OBAMA-BIDEN TRANSITION PROJECT

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N A R U C

National Association of Regulatory Utility Commissioners

ISSUE BRIEF

Climate Policy

Issue:
NARUC supports the enactment of federal legislation for limiting greenhouse gas emissions. NARUC takes this position so as to remove existing uncertainties that are hampering State regulators and the utility industry in their transmission and generation investment decisions, provided that as such legislation relies, to the extent practicable, on an appropriate market mechanism or mechanisms as part of an economy-wide approach to GHG regulation; provides for an appropriate transition period prior to the implementation of full regulation of GHG emissions; and creates sufficient certainty to ensure the financing of needed energy infrastructure consistent with the achievement of the environmental objectives intended to be accomplished by such legislation.

Such legislation should also be consistent with the other principles developed by NARUC's Task Force on Climate Policy, established in March 2007, and approved by the Association's membership and Board of Directors.

NARUC has also recommended a series of regulatory options for consideration by States as carbon limitations become more likely.

Basic Principles[1]

Any climate legislation should:

- Be implemented economy-wide as part of a comprehensive national energy and energy security policy;
- Be transparent, consistent, predictable, and equitable;
- Avoid compromising electric and natural gas system reliability, and ensure the availability of an adequate supply of electricity and natural gas;
- Impose the minimum economic cost necessary to achieve the desired environmental objectives in a timely manner;
- Minimize the cost impact on electric and natural gas ratepayers. To that end, the majority of any compliance-related revenues from the electricity sector should be dedicated to reduce ratepayer energy costs.

[1] Resolution on Implications of Climate Policy for Ratepayers and Public Utilities, adopted by NARUC Board of Directors on July 18, 2007

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- Refrain from usurping the States' traditional responsibility for making generation resource decisions. Such legislation should also avoid preempting States that take more stringent actions to reduce GHG emissions within their jurisdictions.
- Ensure the continued ability of States and regions to deploy a diverse portfolio of cost-effective generating resources based on the unique circumstances of those States and regions.
- Be realistic and based on existing and reasonably foreseeable electric generation, transmission and distribution technologies, GHG emission control and sequestration technologies, and efficiency technologies.
- Include support for the development of more efficient generation, transmission and distribution technologies, energy efficiency, and GHG-emission control and sequestration technologies through various means, including, for example, increased funding for research, tax credits, bonding and more efficient national appliance standards; and
- Recognize State or regional efforts already undertaken to limit GHG emissions.

Cap-and-Trade Design Principles[2]

Additionally, in the event that Congress chooses to implement a cap-and-trade mechanism for the purpose of limiting electric sector GHG emissions, any such federal climate change legislation should rest upon the following design principles in order to appropriately balance competing criteria, including, but not limited to, equity, economic efficiency, and ease of administration:

- Auctioning of all allowances is ultimately the most economically efficient mechanism for achieving emission reduction goals from electric generation. However, the allocation of emission allowances within the electricity sector at no cost is an appropriate transitional measure in order to ensure continued reliability, minimize economic dislocation resulting from the carbon intensity of the existing electricity generation infrastructure, and allow for the development of appropriate new technology.

- Any emissions allowance allocation program, consistent with an economy-wide approach, should involve a reduction in the number of allowances allocated within the electricity sector over time to ensure that needed reductions in GHG emissions are encouraged through a gradual increase in the cost of carbon-intensive generation sources as compared to the cost of other generation sources.

- The primary purpose of any transitional emissions allowance allocation process applicable to the electricity sector should be to minimize the initial economic impact of GHG-emissions regulation to end-user customers by phasing in the impact of such regulation over a reasonable period of time.

[2] Resolution on Federal Climate Change Legislation and Cap-and-Trade Principles, adopted by NARUC membership on Nov. 14, 2007

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- Any emissions allowance allocation program should produce reasonable outcomes, consistent with these cap-and-trade design principles, regardless of applicable electricity market or regulatory structures.

- Any emissions allowance allocation program should assign all allocated allowances available to the electricity sector to local distribution companies providing a regulated local distribution function for end-user customers (including vertically-integrated utilities, distribution utilities, rural-electric cooperatives, municipal distribution systems, and all other entities providing distribution service directly to end-user customers subject to State regulation or its equivalent). This approach will allow State PUCs or other authorities to ensure that the value of these no-cost allowances will inure to the benefit of end-use consumers. Alternatively, States should be able to adopt other methods for distributing benefits to end-use consumers.

- The assignment of no-cost allocated allowances to local distribution companies as defined above should be based primarily on the level of GHG-emissions from the resources used to provide service to the local distribution company's load during an appropriate baseline period.

- Any emissions allowance allocation program should not inappropriately advantage or disadvantage particular regions, local distribution companies (as defined above), or generators, and should ensure that end-user customers receive the benefit of allocated emissions allowances for the purpose of offsetting the increased costs resulting from the institution of GHG-emissions regulation.

- Any assignment of allocated emissions allowances should seek to accommodate any efforts made in particular regions or States to reduce GHG-emissions in anticipation of the enactment of federal legislation regulating GHG-emissions.

- In defining the baseline period, proper precautions should be taken to ensure that counterproductive behavior by any allowance market participants is discouraged and that gaming does not occur.

- Cost-containment measures should be included in any cap-and-trade mechanism in order to minimize abrupt changes in the cost of compliance, including during the initial phases of implementation, which could adversely affect electricity consumers or allowance markets. Such measures should be designed to achieve effective and appropriate environmental benefits while ensuring price stability and predictability, promoting investment in appropriate technologies, and minimizing adverse consumer impacts, including price volatility

State Regulatory Policies[3]

[3] Resolution on State Regulatory Policies Toward Climate Change, approved by the NARUC membership on Nov. 14, 2007

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Additionally, NARUC advocates that, during the nation's likely transition to greater reliance upon lower-carbon resources for the generation of electric power, State regulators should consider adopting policy approaches and regulatory tools that ensure continued electric system reliability and minimize economic dislocation and costs to consumers, such as:

- Facilitating greater reliance upon low- or no-carbon resources and technologies such as energy efficiency, high-efficiency combined heat and power, demand response, renewable generation, advanced nuclear, and emerging technologies (such as carbon capture and storage);
- Ensuring timely recovery of reasonable and prudently incurred costs associated with this transition;
- Recognizing the costs and revenue streams associated with possible future emissions cap-and- trade mechanisms;
- Supporting broad-based funding for research to enable the use of thermal and other electric generating resources that result in environmentally acceptable electric generation and demand-side resources;
- Ensuring that regulated utilities properly assess and manage climate-related risks in the procurement of resources.