

Cap and Trade Allowances: Windfalls or Wind Farms?

Energy Daily, Commentary by Gregory E. Abel and Glenn English 10/9/2009

The commentary *No 'Cash for Clunkers' in Climate Bill* (Sept. 15 issue of *Energy Daily*) creates a fictitious history of climate change and seriously harms good faith efforts within the industry to address the legitimate issues many utilities have raised with the Waxman-Markey bill.

Let's be perfectly clear: the utilities calling for changes to Waxman-Markey support emissions reductions. The simple fact is that the switch to low- and zero-emission technologies won't happen overnight, and it won't be cheap. The problem is exacerbated by Waxman-Markey's allowance allocation formula, which rewards companies with fewer CO₂ emissions and leaves more coal-dependent utilities with significant allowance shortfalls. Our aim is to prevent a double cost to our customers: the cost of allowances (which will do nothing to reduce emissions), and the cost of the new infrastructure, including the renewable energy needed to actually reduce emissions.

We will not support the passage of legislation that causes our customers to spend their hard-earned dollars on unfair allowance allocation formulas that send millions of dollars to those who do not need them to address climate change. Moreover, the Edison Electric Institute made clear in letters to Senate leadership that they cannot support the bill without having a number of key changes made to it.

We and other utilities – both large and small – have raised questions about the bill's allocation formula, which is split 50-50 between emissions and retail sales. Why? Because free allocations based on retail sales will create a financial windfall for companies with large nuclear or hydro resources. Those resources don't emit greenhouse gases, so they don't need allowances to comply with the law.

Moreover, giving away windfall allowances through an inequitable allocation formula reduces the available allowances for utilities that do need them to be in compliance with the law. This drives up customers' costs and inappropriately transfers wealth from customers of primarily coal-based utilities to those of utilities that are less carbon-intensive. This situation was avoided under the successful Acid Rain Program, which did not distribute sulfur dioxide allowances to nuclear and hydro units – for the simple and obvious reason that these units did not emit sulfur dioxide, had no compliance obligations and, therefore, did not need allowances.

Let's set the record straight: no nuclear plant was built to save the planet, and no coal plant was constructed to melt the ice caps. Utilities that built nuclear plants in the 1960s and 1970s did not do so to avoid greenhouse gas emissions, and there is no reason to provide them with a financial windfall. And as far as these self-declared "forward-looking power companies" are concerned, not one of the "Cash for Clunkers" authors has built a nuclear plant during their tenure with their utility.

Furthermore, so-called clunker coal plants in the Midwest were authorized by state utility commissions pursuant to laws existing at the time of approval. These plants were found to be in the best interests of our customers at that time, and they should not be penalized now for past prudent decisions that have resulted in low cost electricity. The authors assert that in the states where their customers live, a typical monthly electric bill averages \$106, while in coal-burning parts of the country it is as low as \$65. What's the solution for their higher cost structure? Use the Waxman-Markey bill to moderate their customers' bills. How? By raising our customers' bills!

Let's not rewrite history and pretend that the utility investments in low- and non-emitting power generation three and four decades ago anticipated climate change and should therefore be rewarded. A climate change bill should not pick winners and losers – and Waxman-Markey would do just that. It's difficult to swallow the argument about industry compromise when one of the companies represented in the commentary will add about \$750 million to its annual revenues for every \$10 per metric ton increase in the price of carbon dioxide allowances under the bill.

Rather, let's develop a fair allocation formula that avoids windfall profits, provides allowances to utilities that will be forced to take major actions to reduce their emissions, rewards early action once the program starts, avoids wealth transfers between utilities – and most importantly – actually ensures investment to reduce greenhouse gas emissions.

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