

Climate Change Legislation

The 2007 Minnesota Legislature passed several far reaching legislative proposals as part of the “Next Generation Energy Act” to address the climate change issue, including:

- a renewable energy standard for electric utilities of 25% by the year 2025;
- annual conservation savings for electric and natural gas utilities of 1.5% per year;
- a limit on new base load generation after August 2009 unless there are carbon offsets; and
- an climate change stakeholder-based study to assess appropriate strategies, including a Minnesota, region-wide, or national greenhouse gas cap-and-trade program.

These measures constitute an aggressive and comprehensive plan for reducing Minnesota’s greenhouse gas emissions. To effectively meet these targets, however, we need to develop a national solution that ensures a reliable and cost-effective supply of energy. A Minnesota-only fossil fuel registration, fuel use restriction or cap-and-trade program is not a workable approach to the climate change problem. Twenty-first century regional wholesale electric markets simply do not lend themselves to a registration and cap-and-trade regime imposed by a single state.

Cap-and-trade programs create a market, and markets work best when they include multiple players. Additionally, in a global economy, solutions that are geographically limited are often short-sighted and have



negative economic impacts that affect local consumers, businesses and jobs.

It would be very difficult for a state like Minnesota to impose a fossil fuel registration and cap-and-trade scheme on a technology-neutral regional market such as that operated by MISO. Furthermore, the cost and complexity of implementing a single-state program in a regional market would likely be prohibitive.

It would be similarly difficult to impose a fossil fuel registration, fuel restriction and cap-and-trade scheme on bilateral contracts. The additional burden of complying with these requirements to sell into Minnesota would likely discourage out-of-state generators from making sales into Minnesota. The result would be a constrained Minnesota wholesale market and higher prices for Minnesota consumers.

We are further concerned that state climate change legislation could be used as a vehicle to stop projects already in the design and permitting phase. The electric power network has been described as the most complex machine ever devised. Demand and supply must continually be matched on a real time basis every second of every day. It takes years to bring a major new generating facility through the planning, permitting and construction process. It is unrealistic to assume that emerging technologies will be ready to serve in the near term as a cost-effective alternative to projects currently underway. We need to ensure a reliable and cost-effective supply of energy for our families and businesses as we develop our response to climate change.

As we frame our response to climate change policy, we must recognize the current technological limitations regarding carbon capture and storage

and the critical need to maintain a reliable electric infrastructure.

We believe that effective climate change policy must:

- be national in scope;
- be economy-wide and apply to all industries, including sectors such as transportation and manufacturing as well as electric generation;
- protect the ability of U.S. and Minnesota industries to compete in world and regional markets and consider the competitive impact on jobs;
- allow credit for early actions taken to reduce greenhouse emissions;
- maintain reliability, protect national security and avoid overreliance on any single fuel, recognizing the importance to the nation of preserving a diverse mix of electricity generation fuels, including coal, nuclear, natural gas, and all renewable energy sources including hydro;
- Provide that initial cap-and-trade program allowances to utilities should be allocated and not auctioned. Any transition from allocations to auctions must include appropriate safety valves to protect against unanticipated impacts of runaway auction markets which would threaten both the economy and consumers;
- place an enhanced and immediate economy-wide focus on the efficiency of all energy uses, and encourage increased efficiency of existing generation and transmission resources;
- ensure that tax-based or other incentives for the development and deployment of renewable and clean energy facilities and programs are provided on a comparable basis to all electric industry sectors, including public power;
- recognize and address regional differences that can impact the fairness and effectiveness of any program designed to address greenhouse gas emissions;
- support expanded efforts for research, development and deployment of cost-effective technologies to reduce, capture, transform or sequester greenhouse gases from emission sources throughout the national economy; and
- ensure that any generation portfolio requirements include all low emission technologies.