Frequently Asked Questions

American Clean Energy & Security Act (ACES) – HR 2454

We need your help! Senators are drafting climate change legislation NOW, and you can impact the outcome. Take a few minutes to read through the frequently asked questions and answers below to learn more about climate change legislation and how your local electric cooperative is working to ensure legislation and energy policy are Fair, Affordable and Achievable.

Q. What is the current status of climate change legislation?

A. *Known officially as the American Clean Energy & Security Act of 2009 (ACES), the U.S. House approved HR 2454 on June 26 by a vote of 219-212. The U.S. Senate is expected to begin deliberation of climate change legislation in September with mark-up beginning in the Senate Environment and Public Works Committee. Senate debate will likely take place on a companion bill, rather than on HR 2454.*

Q. We hear a lot about cap-and-trade. Can you explain how this will work?

A. *The "cap" is the cornerstone of the policy. The cap is a limit established on carbon dioxide emissions from power plants, vehicles and factories – essentially impacting all sectors of the economy. Over time, the amount of permitted emissions is reduced.*

Setting a cap for carbon emissions and lowering it over time will reduce CO2. The required reduction in carbon emissions alone will result in higher costs. It will require a switch from coal to low or zero emitting generation such as renewables, nuclear or coal with carbon sequestration. All of those options are more expensive than our current resources.

The ripple effect of higher energy rates for business and industry will also mean higher manufacturing and production costs and increased cost for consumer goods. According to a Heritage Foundation Study, eight of Indiana's Congressional Districts are in the top 25 in the nation rated as having vulnerable manufacturing and related jobs if rates increase as projected.

The "trade" in cap and trade is a system to enable emission credits to be swapped between entities that need them in order to comply with the law.

- *If an entity reduces its emissions enough that it has more allowances than it needs, it can profit by selling the extra allowances. This gives them the incentive to reduce below what's mandated by the cap.*
- *If an entity finds it expensive to reduce its emissions, it can buy more allowances from those with extra ones. It can choose the cheapest way to comply with the limits.*
- *One of our primary concerns with the current bill is that the government has assigned allowances to some entities that don't emit carbon, including the federal government, and created an auction program for emission allowances. This is nothing more than an attempt to raise revenue for the government. To add insult to injury, the government is trusting Wall Street to manage the trading…the very same folks they vilified this time last year for driving gasoline prices over $4 a gallon.*

Our Energy, Our Future
A Dialogue With America

INDIANA PARTNERSHIP FOR FAIR & AFFORDABLE ENERGY

Q. Back to the vote – you said it passed the House by only 7 votes. If the bill needs significant work and we don't support the current language, why didn't NRECA oppose the House bill? If they would have opposed the legislation, could we have killed the bill?

A. *Crafting legislation is a process. Much has been done to improve the current climate change bill from its original language. Original administration language called for 100 percent auction of allowances, a Renewable Portfolio Standard that would have included many cooperatives, a separate and potentially punitive energy efficiency requirement for utilities and more. The current language is certainly much better – but it does needs more work.*

Was it possible to kill the bill? Not likely. Many politically powerful groups were opposed to the legislation including the Farm Bureau and the American Petroleum Institute. NRECA determined that House leadership had committed huge resources in order to get the vote – and they had the numbers or they would have never put the bill on the floor for a vote. The seven vote margin is deceiving. The Democrats have a 78 vote majority in the House and they had commitments from enough fellow party members to switch their vote from no to yes if needed.

Q. What needs to be changed specifically?

A. *If the Senate works from HR 2454, Cooperatives believe the following concerns need to be addressed.*

- *The emissions formula must be fixed to provide allowances only to entities that directly serve consumers with power from carbon emitting resources.*
- *Utilities should receive up to 100 percent of the allowances needed to comply with the mandate to minimize rate impacts of the cap and trade program. Allowance prices should have a "safety valve" to mitigate price spikes.*
- *The unrealistic emissions reduction mandate of 17 percent below 2005 levels by 2020 should be amended to a reasonable and achievable level. Such a revision is necessary to provide breathing room for utilities to invest in carbon reduction technology without dramatically increasing our Indiana electric rates, hopefully preventing the further loss of business and industry.*
- *Congress must fund research and development into carbon reduction technologies in order to meet the carbon cap mandates.*

Q. I understand Indiana cooperatives are only receiving about 65 percent of the allowances needed to keep costs down to our consumers. Yet some utilities are receiving 100 percent of the allowances needed. Why are we being disadvantaged?

