

STATE OF IOWA
DEPARTMENT OF COMMERCE
BEFORE THE IOWA UTILITIES BOARD

FILED WITH
Executive Secretary
September 10, 2009
IOWA UTILITIES BOARD

IN RE:)
)
THE AMERICAN CLEAN ENERGY)
AND SECURITY ACT OF 2009) DOCKET NO. NOI-2009-0002

REPLY COMMENTS OF THE ENVIRONMENTAL LAW
AND POLICY CENTER SUBMITTED BY
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SEPTEMBER 9, 2009

My name is David Schoengold. I have previously filed comments with the Iowa Utility Board in this docket.

Review of the comments filed by the many parties in this proceeding indicates the broad recognition that we must take action to address global warming. However, the comments filed by MidAmerican and Interstate Power and Light Co. (IPL) raise concerns about how serious these companies are about taking meaningful action. Neither MidAmerican nor IPL say they oppose the emissions limits in the current legislation, but when you read between the lines they want to delay actions that are needed now.

As set forth below, MidAmerican and IPL essentially overstate the cost of action to Iowa ratepayers by relying on faulty premises for their cost estimates. We address a number of these overestimates and the underlying reason they are flawed. Most importantly, neither utility addresses the cost to Iowans of inaction. As recent reports by the Union of Concerned Scientists point out, the cost of inaction will be devastating for Iowa farmers and all Iowans. While it is not too late to attempt to work out details of climate change legislation in order to protect Iowa ratepayers, there must be recognition that the emissions goals must be met and that these issues must be resolved sooner rather than later.

These are my reply comments responding to initial comments from several of the commenters. My reply comments fall into several major categories.

1. What Will Be the Likely Impact on Iowans from HR2454?

Both IPL and MidAmerican claim that the impact of the American Clean Energy and Security Act of 2009 (HR2454) on customer bills will be large. IPL predicts bill increases of 8 to 10% in 2013 and 15 to 20% in 2030 for residential customers. MidAmerican predicts bill impacts of 17% by 2012 and 30% by 2030 for residential customers. These analyses are flawed and ignore a number of mitigating circumstances which will reduce the bill impacts:

- For the most part, the utilities' bill analyses are based on an assumption that customer usage is unchanged by HR2454. In fact, the energy efficiency elements of HR2454 will reduce the monthly usage and mitigate rate impacts.
- Changes in the generation mix, moving to more renewable energy sources and natural gas generation will reduce the emissions per MWH of generation.
- The utilities overestimate their need for purchased allowances. MidAmerican especially over estimates its need for allowances by improperly handling allowances related to wholesale sales. This is discussed more in point 4, below. IPL overestimates its need by projecting increasing GHG emissions as their base case.
- Energy efficiency is the cheapest alternative for reducing emissions and is likely much cheaper than purchasing allowances. Therefore, a stronger commitment to energy conservation on the part of MidAmerican and IPL will reduce the need for allowances and the cost to customers.
- The utility analysis completely ignores benefits which will be allocated directly and indirectly to Iowans as a result of the allowances which are being used for non-utility purposes. Allowances not allocated to the electric industry will be used for a number of programs which will benefit Iowans. These include such programs as low-income assistance, deficit reduction, state energy efficiency programs, and assistance for stressed industries. While these programs do not benefit customers on their electricity bills, they do benefit customers as citizens.

In summary, I believe the impacts that I cited in my initial comments of a \$2-\$5 per month near-term impact for residential customers are the most likely result of HR2454, and that the utilities results are high due to their omission of the above factors.

2. Utility Assumption of Business as Usual for Future Emissions

In calculating their need for additional allowances beyond those they will be allocated at no cost under HR2454, the utilities generally assume that their GHG emissions will be at approximately current levels into the future. This is a key assumption which flies in the face of the intent of HR2454. The intent of HR2454 is to reduce GHG emissions, and many of its sections specifically address the use of energy efficiency, renewables, and shifts in generation mix in order to reduce emissions. By assuming business as usual as the basis for calculating allowance needs, the utilities are ignoring a key part of the strategy.

For example, in response to question Q2c, IPL presents a table which sets forth its projection of CO₂ emissions from 2012 to 2030 (Table 2, page 15). In this table, projected emissions rise from 13.7 million metric tons in 2012 to 16.7 million metric tons in 2030, an increase of over 1% per year.

MidAmerican does factor some changes in generation mix into its calculations of projected GHG emissions. However, it does not include additional increases in energy conservation and renewable energy in its projections.

In contrast, the Energy Information Administration (EIA) modeling of the MAPP region under HR2454 shows a great deal of reduction in GHG emissions through 2030 resulting from a combination of energy efficiency, changes in generation mix, increased renewable generation, and reductions in emissions at generating plants. By overstating their future emissions the utilities also overstate the cost of purchasing allowances and, by extension, the cost to ratepayers.

3. Cost of Allowances

Certain commenters – most notably the Iowa Association of Business and Industry (ABI) – presented estimates of the cost of GHG allowances which are far above mainstream estimates. ABI presented a study by the National Association of Manufacturers (NAM) which claims that the allowance price will be \$123 to \$159 per metric ton by 2030 (page 7 of the ABI comments). This estimate is several times larger than other estimates which have been prepared including estimates from both the EPA and the EIA. The EIA estimates allowance costs of \$18 per metric ton in 2012, \$32 per metric ton in 2020, and \$65 per metric ton in 2030 (page xii of the EIA report filed in this docket by the Sierra Club). The EPA estimates allowance costs of \$13 per metric ton in 2015, \$16 per metric ton in 2020, and \$27 per metric ton in 2030 (page 3 of the EPA analysis filed in this docket). The ABI and NAM fail to justify the vast differences in their figures and those of EIA and EPA.

