

Washington

WASHINGTON RURAL ELECTRIC COOPERATIVE ASSOCIATION

Will “Cap & Trade” Fix Climate Change?

BY KENT LOPEZ, WRECA GENERAL MANAGER



Kent Lopez

Electric consumers in Washington State hear a lot about climate change or global warming. It's a popular subject for local and national news media, commentators, activists and politicians. Everyone, it seems, talks about it. But the discussions really get heated when the topic turns to the question “what should be done about it?”

It's Called 'Cap and Trade'

No doubt you've heard the term “cap and trade” used in connection with efforts to reduce CO₂ emissions. It's the most popular design for a program to reduce CO₂ emissions. And, in its basic form, it is a rather simple concept.

In a cap and trade program, regulators, either at the state or federal level, set a certain level of CO₂ emissions that a particular utility is allowed to emit. The utility is then given “permission” to emit that level of CO₂ emissions in the form of allowances.

For instance, let's say your electric cooperative was generating electricity using a coal-burning steam plant, and the regulators gave your cooperative permission to emit 1,000 tons of CO₂ for the year. Therefore, your cooperative would have 1,000 CO₂ allowances. (Obviously this is hypothetical since your electric cooperative gets all of its electricity from the Bonneville Power Administration, and the vast majority of that power comes from hydropower, which is a non-polluting renewable source of electricity.)

That emissions limit given your cooperative by the regulators is the “cap” part of the program.

Then let's suppose that your electric cooperative, through technical upgrades and wise management decisions, was able to produce the electricity that it needed from that coal-burning steam plant while only emitting 800 tons of CO₂ for the year. That means your cooperative only needs to “cash in” 800 of its 1,000 CO₂ allowances. The remaining 200 allowances remain with your electric cooperative.

Now let's further suppose that the neighboring investor-owned utility or IOU had a similar coal-burning steam plant generating electricity, and the IOU was also given 1,000 CO₂ allowances by the regulators. However, the IOU ended the year

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actually emitting 1,100 tons of CO₂, and was thus 100 allowances short. Under the program, the IOU could purchase 100 allowances from your electric cooperative, add those to the 1,000 allowances that it had been given by the regulators, and thereby cover the 1,100 tons of CO₂ that its coal-burning steam plant had emitted.

That transaction, when the IOU purchased allowances from your cooperative, is the “trade” part of the program.

You can now see how the marketplace would play a role in reducing CO₂ emissions. Each covered utility now has a financial incentive to reduce its CO₂ emissions because if it can't meet the “cap” set by the regulators, it will be forced to purchase additional allowances.

It Seems Pretty Simple, But ...

The issues arise in the program design details. One issue is how the allowances are allocated to each utility. If the regulators allocate allowances based on the amount of electricity a utility sold, then your electric cooperative would receive some of the allowances. If on the other hand, the regulators allocate allowances based on how much electricity was generated, your electric cooperative would not receive any allowances

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because it purchases all of its power from BPA.

Another issue is how the regulators determine what emissions a utility is responsible for. If the regulators decide to “cap” the CO₂ emissions that are created when electricity is generated, your electric cooperative would not need any CO₂ allowances since your cooperative doesn’t generate any electricity. On the other hand, if the regulators decide that each utility is responsible for CO₂ emissions based on the electricity that is sold, then your electric cooperative would need CO₂ allowances to cover any electricity that it sells which is generated at power plants that emit CO₂.

So let’s say that the regulators decide to allocate allowances based on the amount of electricity a utility generates. That means your electric cooperative gets no allowances. But if the regulators then decide that utilities are responsible for the CO₂

emissions based on the electricity that they sell, it means that your electric cooperative would need allowances to cover the electricity that it sells that was generated at a steam plant. Each year, your electric cooperative would be forced to purchase all of the CO₂ allowances it needed to cover the CO₂ emissions that it is responsible for.

