

**FILED WITH  
Executive Secretary  
September 09, 2009  
IOWA UTILITIES BOARD**

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Ms. Judi Cooper  
Executive Secretary  
Iowa Utilities Board  
350 Maple Street  
Des Moines, Iowa 50319-0069

RE: Docket No. NOI-2009-0002, In re: The American Clean Energy and Security Act of 2009

The Natural Resources Defense Council, Iowa Policy Project, and Iowa Environmental Council respectfully submit this short letter of response to several of the comments submitted by other interested parties in the above-captioned inquiry.

As stated in our earlier comments, we believe that the utilities are significantly overestimating the number of allowances they will need to purchase, and the price of those allowances. To briefly reiterate, we estimate that the Iowa utilities would need to purchase 12-14 million metric tons of carbon allowances annually between 2012 and 2020, and that these allowances would cost roughly \$12 per ton in 2012 going up to roughly \$17 per ton in 2020. Making the unrealistically conservative assumption that per household consumption would stay the same as it is today, the average household would see a \$3.30 to a \$4.58 per month bill increase. If, however, consumption decreases as we estimated in our state-by-state analysis submitted with our original filing,<sup>1</sup> consumers would actually see a bill savings of \$5.11 compared to a business-as-usual scenario.

The primary purpose of our reply is to clarify some apparent misunderstandings about how the cap and trade policy in the American Clean Energy and Security Act works, and to illuminate some of the consequences that would result from proposed changes urged by other parties.

**A. The market-based cap-and-trade approach does not result in a double compliance cost.**

Some parties, including MidAmerican Energy, assert that there are two different costs of compliance – one cost for allowances needed to be acquired and surrendered for each

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<sup>1</sup> Natural Resources Defense Council, The American Clean Energy Security Act (ACES) Creates More American Jobs and Saves Americans Money (2009).

ton of carbon emitted, and another cost to reduce the emissions.<sup>2</sup> This is emphatically not the case. If a covered power plant operator surrenders the number of allowances that correlates with the amount of pollution emitted, that constitutes compliance with the emissions cap. The operator can either purchase allowances and offsets to cover its emissions, or can reduce its emissions through energy efficiency programs, renewable energy investments, fuel switching or other measures. Thus, the very existence of the trading portion of the cap-and-trade system allows the operator to choose the least costly path to compliance (allowances, offsets or emission reduction measures), and the elimination of trading, as proposed by the Iowa utilities, only eliminates from among its compliance options some potentially lower-cost compliance options and raises costs unnecessarily. On the other hand, if the operator makes the choice to invest in clean technology to reduce the need for more carbon-intensive generation, it will avoid the need to purchase the number of allowances to cover emissions that have been avoided by that investment decision.

**B. The output-based portion of the allowance allocation methodology rewards utilities who have invested in cleaner generation technologies.**

Several parties make the assertion that the allowance allocation methodology in the ACES legislation, whereby half of the allowances are allocated on an output basis and half based purely on historic emissions, unfairly penalizes utilities that have previously invested in renewable energy.<sup>3</sup> In fact, the reverse is true. The entire purpose of allocating allowances partially on an output basis is to *reward* those utilities who have lower emissions rates across their systems. Moving to a purely emissions-based approach to allocating allowances, which is what is being urged by these same parties, is in fact the surest way to punish entities for having invested in clean generation sources.

Earlier cap and trade programs in the United States, most notably the Clean Air Act's Acid Rain Program did in fact use a pure emissions-based approach, and has been criticized over the years for failing to recognize the lower emissions rates achieved by utilities that have invested in low-sulfur generation. As a utility or other covered entity makes choices that reduce the emissions associated with each unit of power generated, its emission rate (tons/MWH) goes down. A pure emissions based approach would simply keep giving allowances to the highest emitter, whereas, a pure output-based approach would distribute allowances according to the amount of power generated, rewarding those with lower emission rates by awarding them more allowances per ton of emissions than would go to higher emitters. The ACES legislation decided on the 50/50 compromise that gave the high-carbon generators their preference for the emissions-based half of the allowances, and gave the lower-carbon generators their preference for the output-based half of the allowances.

The suggestion made by some that the output-based portion of the allowances actually acts as a penalty for cleaner generators fundamentally misconstrues the program.

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<sup>2</sup> See MidAmerican Energy initial comments on page 5: "What MidAmerican opposes in the Waxman-Markey bill is the allowance trading scheme, which imposes an unnecessary and unproductive second cost."

<sup>3</sup> See, e.g., MidAmerican Energy initial comments at 14.

**C. The prohibition against excess distributions would result in more allowances available to Iowa and other utilities.**

Finally, there seems to be a misunderstanding about section 783(b)(4) of the ACES legislation, which specifies that once a distribution utility has enough allowances to offset its compliance costs, thereby neutralizing the costs of the program to its customers, it cannot receive additional allowances. Instead those allowances are made available to other distribution companies, including those serving Iowa customers. It is not clear why Interstate Power and Light (IPL) and MidAmerican Energy believe that this provision in ACES would not result in a higher allocation of allowances.<sup>4</sup> Given that the provision *increases* the number of allowances available to utilities that need them to offset consumer costs, these assertions misinterpret the effect of this provision.

Sincerely,

Rebecca Stanfield  
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Natural Resources Defense Council

David Osterberg  
Executive Director  
Iowa Policy Project

Marian Riggs Gelb  
Executive Director  
Iowa Environmental Council

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<sup>4</sup> See MidAmerican Energy initial comments at 16 and Interstate Power and Light initial comments at 18.