



# Waxman-Markey bill passes House

Climate change legislation currently being considered by Congress will have significant implications for the utility industry. The U.S. House of Representatives narrowly passed its version of the bill June 26 by a vote of 219-212. The American Clean Energy and Security Act, also referred to as the Waxman-Markey bill, includes a cap-and-trade system to reduce emissions and a renewable energy standard that would require the United States to get a certain percentage of its energy from renewable sources and through energy efficiency. The U.S. Senate has begun considering its own version of the bill.

## Highlights of the bill:

- **A requirement to cut climate change emissions 17 percent from 2005 levels by 2020 by using a cap-and-trade system.**

As currently written, the electricity sector will have a set amount of the total allowances available, starting at approximately 40 percent in 2012 and completely phasing out by 2030. On average, utilities will receive 35 percent of total allowances. Local electric distribution companies (LDCs) that sell electricity at retail will receive the allowances, which they must use to protect consumers from electricity price increases.

The allowances will be distributed according to a two-part formula: 50 percent based on the carbon dioxide emissions attributable to the electricity sales, and 50 percent based on retail sales without regard to emissions. LDCs are prohibited from receiving allowances under the 50-50 provisions that exceed their direct and indirect costs of complying with the legislation. Excess allowances would be redistributed among all remaining LDCs based on emissions only.

Merchant coal plants that sell unregulated wholesale power and other electricity generators with long-term fixed contracts would be eligible for up to 5 percent the total allowances available.

A last minute change to the bill prior to the vote established a special allocation for small utilities equal to 0.5 percent (half of one percent) of the allowances. This special pool would be shared among small LDCs that sell less than 4 million megawatt-hours per year. "This will primarily go to cooperatives and municipal utilities, but investor-owned utilities that sell less than 4 million megawatt-hours can also qualify," says Mike Eggl, Basin Electric senior vice president of External Relations and Communications. "Small LDCs must use any revenue from these allowances exclusively for electricity savings, renewable energy projects, or to assist low-income families and individuals.

"We currently estimate Basin Electric's membership would receive more than 50 percent of their allocations for existing plants in the first years of the bill," Eggl says. "The exact number is hard to calculate this early in the process, and is likely to change on an ongoing basis as the bill is modified."

- **A renewable energy standard that would require large electric utilities to get 15 percent of their retail energy sales from renewables by 2020 and save 5 percent of their energy via energy efficiency improvements by 2020.**

If a state cannot meet the 15 percent renewable mandate, it may decrease it to 12 percent and increase the energy

efficiency improvement mandate to 8 percent. There is an exemption in the bill for small utilities that sell less than 4 million megawatt-hours of electricity per year. Currently, all of Basin Electric's 125 member cooperatives qualify for this exemption.

- **Bonus allowances for those who deploy carbon capture technology on new or existing power plants in the early years.**

"Generally, we view this bill as a significantly improved version from earlier efforts, and we are pleased Congress is attempting to address some of our issues in the climate change debate," Eggl says. "We hope this can offer a better path than potential regulation by the U.S. Environmental Protection Agency. The allocations to electric utilities and the bonus allowances for those who undertake technology development are steps in the right direction. The bill still needs a substantial amount of work, however. We look forward to working with our senators on further improvements to this bill in the coming weeks."

Committee hearings on the Senate version of this bill started in July, and Basin Electric is continuing to review the evolving legislation.

*Editor's note: The Senate began hearings on the climate change issue on July 7, and it is possible the bill may be marked up after Basin Today goes to press.*