
**BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION**

**IN THE MATTER OF THE APPLICATION)
OF SOUTHWESTERN ELECTRIC POWER)
COMPANY FOR A CERTIFICATE OF)
ENVIRONMENTAL COMPATIBILITY AND) DOCKET NO. 06-154-U
PUBLIC NEED FOR THE CONSTRUCTION,)
OWNERSHIP, OPERATION AND)
MAINTENANCE OF A COAL-FIRED)
GENERATING FACILITY IN HEMPSTEAD)
COUNTY, ARKANSAS)**

**SURREBUTTAL TESTIMONY OF DAVID A. SCHLISSEL
ON BEHALF OF THE
GENERAL STAFF OF THE
ARKANSAS PUBLIC SERVICE COMMISSION**

JULY 27, 2007

NON-CONFIDENTIAL VERSION

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List of Exhibits

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| Exhibit DAS-1: | Resume of David Schlissel |
| Exhibit DAS-2: | Summary of Senate Greenhouse Gas Cap-and-Trade Proposals in Current U.S. 110 th Congress |
| Exhibit DAS-3: | Climate Change and Power: Carbon Dioxide Emissions Costs and Electricity Resource Planning |
| Exhibit DAS-4: | Scenarios and Carbon Dioxide Emissions Costs from the <i>Assessment of U.S. Cap-and-Trade Proposals</i> recently issued by the MIT Joint Program on the Science and Policy of Global Change |
| Exhibit DAS-5 : | (Confidential) Summary Pages from SWEPCO STRATEGIST runs |

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1 **1. Introduction and Qualifications**

2 **Q. What is your name, position and business address?**

3 A. My name is David A. Schlissel. I am a Senior Consultant at Synapse Energy
4 Economics, Inc, 22 Pearl Street, Cambridge, MA 02139.

5 **Q. Please describe Synapse Energy Economics.**

6 A. Synapse Energy Economics ("Synapse") is a research and consulting firm
7 specializing in energy and environmental issues, including electric generation,
8 transmission and distribution system reliability, market power, electricity market
9 prices, stranded costs, efficiency, renewable energy, environmental quality, and
10 nuclear power.

11 Synapse's clients include state consumer advocates, public utilities commission
12 staff, attorneys general, environmental organizations, federal government and
13 utilities. A complete description of Synapse is available at our website,
14 www.synapse-energy.com.

15 **Q. Please summarize your educational background and recent work experience.**

16 A. I graduated from the Massachusetts Institute of Technology in 1968 with a
17 Bachelor of Science Degree in Engineering. In 1969, I received a Master of
18 Science Degree in Engineering from Stanford University. In 1973, I received a
19 Law Degree from Stanford University. In addition, I studied nuclear engineering
20 at the Massachusetts Institute of Technology during the years 1983-1986.

21 Since 1983 I have been retained by governmental bodies, publicly-owned utilities,
22 and private organizations in 28 states to prepare expert testimony and analyses on
23 engineering and economic issues related to electric utilities. My recent clients
24 have included the New Mexico Public Regulation Commission, the General Staff
25 of the Arkansas Public Service Commission, the Staff of the Arizona Corporation
26 Commission, the U.S. Department of Justice, the Commonwealth of

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1 Massachusetts, the Attorneys General of the States of Massachusetts, Michigan,
2 New York, and Rhode Island, the General Electric Company, cities and towns in
3 Connecticut, New York and Virginia, state consumer advocates, and national and
4 local environmental organizations.

5 I have testified before state regulatory commissions in Arizona, New Jersey,
6 Connecticut, Kansas, Texas, New Mexico, New York, Vermont, North Carolina,
7 South Carolina, Maine, Illinois, Indiana, Ohio, Massachusetts, Missouri, Rhode
8 Island, Wisconsin, Iowa, South Dakota, Georgia, Minnesota, Michigan, Florida
9 and North Dakota and before an Atomic Safety & Licensing Board of the U.S.
10 Nuclear Regulatory Commission.

11 A copy of my current resume is attached as Exhibit DAS-1.

12 **Q. On whose behalf are you testifying in this case?**

13 A. I am testifying on behalf of the General Staff of the Arkansas Public Service
14 Commission (“General Staff”).

15 **Q. Have you testified previously before this Commission?**

16 A. Yes. I submitted testimony in Arkansas Public Service Commission Docket Nos.
17 98-065-U, 02-248-U, and 05-042-U.

18 **Q. What is the purpose of your testimony?**

19 A. Synapse was retained by the General Staff to examine the nature of the probable
20 economic impact of Southwestern Electric Power Company’s (“SWEPCO”)
21 proposed Hempstead Project in Hempstead County, Arkansas. As part of this
22 assignment, Synapse and the General Staff requested that SWEPCO perform a
23 number of economic modeling runs using the Strategist Model using carbon
24 dioxide emission allowance prices that had been developed by Synapse. This
25 testimony presents the results of those modeling runs.

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1 **Q. How is your testimony organized?**

2 A. My testimony is organized as follows:

3 1. Introduction and Qualifications.

4 2. Summary of Conclusions.

5 3. The appropriate carbon dioxide emission allowance prices to use in
6 evaluating proposed electric generating projects.

7 4. The results of SWEPCO's STRATEGIST modeling runs using Synapse's
8 range of forecast CO₂ emission allowance prices.

9 **2. Conclusion**

10 **Q. What is your conclusion.**

11 A. The need for additional base load capacity is addressed in the Direct Testimony of
12 Staff witness Clark D. Cotten. The most readily available options identified by
13 SWEPCO to meet that identified need are the proposed Hempstead Project and
14 natural gas fired combined cycle and combustion turbine options. Several
15 modeling runs were performed to examine those options. Those runs are
16 addressed in greater detail in the following sections of this testimony. The results
17 of the recent SWEPCO STRATEGIST modeling analyses using the Company's
18 forecast CO₂ emission allowance prices or the Synapse CO₂ prices forecasts show
19 that the Hempstead Project would not be the lowest cost alternative. The results
20 of these analyses are presented in Table 4 below.

