



**EDISON ELECTRIC  
INSTITUTE**

THOMAS R. KUHN  
President

December 4, 2007

The Honorable Barbara Boxer  
Chairman  
Committee on Environment and Public  
Works  
United States Senate  
Washington, DC 20510

The Honorable James Inhofe  
Ranking Member  
Committee on Environment and Public  
Works  
United States Senate  
Washington, DC 20510

Dear Chairman Boxer and Ranking Member Inhofe:

EEI, the association of U.S. shareholder-owned electric companies, recognizes the growing concern about global climate change. Since 1994—when EEI joined the U.S. Department of Energy in the Climate Challenge—the electric utility industry has led all other sectors in reducing greenhouse gas emissions. Through various programs now under way—including Power Partners<sup>sm</sup>, the Asia-Pacific Partnership and individual company efforts—that commitment continues. Any federal legislation should build on our progress in a way that allows us to maintain an affordable and reliable supply of electricity.

EEI believes that there are three critical components to any federal action or legislation to reduce greenhouse gas emissions:

- Ensuring the development and cost-effective deployment of a full suite of “climate friendly” technologies;
- Minimizing economic disruption to customers and avoiding harm to the competitiveness of U.S. industry; and
- Ensuring an economy-wide approach to carbon reductions.

No matter what path America chooses to address global climate change, success will require an aggressive and sustained commitment by industry and policy-makers to the development, deployment and funding of a full suite of technology options. Some of these options are currently available—although at a higher cost than conventional generation sources—but others are not. Needed technology options include energy efficiency and demand-side management; renewable energy sources; increasing nuclear capacity; advanced clean coal technologies and carbon capture and storage (CCS); and plug-in hybrid electric vehicles.

Unfortunately, S. 2191, the “America’s Climate Security Act,” in its current form, would not satisfy these components and would undermine America’s economic security, force consumers and industries to pay significantly higher energy prices, and discourage investments in cleaner-energy technologies.

One of the most significant flaws with S. 2191 is that it does not harmonize the compliance periods and the reductions in the bill with the availability of technology. The highly ambitious 2012 and 2020 compliance periods are far ahead of the expected availability of the technologies needed to achieve the bill's reductions. For example, the essential CCS technologies are not expected to be commercially deployable on a large scale until 2025 or later, and a significant deployment of new nuclear plants is at least 10 years away. To meet the required near-term emissions reductions without these technologies, electric utilities would be forced to switch from using coal to using large amounts of natural gas. This massive fuel switching would drive up natural gas prices, exposing consumers to sharply higher heating bills. In addition, industries that use natural gas would be even less competitive in global markets. According to a study of the bill by CRA International, natural gas markets would drive wellhead prices up 20 percent by 2020, compared to currently projected levels. To avoid these types of natural gas spikes and other economically disruptive effects, an effective carbon policy must harmonize the required emissions reductions with the availability of CCS and other technologies.

While S. 2191 does include a "cost containment" provision, we are concerned that it is not an effective safety valve for the economy. Consumers and industry could be subject to volatile carbon prices that undermine the ability of industry to meet emissions reduction targets. The bill's "Carbon Market Efficiency Board" (CMEB) would have limited authority to adjust how a regulated entity can meet its compliance obligations, such as borrowing future "reductions" in order to meet near-term targets. This approach will only make it more difficult for regulated entities to meet steeper reductions in the future. The Board's inability to be proactive rather than reactive is also a major flaw. The CMEB fails to provide economic certainty and a clear price signal. It merely postpones economic hardship, rather than alleviating it. A more effective approach is an economic safeguard that would establish cost certainty and help eliminate price volatility and the possibility of market manipulation.

In its current form, S. 2191 would be economically disruptive due to the unrealistic compliance dates and ineffective cost-relief provisions. According to CRA International, the bill would: cause electricity prices to increase by 20 percent in 2015 and increase by 45 percent in 2050; cause GDP to decline by \$1 trillion in 2050 alone (in 2007 dollars); and cost each household, on average, \$1,340 per year in 2020 and \$2,457 per year in 2050 (in 2007 dollars).

For these reasons and others, we believe that S. 2191 would impose a substantial penalty on the U.S. economy, while doing little to ensure the technology development and the global participation essential to achieving meaningful reductions in greenhouse gas emissions.

EEI supports a responsible, effective carbon policy for America, and we look forward to working with you to achieve a workable and effective solution to global climate change concerns.

Sincerely,



Thomas R. Kuhn