In a cap and trade program, regulators, either at the state or federal level, set a certain level of CO₂ emissions that a particular utility is allowed to emit. The utility is then given “permission” to emit that level of CO₂ emissions in the form of allowances.

That doesn’t seem very fair, does it?

Yet, for most of the country, such a cap and trade program design makes perfect sense,

because unlike Washington State, most of their electricity is coming from generation that creates CO₂ emissions. In such a scenario, being an electric cooperative whose power supply is over 95 percent emissions-free is a disadvantage.

There are many other design options that must be considered by the legislators when enacting a cap and trade program. And all of these options have significant operational and financial implications for your electric cooperative.

What Do We Do Now?

The new U.S. Congress and the new Washington state legislature, both of which start in January, will have climate change legislation, including CO₂ reduction, high on their list of priorities.

At the national level, our efforts are coordinated through the National Rural Electric Cooperative Association (NRECA) which launched its “Our Energy Our Future” grassroots program earlier this year. There’s more about this program on page 4.

At the state level, the Washington Rural Electric Cooperative Association (WRECA) is monitoring developments in Olympia and will be advocating on behalf of the electric cooperatives in Washington.

However, the most influential group of advocates are you – the grassroots, the electric cooperative members, the consumers



Coal-burning plant

of electricity, the voters. When you express your opinions and concerns, your legislators in Olympia and Washington DC have to listen.

At the state level, you will periodically get information through your local electric cooperative advising you on concerns and questions that need to be directed to your elected officials in Olympia. In addition, you can go to www.wreca.coop and click on the “Grass Roots” button. That provides several ways for you to sign up to be a part of the electric cooperative grass roots movement.

Addressing the causes of climate change is important. However, we must be careful that the cost incurred in any mitigation program does not outweigh the benefits we receive. In other words, we must make sure that we get our dollar’s worth for our mitigation efforts.

Electric cooperatives have a history of rising to the challenges presented to us. We did it when the challenge was the electrification of rural America. Climate change is the latest challenge for us. And working together, in the cooperative spirit, we can meet this new challenge as well. •

POWER LINE

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PenLight Thanks Its Ambassadors

Early this spring, Peninsula Light Company (PenLight) invited its cooperative members that are a part of its Electric Ambassador program to a reception in their honor. The reception was an opportunity to thank in person the involved members who speak out on behalf of the co-op.

The Electric Ambassador program is a grassroots program, made up of PenLight members who volunteer to receive information on issues that will impact PenLight and occasionally contact legislators or decision makers in support or opposition of an issue. The program was launched in 1999 at PenLight and now numbers almost 500 households.

Jafar Taghavi, CEO and Jonathan White, Marketing Manager & Key Account Manager, were at the door to greet Ambassadors that attended the event. Also attending the event was Councilman Terry Lee from the Pierce County Council. Councilman Lee is very knowledgeable about PenLight's business and its commitment to community.

Jafar just celebrated his first anniversary at PenLight so the reception was a wonderful opportunity for members to meet with him one-on-one. He came to PenLight from the position of Manager of System Planning and Capital Projects for Anaheim Public Utilities in California where he worked for over 20 years.

The knowledge and experience of dealing with the complex energy industry gained at



(L to R) Jafar Taghavi, CEO and Spence Nordfors, PenLight Board at the 2008 Ambassador Appreciation Reception]

Anaheim has served Jafar well in his position as CEO. He gave the Ambassadors a presentation on the 2008 legislative session and outlined upcoming issues with supply concerns, renewable energy requirements and climate change legislation

at the state and federal level.

Jafar expressed grave concern with how I-937 – the voter initiative passed Renewable Portfolio Standard in Washington State – will affect rates in the future for PenLight members.

He thanked each member for their involvement in the grassroots program by lending their voice and encouraged them to stay involved as PenLight faces tough issues in the near future.