21 **3. The appropriate carbon dioxide emission allowance prices to use in**
22 **evaluating proposed electric generating projects.**

23 **Q. How does SWEPCO view the prospects for carbon regulation?**

24 A. In his Supplemental Testimony, SWEPCO witness Bruce Braine notes that
25 "While Congressional activity and momentum regarding climate change has been
26 building, AEP anticipates that the culmination will be a mandatory federal GHG
27 program setting reasonable targets and timelines for emission reductions."

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1 **Q. Have mandatory greenhouse gas emissions reductions programs begun to be**
2 **examined and debated in the U.S. federal government?**

3 A. To date, the U.S. government has not required greenhouse gas emission
4 reductions. However, a number of legislative initiatives for mandatory emissions
5 reduction proposals have been introduced in Congress. These proposals establish
6 carbon dioxide emission trajectories below the projected business-as-usual
7 emission trajectories, and they generally rely on market-based mechanisms (such
8 as cap and trade programs) for achieving the targets. The proposals also include
9 various provisions to spur technology innovation, as well as details pertaining to
10 offsets, allowance allocation, restrictions on allowance prices and other issues.
11 Some of the federal proposals that would require greenhouse gas emission
12 reductions that had been submitted in Congress through early February 2007 are
13 summarized in Table 1 below.¹

14 **Table 1. Summary of Mandatory Emissions Targets in Proposals**
15 **Discussed in Congress²**

| Proposed National Policy | Title or Description | Year Proposed | Emission Targets | Sectors Covered |
|---|--|---------------|---|--------------------------------------|
| McCain Lieberman S.139 | Climate Stewardship Act | 2003 | Cap at 2000 levels 2010-2015. Cap at 1990 levels beyond 2015. | Economy-wide, large emitting sources |
| McCain Lieberman SA 2028 | Climate Stewardship Act | 2003 | Cap at 2000 levels | Economy-wide, large emitting sources |
| McCain Lieberman S 1151 | Climate Stewardship and Innovation Act | 2005 | Cap at 2000 levels | Economy-wide, large emitting sources |
| National Commission on Energy Policy (basis for Bingaman-Domenici legislative work) | Greenhouse Gas Intensity Reduction Goals | 2005 | Reduce GHG intensity by 2.4%/yr 2010-2019 and by 2.8%/yr 2020-2025. Safety-valve on allowance price | Economy-wide, large emitting sources |

¹ Table 1 is an updated version of Table ES-1 on page 5 of Exhibit DAS-3.

² More detailed summaries of the bills that have been introduced in the U.S. Senate in the 110th Congress are presented in Exhibit DAS-2.

Southwestern Electric Power Company
Docket No. 06-154-U
Surrebuttal Testimony of David A. Schlissel

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| | | | | |
|-------------------------|--|------|---|---|
| Jeffords S. 150 | Multi-pollutant legislation | 2005 | 2.050 billion tons beginning 2010 | Existing and new fossil-fuel fired electric generating plants > 15 MW |
| Carper S. 843 | Clean Air Planning Act | 2005 | 2006 levels (2.655 billion tons CO ₂) starting in 2009, 2001 levels (2.454 billion tons CO ₂) starting in 2013. | Existing and new fossil-fuel fired, nuclear, and renewable electric generating plants > 25 MW |
| Feinstein | Strong Economy and Climate Protection Act | 2006 | Stabilize emissions through 2010; 0.5% cut per year from 2011-15; 1% cut per year from 2016-2020. Total reduction is 7.25% below current levels. | Economy-wide, large emitting sources |
| Rep. Udall - Rep. Petri | Keep America Competitive Global Warming Policy Act | 2006 | Establishes prospective baseline for greenhouse gas emissions, with safety valve. | Energy and energy-intensive industries |
| Carper S.2724 | Clean Air Planning Act | 2006 | 2006 levels by 2010, 2001 levels by 2015 | Existing and new fossil-fuel fired, nuclear, and renewable electric generating plants > 25 MW |
| Kerry and Snowe S.4039 | Global Warming Reduction Act | 2006 | No later than 2010, begin to reduce U.S. emissions to 65% below 2000 levels by 2050 | Not specified |
| Waxman H.R. 5642 | Safe Climate Act | 2006 | 2010 – not to exceed 2009 level, annual reduction of 2% per year until 2020, annual reduction of 5% thereafter | Not specified |
| Jeffords S. 3698 | Global Warming Pollution Reduction Act | 2006 | 1990 levels by 2020, 80% below 1990 levels by 2050 | Economy-wide |
| Feinstein- Carper S.317 | Electric Utility Cap & Trade Act | 2007 | 2006 level by 2011, 2001 level by 2015, 1%/year reduction from 2016-2019, 1.5%/year reduction starting in 2020 | Electricity sector |
| Kerry-Snowe | Global Warming Reduction Act | 2007 | 2010 level from 2010-2019, 1990 level from 2020-2029, 2.5%/year reductions from 2020-2029, 3.5%/year reduction from 2030-2050, 65% below 2000 level in 2050 | Economy-wide |
| McCain-Lieberman S.280 | Climate Stewardship and Innovation Act | 2007 | 2004 level in 2012, 1990 level in 2020, 20% below 1990 level in 2030, 60% below 1990 level in 2050 | Economy-wide |

