

## **American Public Power Association's Policy Positions on Climate Change**

APPA supports congressional action to address climate change; however, APPA has concerns about a cap-and-trade program; specifically the cost impacts on consumers and the reliability of the electric system. We are also concerned about the volatility of federally created allowance markets and the potential diversion of funds generated from those markets away from R&D or mitigation of cost impacts on consumers. Most importantly, any cap-and-trade program implemented to address greenhouse gas reductions should be realistic and achievable, and provide ample time to develop, demonstrate and deploy new low-and zero-emitting technologies.

### **Cost Control to Protect Consumers**

Any federal cap-and-trade regime should achieve the goals established by Congress with the least possible adverse economic impact on consumers of energy and the U.S. economy. Thus, such a program must include a safety valve (which sets a maximum allowance price) or other stringent cost control mechanisms that mitigate price volatility and protect consumers.

### **Auction vs. Allocation of Allowances**

Given our experiences with certain auctions, including those in RTO-markets, and other issues, APPA has serious concerns about auctioning allowances. As a result, any auction should proceed cautiously and prevent unintended harm. Therefore, APPA supports minimizing the initial auction amount to no more than five percent of total allowances to allow time for efficient markets to develop, to protect consumers and ensure continuing reliable operation of the electric system. In addition, the structure and operation of such an auction should be as transparent, simple and straightforward as possible. For the same reasons, APPA supports maximizing allocations.

### **Windfalls**

Any federal cap-and-trade regime should require the federal government to conduct regular reviews of allocations and auction of allowances in order to ensure they do not create windfall profits. This will be a particular problem in deregulated and RTO-run wholesale markets where market-pricing mechanisms could allow generators and other market participants to reap windfall profits.

### **Market Manipulation**

Any federal cap-and-trade regime for carbon or greenhouse gases should provide for effective market oversight, including strong enforcement and penalties, to prevent market manipulation so that costs to consumers are minimized, market participants retain confidence in the market, and the market produces the desired environmental benefits in the most efficient and cost-effective manner.

### **Auction Revenue**

All net proceeds generated from auctioning of allowances by federal or state governments should be used only for targeted R&D, energy efficiency, and mitigation of cost impacts on consumers.

### **Reliability**

Any federal cap-and-trade regime should be designed from the outset to slow, stop and then reverse U.S. greenhouse emissions over a reasonable period of time. This period should be consistent with the need to maintain the reliability of electricity to consumers with the time needed to develop low carbon generation technologies and implement them on a commercial basis. At the outset, the program should provide for allowances sufficient to maintain reliability and to allow time to adapt. Generating units of 25 MW or less should be exempted from mandatory participation in the program.

### **State Compliance**

APPA supports an integrated national program for carbon reporting and trading that is equitable to all states.

### **Credit for Early Action**

APPA supports January 1, 1994 as the appropriate date beyond which credit for early action is allowed.

### **Economic Stability**

Any cap-and-trade program should not unduly harm the U.S. economy. Regular reviews of any cap-and-trade program should be conducted to determine if changes to the program are warranted to prevent the transfer of wealth and jobs to other countries that have not implemented effective greenhouse gas reduction programs.

### **Offsets**

APPA supports the broad availability of greenhouse gas offsets in connection with any cap-and-trade market from projects that achieve emission reductions. Qualified offsets should be additional, permanent, independently verified, enforceable, and measurable. In addition, offsets should be available from an expansive set of sectors and activities without arbitrary geographic or quantity limits on the use of qualified offsets to meet cap requirements.

## **Fuel Switching**

To the extent that a cap-and-trade program either intentionally or unintentionally results in fuel switching between economic sectors, such as increased electrification of the transportation sector, allowances, offsets or other accommodations should be provided to the electric utility sector that accurately reflect the overall reduction in greenhouse gas emissions.