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## LPPC Voices Cap-and-Trade Issues to Senate

### *Recommends “Collar” to Address Price Volatility*

As the US Senate prepares to craft its version of a comprehensive climate change bill, the Large Public Power Council (LPPC) has sent a letter to Environment & Public Works Committee Chairwoman, Senator Barbara Boxer and Foreign Relations Committee Chairman, John Kerry, raising “important legal, technical and policy issues” with the House-passed climate bill, H.R. 2454. The LPPC letter was accompanied by a 10 page issues paper.

The LPPC represents 23 of the largest not-for-profit utility organization in the nation. LPPC members own and operate 75,000 megawatts of generation, providing low cost electric service to most of the 45 million people served by publicly owned utilities.

“Our members share the common goal of ensuring strong consumer cost protections while addressing the nation’s energy and climate protection concerns,” LPPC Chair Bob Johnston told Senators Boxer and Kerry. “A key objective for LPPC members is protecting electric consumers from large rate increases that could result from extreme volatility in allowance prices or sustained high allowance prices.”

“There are many provisions of H.R. 2454 which may contribute to these price impacts and several methods which can be adopted to mitigate them,” the LPPC stated to the two Senators.

“The LPPC recommends the Senate include a *price collar* mechanism that places a *ceiling* as well as a *floor* on allowance prices. The ceiling should provide for certainty as to the maximum level of allowance prices, be based on expected availability of control technology, and be consistent with the emission control objectives of the program.”

Such a price collar, the LPPC asserted, “should address concerns associated with the possibility of sustained and unacceptably high allowance prices, and dampen volatility in allowance prices while providing cost certainty to facilitate investment planning.”

The LPPC letter additionally raised the issue of *allowance retention*, pointing out that H.R. 2454 permitted a substantial percentage of allowances to go to “entities that are not utilities and have no compliance obligations under the program.”

“LPPC is concerned that these entities may fail to sell their allowances on a timely basis, thus having the unintended effect of increasing the stringency of the cap and driving up allowance prices for the entire economy.”

The LPPC recommended that the Senate consider two proposed solutions: Requiring allowance recipients that are not utilities to sell their allowances into the national allowance market within a reasonable time period; or, provide that allowances allocated to such entities be auctioned and the revenues disbursed to entities entitled to the allowance.

The LPPC also asked Senator Boxer to establish “reasonable time frames” for the implementation of a cap-and-trade program, asserting that the implementation time frames called for in the House-passed bill were infeasible. “LPPC believes that Congress must provide, at a minimum, four calendar years from date of enactment to the start of a cap-and-trade program.”

Other “significant issues” with H.R. 2454 identified by the LPPC include the need for additional *offsets*. LPPC supports the offset program as an important part of cost containment,” the letter stated. “However, LPPC is concerned that under the H.R. 2454 framework, offsets may not be available in the quantities needed to achieve the cost containment goals of the bill.”

“Consideration should be given to providing additional resources to state and regional programs during the implementation phase of the federal program to allow them to develop additional offset projects during this timeframe,” the LPPC suggested.

Additional recommendations from the LPPC included: allowing cap-and-trade to be the exclusive means of regulating greenhouse gases under federal law and clarifying and streamlining restrictions on electric local distribution companies.

The LPPC’s membership includes 23 of the nation’s largest publicly owned, not-for-profit energy systems. Members are located in 10 states and provide reliable, low cost electricity to some of the largest cities in the country including Los Angeles, Seattle, Omaha, Phoenix, Sacramento, San Antonio, Jacksonville, Orlando and Austin.

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*Copies of the actual letter and the issue paper can be obtained by contacting Rick Morris at [rmorris@smithharroff.com](mailto:rmorris@smithharroff.com) or by calling 703 740 1753.*