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| | | | | |
|----------------------------|--|------|---|--------------|
| Sanders-Boxer S.309 | Global Warming Pollution Reduction Act | 2007 | 2%/year reduction from 2010 to 2020, 1990 level in 2020, 27% below 1990 level in 2030, 53% below 1990 level in 2040, 80% below 1990 level in 2050 | Economy-wide |
| Olver, et al HR 620 | Climate Stewardship Act | 2007 | Cap at 2006 level by 2012, 1%/year reduction from 2013-2020, 3%/year reduction from 2021-2030, 5%/year reduction from 2031-2050, equivalent to 70% below 1990 level by 2050 | US national |
| Bingaman-Specter S.1766 | Low Carbon Economy Act | 2007 | 2012 levels in 2012, 2006 levels in 2020, 1990 levels by 2030. President may set further goals \geq 60% below 2006 levels by 2050 contingent upon international effort | Economy-wide |

1 **Q. Is it reasonable to believe that the potential for passage of greenhouse gas**
2 **regulations have improved as a result of last November’s federal elections?**

3 A. Yes. As shown by the number of proposals being introduced in Congress and
4 public statements of support for taking action, there certainly are increasing
5 numbers of legislators who are inclined to support passage of legislation to
6 regulate the emissions of greenhouse gases.

7 Nevertheless, my conclusion that significant greenhouse gas regulation in the U.S.
8 is inevitable is not based on the results of any single election or on the fate of any
9 single bill introduced in Congress.

10 **Q. Have recent polls indicated that the American people are increasingly in**
11 **favor of government action to address global warming concerns?**

12 A. Yes. A summer 2006 poll by Zogby International showed that an overwhelming
13 majority of Americans are more convinced that global warming is happening than
14 they were even two years ago, and they are also connecting intense weather
15 events like Hurricane Katrina and heat waves to global warming.³ Indeed, the
16 poll found that 74% of all respondents, including 87% of Democrats, 56% of

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1 Republicans and 82% of Independents, believe that we are experiencing the
2 effects of global warming.

3 The poll also indicated that there is strong support for measures to require major
4 industries to reduce their greenhouse gas emissions to improve the environment
5 without harming the economy – 72% of likely voters agreed such measures
6 should be taken.⁴

7 Other recent polls reported similar results. For example, a Time/ABC/Stanford
8 University poll issued in the spring of 2006 found 68 percent of Americans are in
9 favor of more government action.⁵ In addition, a September 2006 telephone poll,
10 conducted by NYU’s Brademas Center for the Study of Congress, reported that
11 70% of those polled stated that they were worried about global warming.⁶

12 At the same time, according to a recent public opinion survey for the
13 Massachusetts Institute of Technology, Americans now rank climate change as
14 the country’s most pressing environmental problem—a dramatic shift from three
15 years ago, when they ranked climate change sixth out of 10 environmental
16 concerns.⁷ Almost three-quarters of the respondents felt the government should do
17 more to deal with global warming, and individuals were willing to spend their
18 own money to help.

3 “Americans Link Hurricane Katrina and Heat Wave to Global Warming,” Zogby International,
 August 21, 2006, available at www.zogby.com/news.

4 Id.

5 “Polls find groundswell of belief in, concern about global warming.” Greenwire, April 21, 2006,
 Vol. 10 No. 9. See also Zogby’s final report on the poll which is available at
 <http://www.zogby.com/wildlife/NWFfinalreport8-17-06.htm>.

6 Kaplun, Alex: “Campaign 2006: Most Americans ‘worried’ about energy, climate;” Greenwire,
 September 29, 2006.

7 MIT Carbon Sequestration Initiative, 2006 Survey,
 <http://sequestration.mit.edu/research/survey2006.html>

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1 **Q. What CO₂ prices has SWEPCO used in its modeling of the proposed**
2 **Hempstead Project?**

3 A. SWEPCO has provided three forecasts of CO₂ prices. These forecasts are
4 presented in Table 2 below. However, in his Additional Supplemental Testimony,
5 SWEPCO witness Weaver discussed STRATEGIST runs that reflected only its
6 middle or moderate CO₂ price forecast. SWEPCO also has provided a
7 STRATEGIST run that relied on its High-CO₂ price forecast and its base natural
8 gas price forecast. In addition, in his Rebuttal Testimony, Mr. Weaver presented
9 the results of what he termed a “SWEPCO High CO₂, Correlated Commodity”
10 run.

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1 **Table 2: SWEPCO CO₂ Price Forecasts**

| | SWEPCO Low | SWEPCO Mod | SWEPCO High |
|------|------------|------------|-------------|
| | Nom \$ | Nom \$ | Nom \$ |
| 2010 | | | |
| 2011 | | | |
| 2012 | | | |
| 2013 | | | |
| 2014 | | | |
| 2015 | | | |
| 2016 | | | |
| 2017 | | | |
| 2018 | | | |
| 2019 | | | |
| 2020 | | | |
| 2021 | | | |
| 2022 | | | |
| 2023 | | | |
| 2024 | | | |
| 2025 | | | |
| 2026 | | | |
| 2027 | | | |
| 2028 | | | |
| 2029 | | | |
| 2030 | | | |

2
3 **Q. How did SWEPCO develop these forecasts?**

4 A. Staff asked SWEPCO to provide a detailed explanation of how its CO₂ prices
5 were developed. In response, SWEPCO provided the following explanation for
6 how it developed its Low, Medium and High CO₂ price forecasts:

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3

4 **Q. Do the CO₂ price forecasts developed by SWEPCO reasonably reflect the**
5 **price impact of likely greenhouse gas regulations that would apply to the**
6 **proposed Hempstead Project?**

