them on a commercial basis. At the outset, the program should provide for allowances sufficient to maintain reliability and to allow time to adapt. Generating units of 25 MW or less should be exempted from mandatory participation in the program.
- Create an integrated national program for carbon reporting and trading that is equitable to all states.
- Establish January 1, 1994 as the appropriate date beyond which credit for early action is allowed.
- Not unduly harm the U.S. economy. Regular reviews of any cap-and-trade program should be conducted to determine if changes to the program are warranted to prevent the transfer of wealth and jobs to other countries that have not implemented effective greenhouse gas reduction programs.
- Allow for broad availability of greenhouse gas offsets for projects that achieve emission reductions. Qualified offsets should be additional, permanent, independently verified, enforceable, and measurable. In addition, offsets should be available from an expansive set of sectors and activities without arbitrary geographic or quantity limits on the use of qualified offsets to meet cap requirements.
- Provide allowances, offsets or other accommodations to the electric utility sector to protect it from intentional or unintentional fuel switching between economic sectors. These allowances and offsets must accurately reflect the overall reduction in greenhouse gas emissions.