



Understanding EEL's Global Climate Change Points of Agreement

The Edison Electric Institute (EEI), representing approximately 70 percent of the U.S. electric power industry, has endorsed climate change principles intended to help ensure that U.S. climate policy is successful in both reducing greenhouse gas (GHG) emissions and addressing the cost concerns of consumers. The framework, a copy of which is attached, calls for an 80-percent reduction below current levels by 2050, together with a series of actions to mitigate impacts to customers.¹

Importance of Climate-Friendly Technologies

To achieve emissions reductions—while meeting the growing demand for electricity and keeping costs under control—will require an aggressive and sustained commitment by the industry and policymakers to the development and deployment of a full suite of technologies. These include:

- Energy efficiency and renewables, which are key to near-term reductions;
- Increased nuclear capacity and advanced nuclear designs, which are critical to mid- to longer-term reductions;
- Carbon capture and storage (CCS) coupled with advanced coal technologies (ACT), which are key to mid- to longer-term reductions;
- Plug-in hybrid electric vehicles (PHEVs) and electric vehicles (EVs), which can make a major contribution to reducing net GHG emissions, as well as to reducing foreign oil dependence and consumer prices at the pump; and
- Other no and low-emitting carbon technologies (e.g., smart grid).

Although some of these technology options are currently available—albeit at a higher cost than conventional generation sources—others are not. For example, significant deployment of new nuclear plants is at least 10 years away. CCS with ACT is under development, but is not expected to be widely available until 2020 to 2025. Yet these technologies are critical to our dual goals of addressing GHGs and maintaining a reliable, affordable electricity supply in a carbon-constrained world.

¹ This framework focuses on a cap-and-trade program, but EEI remains open to a tax-based or hybrid approach.

Compliance Dates Should Be Aligned with Technology Availability

For any carbon policy to reduce GHG emissions effectively and to protect the U.S. economy, compliance timeframes must correspond to the availability of technologies needed to reduce emissions. Near-term targets should be set and driven by efforts on energy efficiency, renewable energy, and, to some extent, new nuclear. Medium-term targets should be set in the 10- to 20-year timeframe after enactment, in order to match up with and enable technology development (e.g., new nuclear and CCS with ACT). The longer-term target—80 percent below current levels by 2050—will require all of these options, plus additional options in other sectors of the economy.

Short- and mid-term targets—beyond what can be accomplished with efficiency and renewables—that kick in before new nuclear plants and advanced technologies such as CCS with ACT are available and deployed on a widespread basis would force electric utilities to switch from using coal to using large amounts of natural gas. This massive fuel switching would drive up natural gas prices, exposing consumers to sharply higher heating and air conditioning bills, and would constrain natural gas supply. Likewise, industries that use natural gas would be less competitive in global markets, making it even more likely that U.S. jobs would move overseas. In addition, this would frustrate our long-term national goals by diverting resources away from developing and deploying the technologies needed to meet long-term targets.

Likewise, from an international perspective, it is important to develop technologies such as CCS with ACT, considering the heavy dependence of many countries (e.g., India and China) on fossil fuels as their primary source of electricity. In fact, coal alone is responsible for 40 percent of world electricity generation, a figure that is expected to grow through 2030 in order to help meet global demand.²

Cost-Containment Provisions Are Key to Protecting Consumers and the Economy

Following an appropriate technological pathway will help to reduce the costs of cutting GHG emissions. However, under any scenario, the costs of major reductions in GHG emissions will be high. Therefore, a series of cost-containment mechanisms is necessary to help mitigate the impact of federal climate legislation on electricity consumers, U.S. workers, and the economy.

- **Allocating Allowances to Mitigate Impacts on Customers**

The best way to mitigate the impacts of federal climate legislation on customers is to flow-through the benefits of free allowances to customers, rather than auctioning allowances to the highest bidder. This can best be achieved by having allowances for regulated utilities allocated at the local distribution company (LDC) level—a process that would be overseen by state utility regulators—with appropriate adjustment to address impacts on unregulated generators.