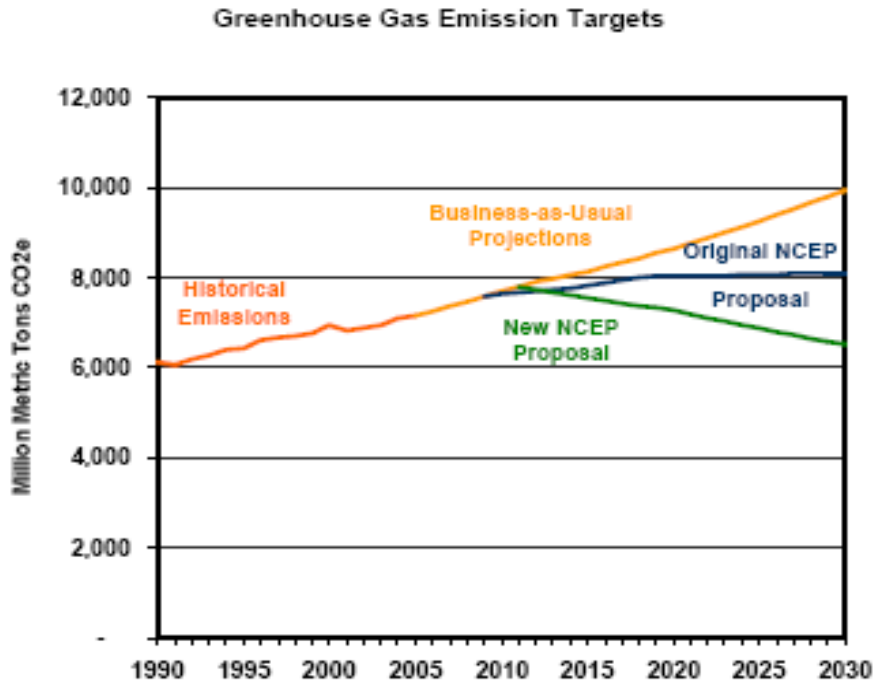
7 A. No. It is my position that the range of CO₂ prices that SWEPCO has considered is
8 too narrow. In particular, the Company's High-CO₂ price forecast is too low. As I
9 will discuss momentarily, there are a number of bills that have been introduced in
10 Congress that propose very significant emissions reductions.

11 Moreover, even the proposal on which SWEPCO's Mid-CO₂ price forecast is
12 based has become more stringent in the past year. That proposal, i.e., Senator
13 Bingaman's 2006 proposed bill, was based in large part on recommendations
14 issued in late 2004 by the National Commission on Energy Policy ("NCEP").
15 However, NCEP has recently modified its greenhouse gas regulation proposal.
16 Instead of advocating for a reduction in greenhouse gas intensity, NCEP now
17 proposes that starting in 2012, national emissions be reduced so that by 2020 they
18 are at 2006 levels and by 2030, they are 15% below current levels. A graphical
19 version of the difference between this new proposal and the proposal on which
20 Senator Bingaman's draft bill and, consequently, SWEPCO's moderate CO₂ price
21 forecast was based, is shown in Figure 1 below.

⁸ SWEPCO response to General Staff Interrogatory No. APSC 21-002.

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1 **Figure 1: Original and Current NCEP Proposals⁹**



2

3 Thus, the revised NCEP emission reduction recommendations appear to be more
4 consistent with the reductions implied in SWEPCO's High CO₂ price forecast
5 than in the Moderate CO₂ price forecast.

6 The NCEP also has proposed raising the starting price of its safety valve to \$10
7 per ton of carbon dioxide equivalent emissions (compared to \$7/ton in its original
8 proposal) and increasing the rate of escalation in the safety-valve price to 5 per
9 cent in real (rather than nominal) terms.¹⁰ The NCEP also has said that it would
10 argue for the eventual phase-out of this safety valve mechanism in favor of

⁹ From the National Commission on Energy Policy, www.energycommission.org.

¹⁰ *National Policy Recommendations to the President and the 110th Congress*, National Commission on Energy Policy, April 2007, at page 14.

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1 greater emissions certainty once a truly international response to global warming
2 is underway.¹¹

3 **Q. Is the draft Bingaman proposal on which SWEPCO's Moderate CO₂ price**
4 **forecast appears to rely consistent with the bills that actually have been**
5 **introduced and are under consideration in the current Congress?**

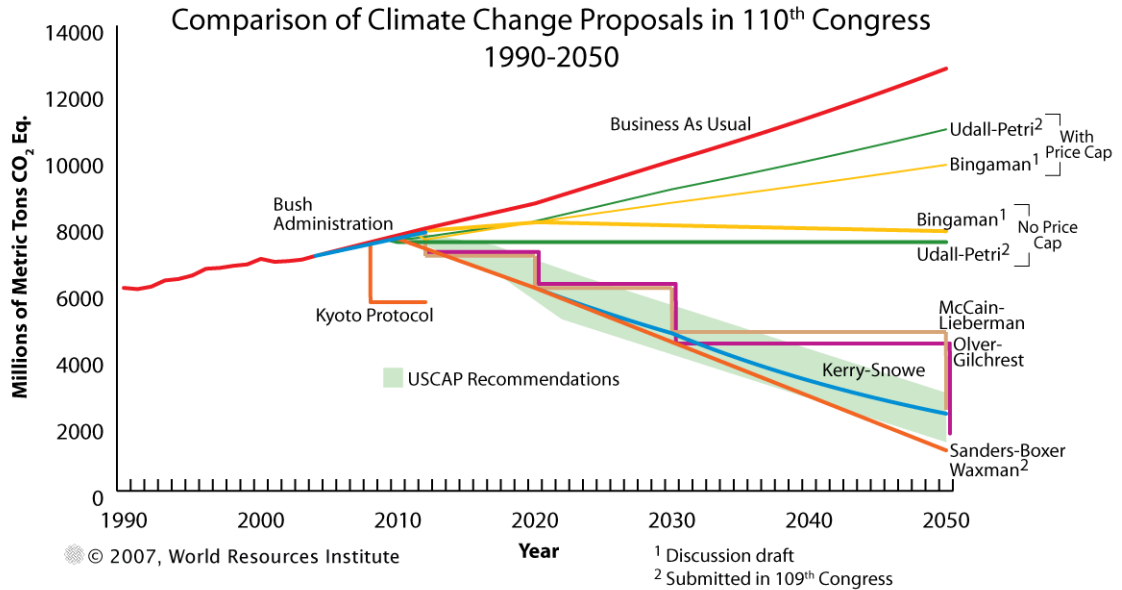
6 A. No. As shown in Figure 2 below, almost all of the other bills that have been
7 introduced in Congress would require dramatically larger CO₂ emissions
8 reductions than the discussion draft circulated by Senator Bingaman.¹²

¹¹ Id., at page 15.

