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March 20, 2007

The Honorable John D. Dingell
Chairman
Committee on Energy and Commerce
U.S. House of Representatives
Washington, DC 20515

The Honorable Rick Boucher
Chairman
Subcommittee on Energy and Air Quality
Committee on Energy and Commerce
U.S. House of Representatives
Washington, DC 20515

Dear Chairmen Dingell and Boucher:

On behalf of the Northern California Power Agency (NCPA), I am writing to respond to the questions you asked about climate change legislation in your February 27, 2007 letter. NCPA is a joint powers authority that provides wholesale power, scheduling, and other services to our 15 members (totaling more than 750,000 customers) that include municipal utilities and other consumer-owned utilities. We were active participants in the discussions within California that led to enactment of the State's climate change policies, and we welcome the opportunity to share our views with you and the Committee.

Background and Overview

NCPA supports federal efforts to reduce greenhouse gas emissions and combat global climate change. As local-controlled utility systems, NCPA members have a longstanding commitment to the generation of electricity from environmentally-responsible sources, and we wholeheartedly support the goal of reducing greenhouse gas emissions. Because our agency's decision-makers are local officials with a strong public interest ethic, our member utility systems have always placed a high priority on the cleanest possible generation resources. Today, NCPA's owned resource base is 64.1% geothermal, 32.7% hydroelectric, and 3.2% natural gas fired generation— meaning that more than 96% of NCPA's generation is currently carbon-free. We continue to look to renewable energy sources as we plan for our future needs, with plans underway to add an additional 58 megawatts of renewable energy to

NCPA's own generation, with individual members making additional investments and commitments.

NCPA's current resource portfolio – and resulting minimal “carbon footprint” – does not diminish our interest in the federal climate change legislative debate. To the contrary, it highlights the need for any legislation to recognize these early investments, and not penalize past good decisions.

With this background in mind, below are our responses to questions you posed in your letter.

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.

Crafting a workable and effective climate change program is not a simple task given the need to maintain fuel diversity, protect the economy, and ensure electric system reliability. In fashioning legislation, NCPA encourages Congress to design a system that:

- ◇ Provides the greatest degree of efficiency, simplicity and transparency
- ◇ Gives full recognition to historic investments in non-carbon emitting resources
- ◇ Allows for the continued use of domestic energy supplies in an environmentally responsible manner
- ◇ Achieves program goals at the lowest possible economic and societal cost

In our opinion, a carbon tax would best meet the policy objectives outlined above, and we encourage careful consideration of a carbon tax as the primary mechanism for controlling and reducing greenhouse gas emissions. Other proposed policy options are significantly more complex, potentially more costly, and subject to potential abuse and manipulation similar to what we in California witnessed in electricity markets.

However, given the current congressional focus on a “cap-and-trade” system, we provide below in response to the questions our recommendations on key design elements of that type of climate change program.

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 impact of a cap-and-trade policy:

(a) Which sectors should be covered? Should some sectors be phased-in over time?

NCPA believes that any climate change program should be economy-wide. Nationally, the electric utility industry is responsible for roughly 36 percent of greenhouse gas emissions. In California, it is only 20 percent of statewide carbon emissions that are attributable to electricity production. Laying sole responsibility on the utility sector is inequitable, and could reduce opportunities for finding the most cost-effective emissions reductions – and does not ultimately provide the solutions we need for the larger environmental challenges we face.

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

As the Committee knows, Assembly Bill 32 – the California legislation setting a target and timetable for statewide reductions in greenhouse gas emissions – delegates the program design and implementation details to the California Air Resources Board (CARB). Given the far-reaching economic consequences associated with establishment of a national climate change program – and the need to balance competing interests – NCPA believes the key program design elements should be made by elected officials.

(c) Should the program's requirements be imposed upstream or downstream or some combination thereof?

