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The Large Public Power Council

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March 19, 2007

The Honorable John Dingell
Chairman of the House Energy and
Commerce Committee
2125 Rayburn House Office Building
Washington, DC 20515

The Honorable Rick Boucher
Chairman of the Subcommittee on
Energy and Air Quality

Dear Chairman Dingell and Chairman Boucher:

The Large Public Power Council (LPPC) represents 24 of the largest public power systems in the United States, providing electric power to 40 million consumers in 11 States and Puerto Rico.* LPPC is pleased to respond to your letter of February 27, 2007, seeking our views on a number of questions respecting potential Federal climate change legislation.

First, let us thank you for seeking our views at this early stage of the legislative process. Fashioning workable and effective legislation to deal with global climate change is a complex task, and the end-product can have important implications for our industry and the entire U.S. economy. We are pleased that the House Energy and Commerce Committee is approaching this task in the same careful fashion that it has used on major legislation in years past.

Second, LPPC members are committed to reducing their greenhouse gas (GHG) emissions, and ramping up their renewable generation, as rapidly as is feasible consistent with their obligations to provide reliable and affordable electric service to their communities.

* The LPPC members participating in this submission are: Austin Energy (TX), Chelan County Public Utility District No. 1 (WA), CPS Energy (TX), Clark Public Utilities (WA), Colorado Springs Utilities (CO), IID Energy (CA), JEA (FL), Long Island Power Authority (NY), Los Angeles Department of Water and Power (CA), Lower Colorado River Authority (TX), Massachusetts Municipal Wholesale Electric Company (MA), MEAG Power (GA), Nebraska Public Power District (NE), Omaha Public Power District (NE), Orlando Utility Commission (OUC), Platte River Power Authority (CO), Puerto Rico Electric Power Authority (PR), Sacramento Municipal Utility District (CA), Salt River Project (AZ), Santee Cooper (SC), Seattle City Light (WA), Snohomish County Public Utility District (WA), and Tacoma Power (WA).

Austin Energy (TX) • Chelan County PUD (WA) • CPS Energy (TX) • Clark Public Utilities (WA) • Colorado Springs Utilities (CO)
IID Energy (Imperial Irrigation District, CA) • JEA (Jacksonville Electric Authority, FL) • Long Island Power Authority (NY)
Los Angeles Department of Water and Power (CA) • Lower Colorado River Authority (TX) • Memphis Light, Gas and Water Division (TN)
MEAG Power (GA) • Nebraska Public Power District (NE) • New York Power Authority (NY) • Omaha Public Power District (NE)
OUC (FL) • Platte River Power Authority (CO) • Puerto Rico Electric Power Authority (PR) • Sacramento Municipal Utility District (CA)
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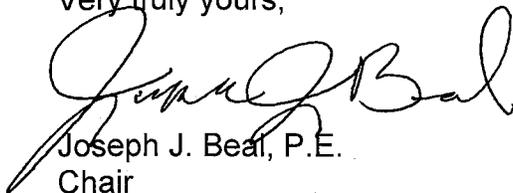
Third, LPPC believes that Federal climate change policy should be broad-based and comprehensive, and should include accelerated technology development, energy efficiency, use of renewable resources, nuclear energy, and advanced coal technologies. LPPC offers the following recommendations for the development of climate change legislation by the Committee:

- CO₂ and other GHGs must be addressed on an economy-wide basis.
- Federal and industry support for research and development must be expanded significantly to develop cost-effective technologies to reduce GHGs in the electric power sector and throughout the economy, to improve efficiency, and to capture and sequester CO₂.
- Climate legislation should provide for a continuing major role for coal-fired electric generation, which accounts for half of U.S. electricity production and is essential for reliable operation of the electric grid.
- The production of electricity with low and zero emission technologies must be expanded.
- Energy conservation and efficiency must be significantly increased throughout the economy.
- Federal financial incentives to promote development and deployment of zero or low-emitting generation technologies and energy efficiency must be made available to all types of electric utilities. Tax-exempt utilities should be able to receive incentives for renewables, energy efficiency, nuclear and advanced coal comparable to those available to taxable entities.
- Climate policy should not disadvantage the U.S. economy in world markets.

LPPC's responses to the specific questions contained in your February 27 letter are attached. In addition, LPPC member utilities are responding individually on specific issues that are of particular concern to their States or regions, including concerns respecting the potential impacts of climate change on hydropower resources.