¹² Senators Bingaman and Specter introduced the Low Carbon Economy Act of 2007 earlier in July. The proposed bills reduction targets are essentially the same as the revised NCEP proposal except that the Bingaman-Specter legislative proposal includes a \$12/ton of CO₂ safety valve price that would increase at 5% per year above inflation.

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1 **Figure 2: Emissions Reductions Required under Climate Change Bills in**
 2 **Current US Congress**
 3



4
 5 Many of these bills call for emissions reductions far above the levels that
 6 SWEPCO considered in the development of its Moderate and High CO₂ price
 7 forecasts. The shaded area in Figure 2 above represents the 60% to 80% range of
 8 emission reductions from current levels that would be mandated by a number of
 9 the bills before Congress. These reductions are more substantial than the
 10 emissions reductions that would result from adoption of the limits that SWEPCO
 11 considered in the development of its forecast of Moderate and High CO₂ prices.
 12 The Company's Moderate CO₂ price forecast is based on the assumption that CO₂
 13 emissions eventually will be capped at the then-current 2015 levels, which would
 14 be higher than today's emission levels.

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1 **Q. What carbon dioxide values are being used by utilities in electric resource**
2 **planning?**

3 A. Table 6.1 on page 41 of Exhibit DAS-3 presents the carbon dioxide costs, in \$/ton
4 CO₂, that are presently being used by a number of utilities for both resource
5 planning and modeling of carbon regulation policies.

6 **Q. Are you aware of any recent regulatory commission decisions concerning the**
7 **levels of carbon dioxide emissions prices that utilities should consider when**
8 **planning how to supply energy to their customers?**

9 A. Yes. The New Mexico Public Regulation Commission recently ordered that
10 utilities should consider a range of CO₂ prices in their resource planning. This
11 range runs from \$8 to \$40 per ton, beginning in 2010 and increases at the overall
12 2.5 percent rate of inflation. This range is significantly higher than the range of
13 CO₂ prices developed by SWEPCO.

14 **Q. Has Synapse developed a carbon price forecast that would assist the**
15 **Commission in evaluating the proposed Hempstead Project?**

16 A. Yes. The Synapse forecast is described in detail in Exhibit DAS-3, starting on
17 page 41 of 63.

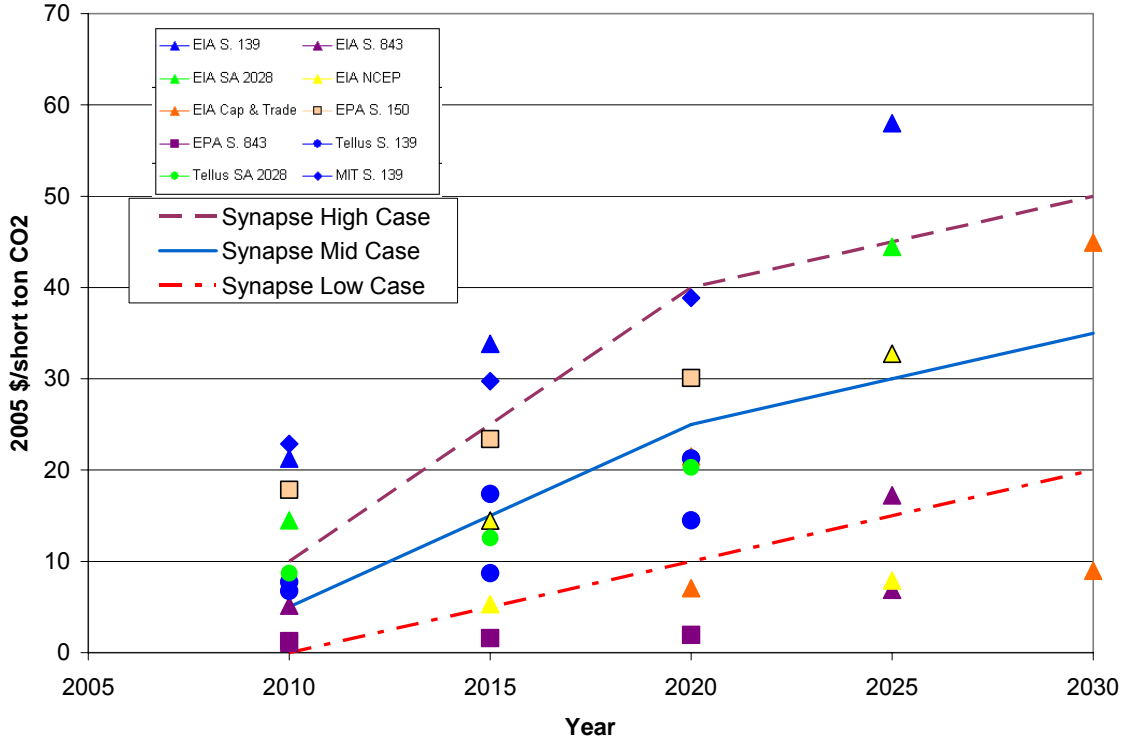
18 **Q. What is Synapse's forecast of CO₂ emissions prices?**

19 A. Synapse's forecast of future carbon dioxide emissions prices are presented in
20 Figure 3 below. This figure superimposes Synapse's forecast on the results of
21 other cost analyses of proposed federal policies.