Jafar answers questions from PenLight's Electric Ambassadors

Senator Morton is "There" for Co-ops



Senator Bob Morton, 7th Legislative District, Washington State

Senator Bob Morton has been an advocate for Nespalem Valley Electric Cooperative (NVEC) and public power in the Washington State Legislature as a member of the Senate Water, Energy & Technology Committee. He also serves as a Ranking Republican Member on the Natural Resources, Ocean and Recreation committee and also on the Agriculture & Rural Economic Development committee.

"Sen. Morton has been an advocate for Nespalem for years. He understands the roots of electric cooperatives and is a wonderful resource to have representing our members in Olympia." said Laura McClure, general manager of NVEC. "Each year we look forward to seeing him at our annual meeting in the fall and visiting with him during session in Olympia."

In the 2008 legislative session when electric cooperatives in Washington were concerned with language in a House bill, Sen.

Morton did everything he could in the Senate to make sure the positive language stayed intact. The bill was signed into law with the favorable language co-ops sought.

In 1990 Sen. Morton was elected by constituents in the 7th Legislative District to the House of Representatives where he served two terms before being elected to the State Senate in 1994. The 7th District represents Pend Oreille, Stevens, Ferry, Lincoln and parts of Okanogan and Spokane Counties.

He has been involved with Citizens for a Great Northwest,

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Senate Takes Up Climate Change Bill

The opening round of U.S. Senate climate change legislation debate during the week of June 2 ended when the Boxer-Lieberman-Warner bill fell 12 votes short of the 60 needed to proceed on vote for passage.

While this effectively ends the Senate action on climate change this year, it is by no means an end to debate on this issue. Congressional debate on this issue will continue into next year and beyond. The Boxer-Lieberman-Warner legislation lays the groundwork for action when a new president and Congress take office in January 2009.

The Senate's 74-14 vote to start debate on a substitute amendment by Environment and Public Works Committee Chairwoman Barbara Boxer (D-CA) is a clear signal that momentum is building for legislative action on climate change. After a good deal of political maneuvering and no substantive debate, Senate

Majority Leader Harry Reid (D-NV) shut down the process. All that was left was a vote on cloture (a parliamentary procedure for ending debate on an issue and moving to a vote on passage) on the Boxer substitute. The 48-36 vote was clearly not the demonstration of support for climate legislation the bill sponsors wanted.

The legislation still fails to address three major issues of concern for electric co-op leaders: 1) emission reduction timelines that match the availability of carbon control technologies, 2) an effective safety valve and 3) an allocation formula that limits reliance on an auction of allowances. Including an economic safety valve is an insurance policy for consumers and the economy and mitigates potential price volatility under a cap-and-trade policy.

Work also continues in the U.S. House of Representatives, where the House Energy and Commerce Committee issued its fourth climate change white

paper, "Getting the Most Greenhouse Gas Reductions for our Money." The paper discusses potential ways to contain costs while simultaneously achieving environmental goals. Committee Chairman John Dingell (D-MI) plans to hold hearings on a range of climate change proposals.

OUR ENERGY, OUR FUTURE CAMPAIGN

Co-op members from across the country have sent more

than 217,000 postcards, letters and e-mails about climate change legislation to their U.S. Senators and Representatives. The Our Energy Our Future campaign is focused on achieving a balance between greenhouse gas reductions while keeping electricity affordable and reliable.

Co-op members can send a message to their Congressmen by using the Web site www.ourenergy.coop.

Senator Morton is "There" for Co-ops

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Citizens for a Great Northwest, Kettle River Grange, the Washington State Grange, Washington State Pilot's Association, Kettle Falls Chamber of Commerce, Stevens County Cattlemen's Association, Washington Cattlemen's Association and the Washington State Farm Bureau.

Sen. Morton received his

B.A. in History and Political Science from Alfred University and a B.D. from Alfred University School of Theology. He currently lives in Kettle Falls with his wife, Linda. Their five grown children – Bettina, Laura, Shawn, Scott, Roxanne – have given them 11 grandchildren.

POWER LINE

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