Again we thank you and the Committee for the opportunity to present our views.

Very truly yours,



Joseph J. Beal, P.E.
Chair



LARGE PUBLIC POWER COUNCIL RESPONSE

**Questions 1-5, Letter from Chairmen Dingell and Boucher
to Joe Beal, Chair of**

Large Public Power Council, Dated February 27, 2007

1. Please outline which issues should be addressed in the Committee's legislation, how you think they should be resolved, and your recommended timetable for Congressional consideration and enactment. For any policy recommendations, please address the impacts you believe the relevant policy would have on:
 - a. emissions of greenhouse gases and the rate and consequences of climate change; and
 - b. the effects on the U.S. economy, consumer prices, and jobs.

While the Large Public Power Council (LPPC) is not able at this time to provide a comprehensive policy proposal in response to question 1, we offer the following general recommendations on the development of climate change legislation by the Committee:

- **CO₂ and other greenhouse gas (GHG) emissions must be addressed on an economy-wide basis.**
- **Federal and industry support for research and development must be expanded significantly to develop cost-effective technologies to reduce GHG emissions in the electric power sector and throughout the economy, to improve energy efficiency, and to capture and sequester CO₂.**
- **The legislation should provide for a continuing major role for coal-fired electric generation, which accounts for half of U.S. electricity production and is essential for reliable operation of the electric grid.**
- **The production of electricity with low and zero emission technologies must be expanded.**
- **Energy conservation and efficiency must be significantly increased throughout the economy.**
- **Federal financial incentives to promote development and deployment of low- or zero-emitting generation technologies and energy efficiency measures must be made available to all types of electric utilities. Tax-exempt utilities should be able to receive incentives for renewables, energy efficiency, nuclear and advanced coal comparable to those available to taxable entities.**

- **The legislation should not disadvantage the U.S. economy in world markets.**

With respect to the Committee’s timetable, LPPC’s view is that fashioning workable and effective legislation to deal with global climate change is a complex task, and that the end-product can have important implications for the electric power industry and the entire U.S. economy. The Committee should consider climate legislation in this Congress in the same careful manner as, and on a similar timeframe to, its consideration during the 101st Congress of the Clean Air Act Amendments of 1990.

2. One particular policy option that has received a substantial amount of attention and analysis is “cap-and-trade.” Please answer the following questions regarding the potential enactment of a cap-and-trade policy:

- a. Which sectors should it cover? Should some sectors be phased-in over time?

If the Committee decides to pursue a cap-and-trade program, the program should be economy-wide, not impose a disproportionate burden on any sector of the economy, and assign a compliance burden to each sector that is consistent with that sector’s contribution to GHG emissions, recognizing that appropriate adjustments need to be made in circumstances where reducing emissions economy-wide requires shifting emissions between sectors. (For example, successful deployment of plug-in hybrids is likely to decrease overall emissions, but will result in a shift of emissions from the transportation sector to the electric power sector.)

In addition, it may be necessary to adopt additional measures – outside of the cap-and-trade program – to reduce emissions from particular sectors, such as more stringent efficiency standards for appliances, motor vehicles or other consumer products.

- b. To what degree should the details be set in statute by Congress or delegated to another entity?

Congress should spell out all of the major provisions of the program – the executive branch should have only an implementing, role.

- c. Should the program’s requirements be imposed upstream, downstream, or some combination thereof?

LPPC has not developed a position at this time on whether a cap-and-trade program should be imposed upstream, downstream, or a combination thereof.

- d. How should allowances be allocated? By whom? What percentage of the allowances, if any, should be auctioned? Should non-emitting sources, such as nuclear plants, be given allowances?

Allowance allocation methodology is a matter that is still under discussion among LPPC members. LPPC does not at present have a position.

- e. How should the cap be set (e.g., tons of greenhouse gases emitted, CO₂ intensity)?

At this time, LPPC does not have a position on whether the cap should be expressed on a tonnage or intensity basis.

- f. Where should the cap be set for different years?

If the Committee decides to pursue a cap-and-trade program, it should incorporate a “slow, stop, reverse” approach to setting the level of the cap – that is, the cap should allow a moderate increase in emissions in the early years to reflect the lead time necessary to deploy low- or zero-carbon technologies, then stabilize emissions, and then require a long-term decline in emission levels. The cap should be set in a manner that recognizes the limitations of currently available technology and provides reasonable transition periods to avoid undue cost impacts on consumers.