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1

Figure 3. Synapse Carbon Dioxide Prices



2

3 **Q. What is Synapse’s levelized carbon price forecast?**

4 A. Synapse’s forecast, levelized¹³ over 20 years, 2011 – 2030, is provided in Table 3
5 below.

6 **Table 3: Synapse’s Levelized Carbon Price Forecast (2005\$/ton)**

| Low Case | Mid Case | High Case |
|----------|----------|-----------|
| \$8.23 | \$19.83 | \$31.43 |

¹³ A value that is “levelized” is the present value of the total cost converted to equal annual payments. Costs are levelized in real dollars (i.e., adjusted to remove the impact of inflation).

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1 **Q. Are the Synapse CO₂ price forecasts shown in Figure 3 based on any**
2 **independent modeling?**

3 A. Yes. Synapse did not perform any new modeling to develop our CO₂ price
4 forecasts. However, as shown in Table 6.2 on page 42 of Exhibit DAS-3, these
5 forecasts were based on the results of independent modeling prepared at the
6 Massachusetts Institute of Technology (“MIT”), the Energy Information
7 Administration of the Department of Energy (“EIA”), Tellus, and the U.S.
8 Environmental Protection Agency. (“EPA”)

9 **Q. Do the triangles, squares, circles, and diamond shapes in Figure 3 above**
10 **reflect the results of all of the scenarios examined in the MIT, EIA, EPA and**
11 **Tellus analyses upon which you relied?**

12 A. As a general rule, Synapse focused its attention on the modeler’s primary scenario
13 or presented high and low scenarios to bracket the range of results.

14 For example, the blue triangles in Figure 3 represent the results from EIA’s
15 modeling of the 2003 McCain Lieberman bill, S.139. Synapse used the results
16 from EIA’s primary case which reflected the bill’s provisions that allowed: (a)
17 allowance banking; (b) use of up to 15 percent offsets in Phase 1 (2010-2015) and
18 up to 10 percent offsets in Phase II (2016 and later years). The S.139 case also
19 assumed commercial availability of advanced nuclear plants and of geological
20 carbon sequestration technologies in the electric power industry.

21 Similarly, the blue diamonds in Figure 3 represent the results from MIT’s
22 modeling of the same 2003 McCain Lieberman bill, S.139. MIT examined 14
23 scenarios which examined the impact of factors such as the tightening of the cap
24 in Phase II, allowance banking, availability of outside credits, and assumptions
25 about GDP and emissions growth. Synapse included the results from Scenario 7
26 which included allowance banking and zero-cost credits, which effectively
27 relaxed the cap by 15% and 10% in Phase I and Phase II, respectively. Synapse

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1 selected this scenario as the closest to the S.139 legislative proposal since it
2 assumed that the cap was tightened in a second phase, as in Senate Bill 139.

3 At the same time, some of the studies only included a single scenario representing
4 the specific features of the legislative proposal being analyzed. For example, SA
5 2028, the Amended McCain Lieberman bill set the emissions cap at constant 2000
6 levels and allowed for 15 percent of the carbon emission reductions to be met
7 through offsets from non-covered sectors, carbon sequestration and qualified
8 international sources. EIA presented one scenario in its table for this policy. The
9 results from this scenario are presented in the green triangles in Figure 3.

10 **Q. Do you believe that technological improvements and policy designs will**
11 **reduce the cost of CO₂ emissions?**

12 A. Yes. Exhibit DAS-3 identifies a number of factors that will affect projected
13 allowance prices. These factors include: the base case emissions forecast;
14 whether there are complimentary policies such as aggressive investments in
15 energy efficiency and renewable energy independent of the emissions allowance
16 market; the policy implementation timeline; the reduction targets in a proposal;
17 program flexibility involving the inclusion of offsets (perhaps international) and
18 allowance banking; technological progress; and emissions co-benefits.¹⁴ In
19 particular, Synapse anticipates that technological innovation will temper
20 allowance prices in the out years of our forecast.

21 **Q. Do the Synapse CO₂ price forecasts presented in Figure 3 reflect the potential**
22 **for the inclusion of domestic offsets and, perhaps, international offsets in U.S.**
23 **carbon regulation policy?**

24 A. Yes. Even the Synapse High CO₂ price forecast is consistent with, and in some
25 cases lower than, the results of studies that assume the use of some levels of
26 offsets to meet mandated emission limits. For example, as shown in Figure 3, the

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1 highest price scenarios in the years 2015, 2020 and 2025 that we have included
2 were taken from the EIA and MIT modeling of the original and the amended
3 McCain-Lieberman proposals. Each of the prices for these scenarios shown in
4 Figure 3 reflect the allowed use of offsets.