NCPA believes the preferred point of regulation in a federal climate change program is “upstream” (we would note, however, that use of an upstream system in a single state could create equity issues for in-state versus out-of-state generation resources). Focusing the regulation of carbon “upstream” at the fuel source has a number of benefits. First, the program is much easier to administer with fewer regulated entities. Secondly, it will produce greater efficiency and send a “price signal” directly to those consumers that use carbon-intensive fuels. Finally, it recognizes – and appropriately rewards – those entities that make environmentally responsible decisions, both in the past and in the future.

(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?

In any “downstream” system of regulation, utility sector allowances should be distributed based on all historic generation. Of the major “cap-and-trade” proposals, some distribute emissions allowances based on historic emissions, while others distribute allowances based on all historic generation – including non-emitting sources such as wind, solar and hydropower. Distributing allowances based on historic emissions – or only fossil-fired generation – would skew the system and penalize entities that have invested in non-emitting resources. Such a broad distribution recognizes and rewards wise environmental decisions and aligns carbon contribution with the burden of carbon reductions. NCPA does not offer an opinion on a preferred allocation methodology for other sectors of the economy.

In addition, NCPA recommends that a small portion of the allowances should be reserved for new, clean power plants. While the intent of any legislation is to reduce the carbon footprint

of the utility industry, it is also important that we are able to meet the growing demand for electricity associated with a vibrant economy. Providing a modest allowance allocation to new, clean units – fixed at a specific number per megawatt of new plant generating capacity – would facilitate the construction of needed new generation, while providing a powerful incentive for the selection of zero and low emitting technologies.

A direct statutorily-stipulated allocation of emission allowances is the preferred option under any “cap-and-trade” proposal. In contrast, use of emission auctions, especially as the primary means of distribution, could result in speculators running up prices, well-financed players shutting smaller players out of the market, and auction prices bearing no correlation to their underlying cost or value. To the extent an auction is used, there must be full price transparency, a prohibition on auction purchase by pure speculators and a system to detect and penalize market abuses.

In NCPA’s view, a modest carbon fee – rather than an auction – should be used to generate needed revenue for technology research, development, demonstration, and deployment. NCPA recognizes that greatly expanded efforts are needed to develop and deploy the technologies needed to meet the targeted reductions in carbon emissions: new emissions controls and carbon capture technologies, the next generation of renewable resources, and the complex issue of carbon sequestration. Imposition of a modest carbon fee is a simple and equitable funding source that avoids the complexities and risk associated with an emissions auction.

If, however, an emissions auction is used, then measures are needed to provide transparency and prevent market manipulation and abuse. As Californians witnessed during the energy crisis, “markets” can be very expensive, inefficient, manipulated and costly to consumers.

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

NCPA has not taken a position on the methodology for establishing the cap.

(f) Where should the cap be set for different years?

NCPA has not taken a position on this topic.

(g) Which greenhouse gases should be covered?

Just as we support an economy-wide program, we believe that all six major greenhouse gas emissions should be included within any control program as a matter of equity and efficiency.

(h) Should early reductions be credited? If so, which criteria should be used to determine what is an early reduction?

If a greenhouse gas emissions regulatory program is designed as outlined above – either through implementation of a carbon tax or application of a cap-and-trade program based on all historic generation – then there is no need to establish early action credits: those early actions will be inherently recognized. Discussion of early action credits highlights the value

of a generation-based allocation system, since it avoids the troublesome question of why an investment in wind energy should be credited if made in a given year but not credited if made in the year (or decade).

(i) Should the program employ a safety valve? If so, at what level?

Measures are needed to meet environmental objectives while minimizing economic costs. In addition to designing the program in the most efficient and cost-effective manner, other targeted efforts – such as use of a “safety valve” or other cost containment measures – are needed to prevent significant economic harm if program compliance costs greatly exceed expectations. NCPA does not have a position on either the specific cost containment measure or design.

(j) Should offsets be allowed? If so, what criteria should govern the types of offsets that would be allowed?

