



The Clean Energy Group Clean Air Policy Initiative

Since 2000, the Clean Energy Group’s Clean Air Policy Initiative members have supported the adoption of federal climate change legislation. Our companies believe that the scientific evidence is clear and justifies immediate action to address the threat of climate change and support prompt enactment of national legislation. Global warming is a problem that requires a national solution, and further delay will limit our flexibility to respond in the future. We appreciate that the Obama Administration and Congress will need to direct significant effort toward developing responses to our current economic challenges, but we believe those responses can be designed to also promote our energy independence and address the global warming challenge.

Our members are some of the largest regulated electric and natural gas utilities in the U.S., serving electricity to more than 57 million people and delivering natural gas to more than 8.3 million gas customers, including homes and businesses. They are also some of the nation’s largest generators of electricity, with nearly 170,000 megawatts of generating capacity throughout the U.S. (20% of total generation of the top 100 U.S. investor-owned generation). Our members produce almost a quarter of all U.S. electricity (investor owned) while emitting less than 10 percent of the associated greenhouse gases. Among our members is the nation’s largest competitive supplier of electricity to large commercial and industrial customers, the nation’s largest wholesale power seller, the nation’s largest wind energy producer, the nation’s largest solar energy producer, the nation’s largest nuclear energy producer, the nation’s largest geothermal energy producer, and the nation’s first electric utility to achieve greenhouse gas neutrality. Our members also have ownership in 19 coal-fired power plants, and through their combined energy operations, the members operate in every state in the continental U.S. and Hawaii.

We have solutions available today to respond cost effectively to climate change, and we are confident that more solutions will emerge. What we need is a strong market signal to stimulate the further deployment of capital. We offer the following principles for the design and implementation of a greenhouse gas cap-and-trade program.

Design Principles

(1) Our members have a strong preference for market-based regulatory approaches—such as cap-and-trade—in order to minimize





costs and drive technology innovation. A well-designed system will direct capital investment to the lowest-cost control opportunities and minimize total pollution abatement costs. The result is better environmental outcomes at less cost.

(2) Reduction targets and compliance timelines should challenge the electric power sector to find innovative compliance solutions and continually improve performance.

(3) We support a robust auction of the emissions allowances in order to provide funding to drive investment in advanced technology research development and deployment; help low- and moderate-income consumers; address worker displacement, international competitiveness concerns, and climate change adaptation; and to provide allowance value to regulated local distribution companies with stringent requirements to mitigate higher energy costs for the households and businesses they serve.

(4) The methodology used for distributing emissions allowances is fundamental to the integrity of the program. Our members support an equitable distribution of allowances that recognizes the value of low- and non-emitting forms of generation, while creating incentives for efficiency improvements and technology innovation.

(5) Our members support the adoption of cost control measures that do not compromise an effective market, including a comprehensive greenhouse gas offset trading program and provisions to guard against extreme volatility and excessively high prices to minimize the economic costs of the program, while maximizing the reductions achieved.

(6) Technology innovation has been a hallmark of the U.S. economy. Federal policies should provide increased funding and support for research and development and deployment of advanced energy technologies and energy efficiency.

(7) Our members support the establishment of a transparent and liquid federal carbon trading market. A properly functioning trading system, with a clear price signal, is critical for a smooth transition to a lower carbon economy. In support of this objective, federal legislation should include policies that will encourage the integration of domestic greenhouse gas trading markets—as well as international trading markets—into a single U.S. trading system.

Electric Sector Allowance Allocation

One of the most controversial aspects of designing a federal cap-and-trade program will be the distribution of emission allowances. The fundamental purpose of allowances for the electric sector should be to use the allowance value to mitigate energy-cost impacts for end-use consumers and to create the right incentives for advanced generation technologies and energy efficiency programs.

While local distribution companies (LDCs) can serve as an important tool to protect consumers from the energy-cost impacts related, the legislation must provide a clear framework that requires 100 percent of the value allocated to LDCs to be directed toward benefiting end-use consumers. We support an allocation methodology to LDCs based on electricity sales and not based on emissions. This methodology drives investment in, and encourages the development and deployment of, the advanced technologies necessary to transition to a low-carbon economy and protects customers that have already paid for clean generation and energy efficiency.



By contrast, allocating emission allowances based on historic emissions is not the right approach for any allocation to the electric sector because it rewards the actions of higher emitting utilities and discourages them from pursuing energy efficiency programs and clean energy technologies. Any allocation methodology should not reward the actions that directly contribute to the problem of climate change.

If Congress allocates any transitional allowances to electric generators, we believe those allowances should be directed to fossil fuel-fired units for a short transitional period. Such allowances should be distributed to electric generators on an updating, output basis. This allocation methodology promotes the efficient production of electricity and provides equal allocation treatment for new and existing sources to accommodate growth in electricity demand. Creating these incentives will lead to better environmental results and will not penalize companies and their customers for having invested in clean and efficient generation.

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