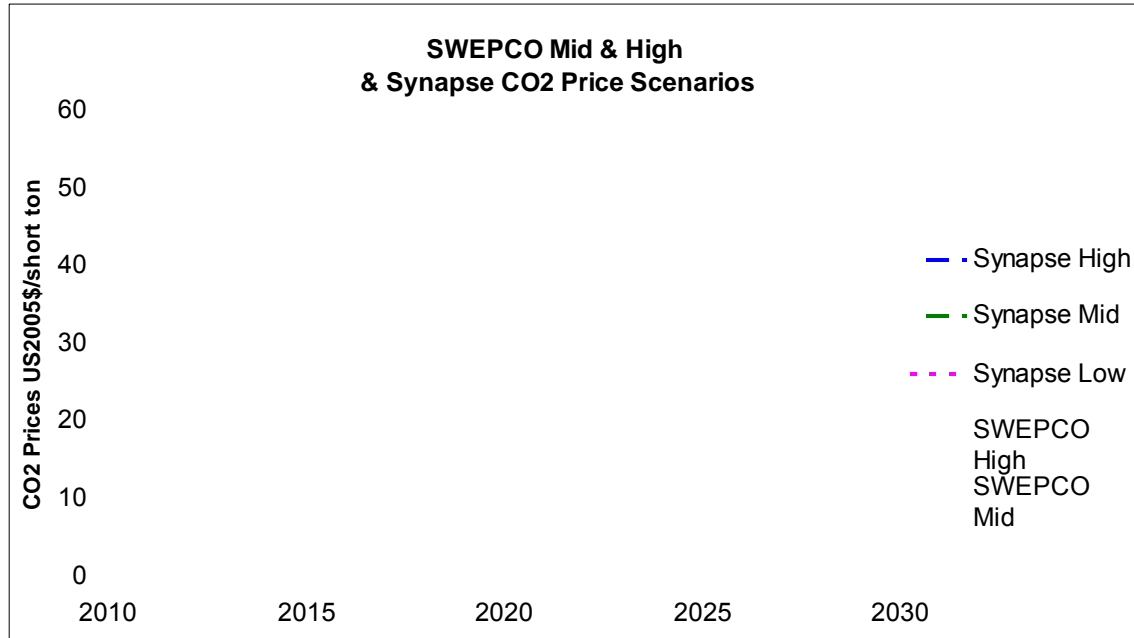
5 **Q. How do the Synapse CO₂ price forecasts compare to the forecast used by**
6 **SWEPCO in its recent modeling of the proposed Hempstead Project?**

7 A. The Synapse and SWEPCO CO₂ price forecasts are shown in Figure 4 below. As
8 can be seen from this Figure, the Company's medium CO₂ price forecast used by
9 SWEPCO in its recent modeling of the proposed Hempstead Project is
10 significantly lower than the Synapse Mid and High forecasts.

¹⁴ Exhibit DAS-3, at pages 46 to 49 of 63.

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1 **Figure 4: Synapse and SWEPCO Moderate and High CO₂ Price**
2 **Forecasts**



3

4 **Q. Please comment on the fact that several of the analyses from which Synapse**
5 **developed its CO₂ price forecast were prepared in 2003 and 2004.**

6 A. Synapse believes it is important for the Commission to rely on the most current
7 information available about future CO₂ emission allowance prices, as long as that
8 information is objective and credible. The analyses upon which Synapse relied
9 when we developed our CO₂ price forecasts were the most recent analyses
10 available when Synapse developed its CO₂ price forecasts back in about the
11 spring of 2006. However, the results of these analyses remain relevant today even
12 though some of the studies on which Synapse’s forecast were based are now
13 several years old.

14 Most importantly, as can be seen from Figure 3 earlier in this testimony, almost
15 all of the new greenhouse gas regulation bills that have been introduced in
16 Congress are significantly more stringent than the bills that were being considered
17 prior to the spring of 2006. As I will discuss below, the increased stringency of
18 current bills can be expected to lead to higher CO₂ emission allowance prices.

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1 The higher forecast natural gas prices that are being forecast today, as compared
2 to the natural gas price forecasts from 2003 or 2004, also can be expected to lead
3 to higher CO₂ emissions allowance prices.

4 **Q. SWEPCO witness Rose has cited a number of mitigating factors which will**
5 **offset the effect of CO₂ controls on coal plants.¹⁵ Do you agree with Mr. Rose**
6 **that natural gas demand can be expected to be higher due to CO₂ emission**
7 **regulations and, as a result, natural gas prices can be expected to be higher**
8 **than otherwise would be the case?**

9 A. Yes. However, the effect is very complicated and will depend on a number of
10 factors such as how much new natural gas capacity is built as a result of the
11 higher coal-plant operating costs due to the CO₂ emission allowance prices, how
12 much additional DSM and renewable alternatives become economic and are
13 added to the U.S. system, the levels and prices of any incremental natural gas
14 imports, and changes in the dispatching of the electric system.

15 **Q. Did you assume any higher natural gas prices when you requested that**
16 **SWEPCO rerun its STRATEGIST model to reflect Synapse's Mid and High**
17 **CO₂ price forecasts?**

18 A. Yes. As I will discuss in Section 4 below, we asked SWEPCO when it reran its
19 STRATEGIST model to reflect our Synapse Mid and High CO₂ price forecasts to
20 also assume higher natural gas in response to these CO₂ prices.

¹⁵ Supplemental Testimony of Judah L. Rose, at page 17, line 7, to page 18, line 19.

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1 **Q. Do you agree with Mr. Rose that it is possible that a new ultra-supercritical**
2 **coal-fired plant will be favored with the provision of extra CO₂ emission**
3 **allowance allocations that could mitigate or offset the impact of CO₂**
4 **regulations?**

5 A. No. It is unclear what provisions for grandfathering existing coal plants, if any,
6 will be adopted as part of future greenhouse gas legislation. At the same time, it is
7 unrealistic to expect that many or all of the new coal-fired plants currently being
8 proposed will be grandfathered because of the substantial reductions in CO₂
9 emissions from current levels that have to be made by 2050 just to stabilize
10 atmospheric concentrations of CO₂ at 450 ppm to 550 ppm.

11 Meeting these goals will require either a reduction in dependence on coal for
12 electricity generation or a very large investment in conversion of the current coal
13 generating fleet in the U.S. The only realistic way either of these is going to
14 happen is with a large marginal cost on greenhouse gas emissions such as a CO₂
15 tax or higher emissions allowance prices. It is not reasonable to expect that a new
16 ultra supercritical coal plant, like the Hempstead Project, which will substantially
17 increase the emissions of CO₂ into the atmosphere, will receive significant
18 emission allowances under any U.S. carbon regulation plan.

