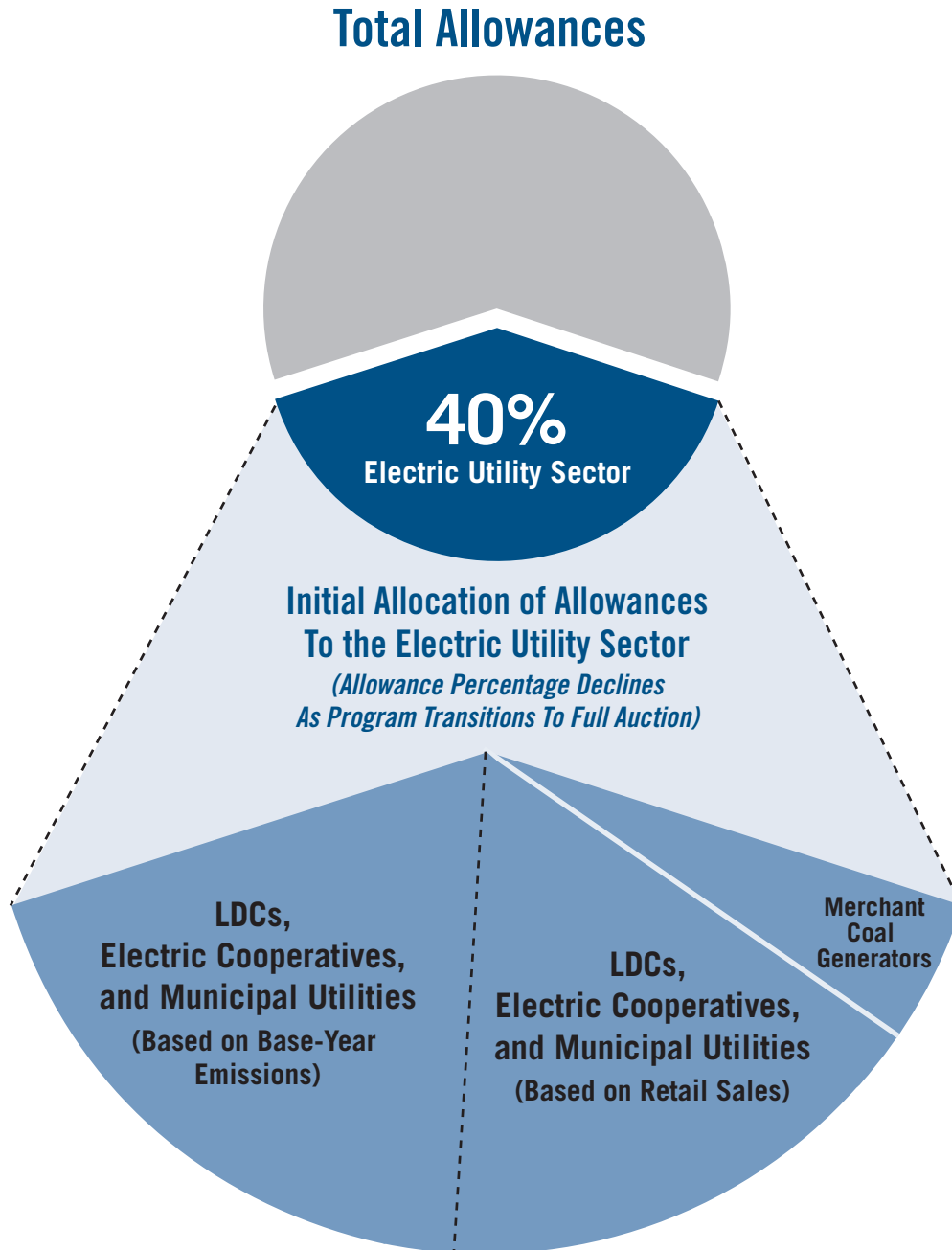


Allocate Emissions Allowances To Help Protect All Electricity Customers



The Edison Electric Institute supports climate change legislation to reduce greenhouse gas (GHG) emissions 80 percent from current levels by 2050. It is critical that this legislation include effective consumer cost-containment measures, particularly the allocation of allowances, to help protect customers from major electricity price spikes. Allowances should be allocated in the early years of a climate program, with a gradual transition to a full auction as more climate-friendly technologies become available and costs are more stable.

The vast majority of allowances to the power sector should be allocated directly to local distribution companies (LDCs) that provide local retail electric service. The financial value of those allowances would then flow directly to all electricity customers—large and small, rural, urban, and suburban—under the strict supervision of state public utility commissions, which closely regulate the LDCs. While customers would be paying for the costs of compliance with GHG emissions caps, they wouldn't face the additional cost of paying for allowances as they would if the allowances were auctioned.

This approach would allow utility regulators to help mitigate economic

impacts in a way that takes into account the regional variations in electricity use, generation, and costs, while still maintaining the environmental benefit of implementing a price on carbon. And, carbon emissions would be reduced because the emissions caps under a federal climate change law still would have to be met.

The initial allocation to the electric power sector should be proportionate to its level of carbon dioxide emissions (currently 40 percent). Within the power sector, we recommend that the vast majority of allowances should be allocated to LDCs, based on an even split between base-year emissions (including emissions associated with purchased power) and retail sales. Remaining allowances would go to merchant coal generators, which would receive allowances equal to 50 percent of their base-year emissions to help defray their compliance costs.

Allocating allowances is critical to cushioning the economic impact of climate change legislation on electricity customers—particularly the low-income families and energy-intensive businesses and industries that will feel these impacts the most.