4. Treatment of Emissions Resulting from Wholesale Sales

In MidAmerican's calculation of the cost of its projected allowance shortfall, it includes the emissions from generation used to provide power to the wholesale market. It is inconceivable that a utility would sell power to wholesale customers at a price which does not include the cost of the allowances necessary to produce that power. MidAmerican does not factor this revenue into

its cost estimates. Thus, MidAmerican is overstating the need for allowances in the retail market and the related cost.

In its initial comments the Iowa Department of Natural Resources (DNR) sets forth a detailed and cogent explanation of this problem (at pages 5-7, in the answer to question Q2e). The DNR estimates that this causes MidAmerican's estimate of the allowance shortfall to be high by a factor of two. The DNR's detailed analysis is compelling.

5. Assumptions on Availability of Zero-Cost Allowances

HR2454 calls for a portion of the allowances intended for distribution to the electric sector be held back and distributed to merchant coal plants and to plants with long-term fixed price contracts. The Act sets forth a formula for determining the level of distribution up to a maximum percentage level of total electric sector allowances. The maximum percentages allowed are 10% for merchant coal plants and 4.3% for power sellers with long-term contracts, for a total maximum allowed hold back of 14.3%. The utilities have assumed a 15% hold back. Not only is this value greater than the 14.3% maximum specified in the Act, but the use of that figure has not been justified by the utilities. Since it is set as a maximum, the actual hold back may well be lower. Determining the hold back requires calculating the fraction of GHG emissions that the merchant coal plants and long-term contract generators actually make up of the power sector total and reducing that fraction by 50%. The utilities have not done the calculations necessary to justify the use of the 15% figure.

Even if we accept the utilities' assumptions on the distribution of allowances to merchant coal plants and plants with long-term contracts, the impact is small. My calculations indicate that the increase in impact per residential customer from using that assumption rather than the assumptions included in my initial comments, runs from \$0.81 per month in 2012 to \$1.02 per month in 2020.

6. Claims of a Double Charge of the Cost of Compliance to Electric Utility Customers

On page 2 of its initial comments MidAmerican makes the claim that Iowa customers will have to pay twice for compliance with HR2454 – once for GHG allowances and once for technologies which reduce GHG emissions.

MidAmerican makes this same claim again on page 6 of the testimony of MidAmerican's David Sokol before the Subcommittee on Energy and Environment for the U. S. House of Representatives (filed as comment in this docket). This assertion doesn't make sense. Investment in technologies to reduce GHG emissions will directly reduce the need for purchased allowances. Emissions which have been eliminated due to these technologies will not require allowances. Only those GHG emissions which continue to be emitted because there is no investment in technology to reduce them will require the use of allowances.

The following two extreme examples make the point. At one extreme, a utility which makes no expenditures to reduce GHG emissions will have high allowance expenses but no technology expenses. At the other extreme, a utility

which invests heavily in reducing GHG emissions and eliminates much or most of these emissions will have higher technology expenses but much lower allowance expenses. A utility which falls between these two extremes will have a mix of some allowance costs and some technology costs. It will not, however, have to pay twice for the same emissions.

7. Is Iowa Being Treated Unfairly under HR2454 by The Act's Failure to Recognize the State's Achievements in Wind Energy?

In its comments at page 4, MidAmerican makes the claim that Iowa is being treated unfairly under HR2454 because the state's achievements in the field of renewable energy are not given credit in the allocation of allowances. This argument does not hold up to scrutiny. By virtue of the investments Iowa has made in renewable energy, it will have reductions in greenhouse gases which will reduce its requirement for purchasing allowances. This is a direct benefit from the state's investment in renewables. In fact, the portion of the allowance allocation which is based on MWH sales rather than emissions gives Iowa a direct credit for the reductions it has already made. The MWH generated with renewable generation will earn a full share of the 50% of allowances allocated on a MWH basis.

8. Is MidAmerican's Proposal to Allow a State to Opt out of the Allowance Market a Good Idea?

In the David Sokol testimony before Congress submitted by MidAmerican, he proposes an alternative under which states would be allowed to opt out of the allowance market to put into place instead a state designed and administered

program to achieve the same result (at page 12 and in Attachment 6). If the state were to set a cap based on reductions equivalent to what would be required under HR2454, and properly implement and enforce that cap, the reductions in Iowa would match those achieved by the cap and trade proposal. However, Iowa utilities would lose out on the potential benefits of capturing emission reductions that could be achieved out-of-state at a lower cost than in-state reductions.

Analysts who have studied the impact of the acid rain cap and trade system have concluded that it led to lower costs of meeting the cap than if plant-level, company-level, or state-level caps were used. Furthermore, if domestic and international offsets were being sold in the cap and trade market, and Iowa utilities were not allowed into that market, that potentially lower cost GHG mitigation would not be available to the utilities.

Assuming proper cap setting and planning, the approach suggested by MidAmerican should be able to achieve equivalent GHG reductions to those achievable with cap and trade. However, the cost is likely to be higher.