Allowances should be allocated in the early years of a climate program, with a gradual transition to a full auction as more technological options become available and costs are more stable. The initial allocation to the electric power sector should be consistent with its level of carbon dioxide (CO₂) emissions (i.e., 40 percent).

² International Energy Agency, *World Energy Outlook 2008*, November 2008, p. 142.

Within the power sector, allowances should be allocated as follows to ensure equitable treatment of the nation's utility customers:

- The vast majority of allowances should be allocated to LDCs, based on an even split between base-year emissions (including emissions associated with purchased power) and retail sales.
- Remaining allowances would go to merchant coal generators, which would receive allowances equal to 50 percent of their base-year emissions to help defray their compliance costs.

In addition, under a federal GHG cap-and-trade program, allowances to the power sector should be increased to the extent that the market share of PHEVs and EVs increases, which will reduce emissions but expand electricity use.

● **Cost-Containment Provisions Also Should Include a Price Collar**

Federal climate legislation also should employ an effective economic safety valve, known as a price collar. A price collar will help to protect U.S. international competitiveness and to limit economic harm to electricity consumers, U.S. workers, and the economy, while accomplishing significant emissions reductions and encouraging technological development.

A price collar would include a firm price floor and a firm price ceiling for allowances. The collar should:

- Start narrow and gradually expand over time as technologies become available.
- Be simple to administer and transparent with respect to the use of revenue (which should include funding technology development and limiting economic impacts).
- Be formulaic, i.e., it should be easy to determine the price for any point in time.

● **Allowing the Widespread Use of Offsets**

Offsets also are an important cost-containment mechanism that should be allowed to the maximum extent practical, subject to monitoring, measurement, appropriate third-party verification, and regulatory oversight. A regulated entity may find that offset activities relating to energy efficiency, tree-planting programs, or overseas programs are the most cost-effective measures in reducing global CO₂ emissions. The flexibility to invest in these initiatives will help to reduce the financial impact of a mandatory climate change program on consumers and the economy.

Harmonizing Climate Policies at the State and Federal Levels

Regulators and legislators—at the state and federal levels—have been working to address climate change for many years. In addition, various regulations already exist under the Clean Air Act, Clean Water Act, Endangered Species Act, National Environmental Policy Act, and other federal statutes. Federal climate change legislation should harmonize existing federal and state policies to avoid multiple GHG regulations. From a public policy perspective, a single comprehensive federal climate law, rather than a regulatory regime consisting of multiple, overlapping, or conflicting statutes, is the most effective approach for making significant GHG reductions.

Ensuring a Comprehensive Climate Policy and Protecting Economic Competitiveness

The least economically intrusive and most environmentally effective and equitable regulatory system for reducing GHG emissions will be comprehensive: It will involve the participation of all major emitting nations, all sources of GHGs, all types of GHGs, and all sectors of the economy—without exemptions for any industry or specific fuel. If there were exemptions and the power sector were the only covered sector or one of a few covered sectors, the odds of achieving environmental success would decline and the costs of regulation would be even higher.

Likewise, it is important that any federal climate legislation ensures the United States does not act alone in reducing GHG emissions. Because of the global nature of climate change and the long lead times needed to affect atmospheric concentrations of GHGs, all major emitting nations will need to participate in reducing their GHG emissions. In particular, it is essential to engage developing countries and to provide incentives for them to reduce GHG emissions as well.

Encouraging developing countries to reduce GHG emissions not only will ensure an appropriate environmental response by the global community, it also will help U.S. industry remain competitive in the global marketplace. Whether a new international agreement succeeding the Kyoto Protocol or other international initiatives are undertaken, a combination of incentives and sanctions may be necessary to involve all major emitting nations effectively.