A. *Utilities across the nation start with allowances only equal to approximately 80 percent of their emissions in HR 2454. However, the current formula further divides those allowances and distributes them 50 percent based on sales and 50 percent based on carbon emissions. This is where the further inequity occurs. All utilities start at less than 100 percent of needed allowances, yet some gain allowances based upon their sales of non-emitting resources such as nuclear and hydro generation – those allowances aren't needed to offset consumer cost increases. With fewer allowances available, carbon intensive utilities, such as Indiana's cooperatives, are further disadvantaged under this 50/50 formula, dropping our allowance allocation to approximately 65 percent of what we need.*

Q. Indiana cooperatives are saying it could cost consumers $50 a month but cost estimates are all over the board. How did you come up with $50 a month?

A. *Available studies range from as little as a few hundred dollars a year for the average household to $3,000 a year. It is important to remember, the low cost studies are national averages. Clearly, states such as Indiana that rely on coal will see higher costs for compliance.*

We can't be certain what the cost increase will be. Under the current bill, if the cost of carbon is $50, the wholesale rate increase to Indiana REMCs would be approximately 25 percent. Making matters worse, the price of renewable generation will likely be much higher because the current language has a renewable portfolio requirement for large utilities. A mandate will eliminate the need for renewable producers to become more cost competitive.

Another reason for our cost projection is that the legislation still contains the auction of emission credits which brings Wall Street volatility and speculation to your utility bill. Currently, we get approximately 65 percent of the allowances needed, so turning to the same speculative market that drove gasoline prices to $4 a gallon last summer, is not an option to which we want to expose our members.

Q. Why are 2005 emission levels being used in the legislation?

A. *This is the latest data available to the federal government. More recent data may be available from individual industries but 2005 is the most comprehensive emission data available. Even the 2005 data may not be com plete because the bill permits a one-time adjustment to the 2005 number if it is determined to be incorrect.*

Q. How will the revenues from carbon allowances be spent?

A. *The original legislation allocated 100 percent of the emissions to an auction and those funds would have been used for deficit reduction and government stimulus programs. The latest version of ACES allocates approximately 44 percent of the allowances to the electric sector and natural gas local distribution companies. Those allocations are to be used by the utilities to offset cost increases assured by the legislation. Those allocations phase out by 2030.*

Most of the remaining allocations are assigned to other energy program priorities and to research and development. Low income consumer assistance will receive a steady 15 percent of the allocations and any remaining allowances are auctioned for domestic programs and deficit reduction. The amounts of allowances available for government spending increases in subsequent years as utility allowances are reduced. In fact, by 2050, more than half the allowances would be auctioned by the government with proceeds used for consumer assistance and government spending priorities.

Q. Is there a ban on wood burning in the legislation?

A. *There are two parts of the legislation that appear to affect wood burning. Section 218 sets up a program similar to the automobile "cash for clunkers" program (we will call it "funds for fireplaces"). It would authorize a payment to entice owners of inefficient wood burning stoves manufactured before July 1, 1990 to trade them in for a version that meets a certified stove standard. This part of the legislation does not prohibit wood burning.*

There is a section entitled "black carbon" which requires the EPA to submit an inventory of black carbon emissions and issue regulations within 18 months of enactment. A separate search for a common definition of black carbon includes diesel emissions and wood burning. The bill draft is silent to the structure and scope of potential regulations and does not prohibit wood burning fireplaces or burning in agriculture. However, it would be advisable to monitor the development of subsequent regulations.

Q. Does the bill mandate a homeowner energy efficiency inspection before a property can be sold?

A. *The legislation does focus on increasing efficiency for new homes and buildings – but there are no provisions forcing homeowners to comply with any new energy efficiency standards unless they are doing major renovations or additions that require a local building permit. States may start a voluntary efficiency label program, but the legislation specifically prohibits such programs from disrupting or blocking property sales.*

Q. Where do the IOUs stand with regard to the legislation?

A. *The IOUs have been vocal about their acceptance of the proposed legislation and seem to be pleased about the current language and position it affords them. That position is not something that will work for the not-for profit sector so we continue to urge our elected officials to work with us for FAIR and AFFORDABLE energy legislation.*

For additional information, visit the following websites:

Indiana Statewide Association for Rural Electric Cooperatives, Inc. - www.indremcs.org
Our Energy, Our Future - www.OurEnergy.coop
Indiana Partnership for Fair & Affordable Energy - www.FairPowerNow.org