In general, NCPA believes emissions offsets should be available to provide greater flexibility, lower cost and multiple benefits. The broadest possible offset program – through changes in farming practices, forest and wetlands restoration and preservation, and geological sequestration – should be allowed. These offsets provide a multitude of environmental benefits, and potentially low cost options for reducing carbon emissions. Moreover, allowing for offsets is a potentially effective tool for constraining the costs of allowances. NCPA recognizes that protections may be needed to prevent double counting of activities that would have occurred anyway as the result of sound business practices.

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

As noted above, NCPA supports greatly expanded efforts to develop and deploy the new energy technologies needed to meet the targeted reductions in carbon emissions including the next generation of renewable energy sources, energy efficiency, new zero and low emission power plants, carbon capture and storage, and carbon sequestration. Clearly, additional federal expenditures are warranted. However, NCPA is deeply concerned about the potential to manipulate or game an auction. For that reason, NCPA prefers imposition of a modest carbon fee to fund technology development and deployment.

(l) Are there special features that should be added to encourage technological development?

Significant federal investment is needed to develop and deploy the new technologies needed to meet the targeted reductions in carbon emissions including the next generation of renewable energy sources, energy efficient products, new zero and low emission power plants, carbon capture and storage, and carbon sequestration. NCPA supports use of a modest carbon fee combined with an output-based cap-and-trade program to fund new energy technologies.

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

While recognizing the need to encourage such actions in developing countries, NCPA has no position on a preferred design feature.

3. *How well do you believe 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?*

NCPA and its members have voluntarily participated in the California Climate Action Registry. (In addition, by our very nature as self-regulated entities, NCPA and its members have taken a variety of steps to invest in renewable energy, promote energy efficiency, and take other environmentally responsible steps that best reflect the values, needs and circumstances of our communities. One lesson this has taught us is the failure of “one size fits all” proposals. For instance, the dramatically varying climactic conditions of NCPA members Redding (consistently sunny and hot and a summer-peaking utility) and Lompoc (cool, frequently cloudy and a winter-peaking utility) highlight the difficulties inherent in the application of rigid standards, such as requirements for installation of rooftop solar arrays.

As the Committee knows, California has also recently passed two mandatory climate change statutes. The first, Assembly Bill 32, imposes a target and schedule for reductions of greenhouse gas emissions, and leaves key implementation decisions to the California Air Resources Board. The uncertainty this creates highlights, in our mind, the need for greater policy direction from Congress in any national climate change program. The second, Senate Bill 1368, imposes a ban on long-term contracts with any power supply source that has an emissions profile greater than associated with a combined-cycle natural gas plant. In contrast to AB 32, this approach appears overly rigid by failing to allow the use of offsets or other measures to create a power supply profile that would create the same net emissions that SB 1368 envisions. The lesson is finding the right balance: providing sufficient policy details without being overly prescriptive.

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?*

NCPA recognizes the global nature of the issue. We do not, however, have specific recommendations.

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?*

As noted above, NCPA and its members voluntarily elected decades ago to invest in environmentally responsible power supply options. By definition, those decisions have reduced our carbon footprint from what it would have been absent such decisions (which, again, is why we believe those responsible decisions should not be penalized in the design of federal climate change legislation). In addition, NCPA is a signatory to the National Action

Plan for Energy Efficiency, and our members have been leaders in energy efficiency, having collectively spent approximately \$100 million on efficiency programs in the last decade. We also adopted greenhouse gas emissions reduction principles developed by the California Municipal Utilities Association in June, prior to enactment of the State's legislation, and partnered with state policymakers to advance state climate change proposals.

With California having adopted two climate change statutes, we are working with the relevant regulatory agencies on program design and implementation.

Again, on behalf of NCPA, thank you for this opportunity to participate in the Committee's thoughtful deliberations. We look forward to working with the Committee toward development of legislation that meets the objectives outlined at the beginning of our letter.

Sincerely,

A handwritten signature in black ink, reading "Jane Dunn Cirrincione". The signature is written in a cursive, flowing style.

Jane Dunn Cirrincione
Assistant General Manager
for Legislative and Regulatory Affairs