Attachment: EEI Global Climate Change Points of Agreement

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**EDISON ELECTRIC
INSTITUTE**

701 Pennsylvania Avenue, N.W.
Washington, D.C. 20004-2696
202-508-5000
www.eei.org

Edison Electric Institute (EEI) is the association of U.S. shareholder-owned electric companies. Our members serve 95% of the ultimate customers in the shareholder-owned segment of the industry, and represent approximately 70% of the U.S. electric power industry. We also have as Affiliate members more than 70 International electric companies, and as Associate members more than 170 industry suppliers and related organizations.



EEI Global Climate Change Points of Agreement

- EEI remains committed to working with Congress on enactment of legislation that will produce substantial emissions cuts and mitigate impacts to customers.
- EEI will focus its efforts on a cap-and-trade program, but also remain open to a tax-based or hybrid approach in the event the political environment shifts.
- Consistent with EEI's support for economy-wide programs, there should be no exemptions for any industry or specific fuel.
- EEI will aggressively pursue legislative and regulatory policies in support of climate-friendly technologies.
 - Efficiency and renewables are key to near-term reductions.
 - Maximizing new nuclear is key to mid-to-longer term reductions.
 - The aggressive development and deployment of carbon capture and storage coupled with advanced coal technologies are necessary to preserving the coal option.
 - Plug-in hybrid electric vehicles (PHEVs) and electric vehicles (EVs) can make a major contribution to reducing net GHG emissions, as well as to reducing foreign oil dependence and consumer prices at the pump.
 - Other no and low-emitting carbon technologies should be pursued (*e.g.*, smart grid).
 - Support key concepts underlying the Boucher CCS bill.
- Long-term targets (*e.g.*, 2050) should be set at an 80% reduction below current levels.
- Interim targets should be aligned with technology availability.
 - Near-term targets should be set and driven by efforts on energy efficiency, renewable energy, and, to some extent, new nuclear.
 - Medium-term targets should be set in the 10 – 20 year timeframe after enactment to match up with and enable technology development (*e.g.*, new nuclear, CCS, *etc.*).

- Cost-containment provisions should include a price collar, which would include a firm price floor and firm price ceiling. The collar should be based on the following principles:
 - Start narrow and gradually expand over time as technologies become available.
 - Simplicity of administration and transparency on use of revenue (which should include funding technology development and limiting economic impacts).
 - Formulaic (*i.e.*, easy to determine price for any point in time).
- Offsets also are an important cost containment mechanism that should be allowed to the maximum extent practical, subject to monitoring, measurement, appropriate third-party verification and regulatory oversight.
- State climate policies should be harmonized with federal climate policy, and states can pursue related programs (*e.g.*, energy efficiency programs, renewable portfolio standards, *etc.*). There should not be multiple cap-and-trade programs for GHG reductions.
- There also should be harmonization at the federal level. A single comprehensive federal climate law, rather than a regulatory regime consisting of multiple, overlapping or conflicting statutes, is called for.
- Under a federal GHG cap-and-trade program, allowances should be transferred to the power sector from the oil and gas sector as the market share of PHEVs and EVs increases.
- The best way to mitigate impacts on customers is to flow-through the benefits of allowances to customers. This can best be achieved by having allowances for regulated utilities allocated at the LDC level—a process that would be overseen by the state utility regulators—with appropriate adjustment to address impacts on unregulated generators.
 - Allowances should be allocated in the early years of a climate program, with a gradual transition to a full auction.
 - The initial allocation to the electric power sector should be consistent with its level of CO₂ emissions (*i.e.*, 40%).
 - Sector allowances should be allocated as follows: merchant coal generation would receive allowances equal to 50% of base-year emissions (because it is assumed both that the other 50% is recovered by gas being on the margin in competitive markets and that gas has, on average, 50% of the carbon content of coal), with the balance of allowances allocated to LDCs based on an even split between base-year emissions (including emissions associated with purchased power) and retail sales. This approach is referred to as the “50-50-50” proposal.