- g. Which greenhouse gases should be covered?

If the Committee pursues a cap-and-trade program, the program should, as a general matter, apply to all GHGs, recognizing that for certain non-CO₂ gases a somewhat different form of regulation may be required.

- h. Should early reductions be credited? If so, what criteria should be used to determine what is an early reduction?

Early reductions should be credited. LPPC has not as yet developed specific recommendations on a crediting formula. However, LPPC is of the view that credit should be provided not only for early reductions of GHG emissions but also for recent, verifiable increases in the production efficiency or capacity of existing renewable generation that has permitted utilities to reduce their fossil generation.

- i. Should the program employ a safety valve? If so, at what level?

Most LPPC members support the inclusion of a safety valve in order to provide an upper limit on allowance prices under a cap-and-trade

program. The safety valve should be set a level that adequately protects the U.S. economy, but not so low as to frustrate the emissions reduction objectives of the program.

- j. Should offsets be allowed? If so, what types of offsets? What criteria should govern the types of offsets that would be allowed?

The program should permit the use of a broad range of quantifiable and verifiable offset projects. Notable examples include emissions reduction projects, as well as geological and agricultural sequestration, within the U.S. and other countries.

- k. If an auction or a safety valve is used, what should be done with the revenue from those features?

Safety valve revenues should be paid into a dedicated fund and used only for climate-related technology research, development, demonstration and deployment programs, and to provide federal financial incentives for energy efficiency, renewables, and other low- or zero-emitting technologies.

- l. Are there special features that should be added to encourage technological development?

Any Federal climate program should include a robust technology development component. Two key elements of such a technology program should be emphasized.

(1) Successful development and deployment of GHG emission reduction technologies requires providing incentives for tax-exempt public power and cooperative entities. These incentives should be parallel to and of comparable magnitude to those available to taxable entities under the Internal Revenue Code.

(2) The technology development and deployment component of the program should start immediately. Because any regulatory program will require a significant lead time before it takes effect, the Committee should consider an interim funding mechanism for the technology component that will permit it to start up before any potential safety valve, auction or other revenues become available under the regulatory program.

- m. Are there design features that would encourage high-emitting developing countries to agree to limits on their greenhouse gas emissions?

LPPC has not developed a position on such design features. However, LPPC believes that climate policy should not disadvantage the U.S. economy in world markets.

3. How well do you believe the existing authorities permitting or compelling voluntary or mandatory actions are functioning? What lessons do you think can be learned from existing voluntary or mandatory programs?

Existing voluntary programs have been an important first step for achieving significant GHG reductions in the U.S. The experience and expertise gained through these voluntary efforts have provided an important foundation for cost-effectively achieving further reductions under future federal climate policies.

4. How should potential mandatory domestic requirements be integrated with future obligations the United States may assume under the 1992 United Nations Framework Convention on Climate Change? In particular, how should any U.S. domestic regime be timed relative to any international obligations? Should adoption of mandatory domestic requirements be conditioned upon assumption of specific responsibilities by developing nations?

LPPC has not developed a position on this question.

5. What, if any, steps have your organization's members or its individual members taken to reduce their greenhouse gas emissions? Which of these have been voluntary in nature? If any actions have been taken in response to mandatory requirements, please explain which authority (State, Federal, or international) compelled them?

LPPC has a long history of taking voluntary actions to reduce GHG emissions, individually and through partnerships with the Department of Energy (DOE). Notably, each of the LPPC members signed participation accords to reduce GHG emissions under DOE's Climate Challenge program during the previous Administration. LPPC members also have vigorously participated in DOE's current Climate VISION program. As the power industry's recent Climate VISION progress report states, LPPC members are undertaking a wide-ranging set of actions and programs to reduce their GHG emissions intensity, as well as to reduce, avoid, and sequester GHG emissions off-system. These efforts have contributed to the significant progress that the electric power sector has made in reducing its GHG emissions intensity. In 2004, the latest year for which data are available, the power sector undertook voluntary programs or projects that reduced, avoided, or sequestered more than 282 million metric tons of carbon-equivalent GHG emissions. This represents nearly two-thirds of all reductions reported to the federal government in that year. In addition, significant voluntary investments have been made to increase the efficiency, and extend the useful life of, non-GHG

emitting hydro electric power production which offsets GHG producing power sources.