



August 6, 2009

The Honorable Barbara Boxer
Chair
Committee on Environment and Public Works
United States Senate
Washington, DC 20510

Dear Chairman Boxer:

America's 930 consumer-owned rural electric cooperatives are committed to helping Congress develop and pass affordable, workable, and technologically achievable legislation to address the nation's climate change objectives. Electric cooperatives prefer an affordable and workable bill, as opposed to using the existing Clean Air Act authority to address climate change concerns. Conversely, an unaffordable bill with unworkable provisions would be no improvement over existing law. Co-ops believe it is important for Congress to develop legislation that is an improvement over the existing Clean Air Act, which was never designed to address the climate change issue.

The House-passed bill does not meet this test, although it was an improvement over earlier drafts of that legislation. At the time the House considered H.R. 2454, NRECA indicated to its membership, who are very concerned about aspects of this bill, that developing legislation is a process with many steps, each of which is an opportunity to further improve the legislation. While NRECA did not stand in the way of House passage, we also did not support the House bill because it is still in need of substantial improvements.

Substantial improvements are necessary in the Senate in several key areas to make a carbon mitigation program more affordable, more workable, and more technologically achievable. If the Senate does not produce a bill that includes significant improvements over the House-passed bill and over regulation under the existing Clean Air Act, the legislation should not be enacted.

Therefore, NRECA urges the Senate to craft climate change legislation that will achieve greenhouse gas reductions at the lowest possible cost. Electric cooperatives suggest that climate change legislation be structured based on the following recommendations.

- **Achievable emission caps and timelines.** Large-scale reductions in greenhouse gas emissions will require a transformation in the electric sector on an extraordinary scale. Targets during the first 15 years of a climate program should reflect the expected availability of technology. Legislation should also allow sufficient time for the EPA,

other agencies, and covered sectors to establish regulations and prepare for the implementation of the program. We are very concerned that attempting to begin a carbon reduction program as soon as 2012 will create a “false start” that could seriously imperil the very beginning of this long-term effort to decarbonize the economy. Further, emission reduction targets and timetables that are too aggressive will make the cap-and-trade program unaffordable, unworkable, and technologically unachievable.

- **Protection of electricity consumers by allocating allowances to local distribution companies based on carbon content of fuel mix.** The most efficient method of minimizing the costs of a carbon reduction program to our electric consumers is to freely allocate allowances to local distribution companies on the basis of emissions. The utility sector should receive allowances in proportion to its share of the overall cap established in the bill (approximately 40 percent), and those allowances should be provided for the duration of the program. The allocation methodology in the House bill (the so-called “EEI 50-50-50” formula) leads to significant regional disparities in how well electric utility consumers are protected from rate increases resulting from the cap-and-trade program and results in windfall profits to unregulated merchant generators. Those problems can and must be avoided by allocating allowances solely on the basis of emissions.

In the case of not-for-profit, member-owned electric cooperatives, it is impossible for “the utility” to profit from the free allocation of allowances. Our member-consumers directly bear all costs resulting from efforts to reduce emissions to cap levels and acquire allowances. Likewise, our member-consumers directly save on their electric bills when costs are avoided. A program design that requires cooperatives to purchase allowances will raise costs to our consumer-members for compliance, redirecting funds that they could have otherwise invested in low-carbon technologies. Allocating allowances based on the carbon content of the fuel mix recognizes regional differences in generation and will ensure fairness and affordable electricity for all American consumers.

- **Robust cost containment measures to promote economic sustainability.** Cost certainty is critical in the early years of a greenhouse gas cap-and-trade program as covered sectors transform to low-carbon energy sources. The best method of assuring cost certainty is the inclusion of an economic safety valve. A safety valve limits the potentially destabilizing impacts of a cap-and-trade program on energy prices and ensures affordability of electricity to our member-consumers.
- **Offset credits to provide flexibility.** The inclusion of workable domestic and international offset credit programs will provide covered sectors flexibility in planning cost-effective investments in low-carbon technologies and reduce costs to consumers. Workable domestic and international offset programs are critical to protecting consumers, particularly in the early years of a climate program. EPA, CBO, and

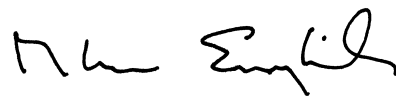
others have concluded that the cost of emission allowances would rise by 70 to 100 percent if domestic and international offsets are not available. It is not necessary to cap the use of offsets by covered entities, as the size of the domestic and international offset programs will be limited by the available verified, cost-effective offsets.

- **Establish a single, integrated program.** A workable piece of legislation will ensure that regulated entities understand the “rules of the road” and know who the “traffic cop” is on that road. To make new legislation workable, it should not simply be layered upon existing law at the federal, state, or local level. Therefore, climate change legislation should establish a single, organic new law that establishes the sole legal and regulatory requirements for reducing greenhouse gas emissions, and should ensure that the Clean Air Act, Endangered Species Act, and other federal laws cannot be used to require reductions in greenhouse gas emissions. Additionally, given the nature of the climate change issue, there is no benefit to allowing states to establish “more stringent than” programs when there is a national cap established on emissions.
- **Technology Development and Deployment Incentives.** To make greenhouse gas reduction requirements achievable, we will need new, cost-effective technologies to reduce emissions. Including significant incentives for new technologies (including carbon capture and sequestration, plug-in hybrid electric vehicles, renewable and nuclear power, etc) will be critical to the sustainability of any new legislation and the achievability of the emissions reductions. Further, developing new technology will be critical to our ability to use abundant, domestic resources like coal to continue to meet our energy needs.

Rural electric cooperatives have concerns and suggestions regarding the details of climate change legislation in addition to the major structural elements listed above. Mandatory efforts to reduce greenhouse gas emissions will have far-reaching impacts to the U.S. economy with the potential for disproportionate impacts to low- and fixed-income households, to specific economic sectors, and among regions. A well-designed climate change program will distribute the costs of the program fairly and equitably. We believe that the measures listed above will help to create an affordable, workable, and technologically achievable program.

On behalf of the nation’s rural electric cooperatives, I look forward to working with you, the Environment and Public Works Committee, and other Senators and Committees as Congress continues to develop affordable and workable legislation to address climate change.

Sincerely,



Glenn English