19 For example, the National Commission on Energy Policy has recently
20 recommended that “new coal plants built without [carbon capture and
21 sequestration] not be “grandfathered” (i.e., awarded free allowances) in any future
22 regulatory program to limit greenhouse gas emissions.”¹⁶ A report of an
23 interdisciplinary study at the Massachusetts Institute of Technology on *The*
24 *Future of Coal* similarly noted that:

¹⁶ *Energy Policy Recommendations to the President and the 110th Congress*, National Commission on Energy Policy, April 2007, at page 21.

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1 There is the possibility of a perverse incentive for increased early
2 investment in coal-fired power plants without capture, whether
3 SCPC or IGCC, in the expectation that the emissions from these
4 plants would potentially be “grandfathered” by the grant of free
5 CO₂ allowances as part of future carbon emissions regulations and
6 that (in unregulated markets) they would also benefit from the
7 increase in electricity prices that will accompany a carbon control
8 regime. Congress should act to close this “grandfathering”
9 loophole before it becomes a problem.¹⁷

10 Additionally, it has been proposed in Congress that new coal-fired plants would
11 be required to actually have carbon capture and sequestration technology. For
12 example, a bill by Massachusetts Senator Kerry would limit CO₂ emissions from
13 new coal-fired facilities to 285 lbs/MWh. New coal-fired facilities would be
14 defined as those that begin construction on or after April 26, 2007, and would
15 certainly include the proposed Hempstead Project.

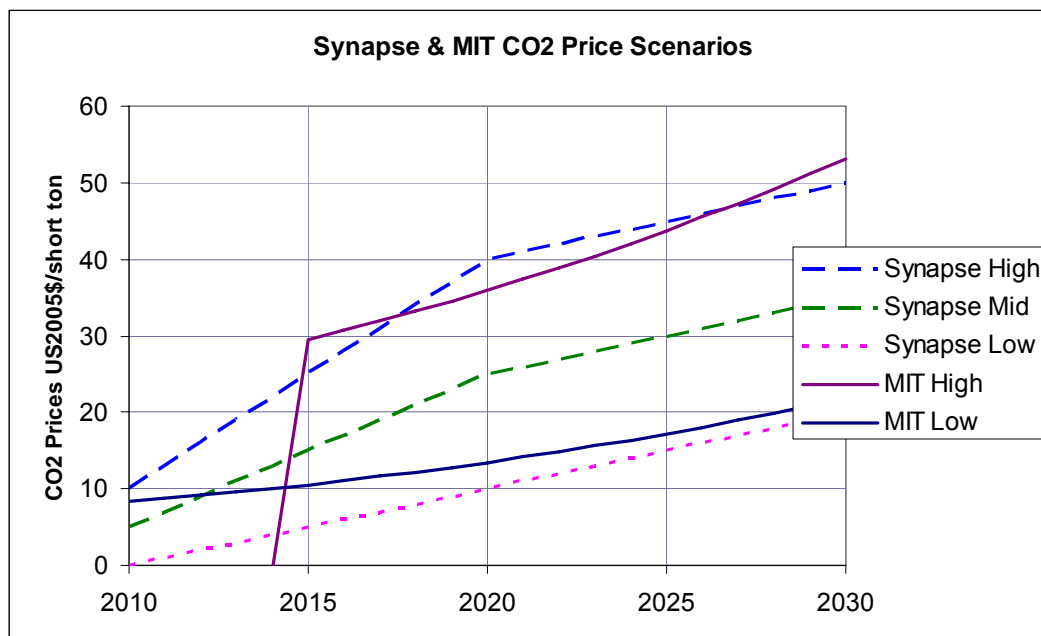
16 **Q. Have you seen any recent forecasts of future CO₂ emissions prices that are**
17 **similar to the Synapse forecast?**

18 A. Yes. The recent MIT study on *The Future of Coal* contained a set of CO₂
19 emission allowance price forecasts. Figure 5 below shows that the CO₂ price
20 forecasts in this study are very close to the High and Low Synapse forecasts.

¹⁷ *The Future of Coal, Options for a Carbon-Constrained World, an Interdisciplinary MIT Study*,
March 2007, at page (xiv).

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Figure 5: CO₂ Price Scenarios – Synapse & MIT March 2007 Future of Coal Study



Q. Do the Synapse carbon price forecasts presented in Figures 3 and 5 reflect the emission reduction targets in the bills that have been introduced in the current Congress?

A. No. Synapse developed its price forecasts late last spring based on the bills that had been introduced in Congress through that time. The bills that have been introduced in the current US Congress generally would mandate much more substantial emissions reductions than the bills that we considered when we developed our carbon price forecasts. Consequently, we believe that our forecasts are conservative.

Q. Have you seen any analyses of the CO₂ prices that would be required to achieve the much deeper reductions in CO₂ emissions that would be required under the bills currently under consideration in Congress?

A. Yes. *An Assessment of U.S. Cap-and-Trade Proposals* was recently issued by the MIT Joint Program on the Science and Policy of Global Change. This

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1 *Assessment* evaluated the impact of the greenhouse gas regulation bills that are
2 being considered in Congress.

3 Twenty nine scenarios were modeled in the *Assessment*. These scenarios reflected
4 differences in such factors as emission reduction targets (that is, reduce CO₂
5 emissions 80% from 1990 levels by 2050, reduce CO₂ emissions 50% from 1990
6 levels by 2050, or stabilize CO₂ emissions at 2008 levels), whether banking of
7 allowances was allowed, whether there would be international trading of
8 allowances, whether only developed countries or the U.S. pursue mitigation,
9 whether there would be safety valve prices adopted as part of greenhouse gas
10 regulations, etc.¹⁸

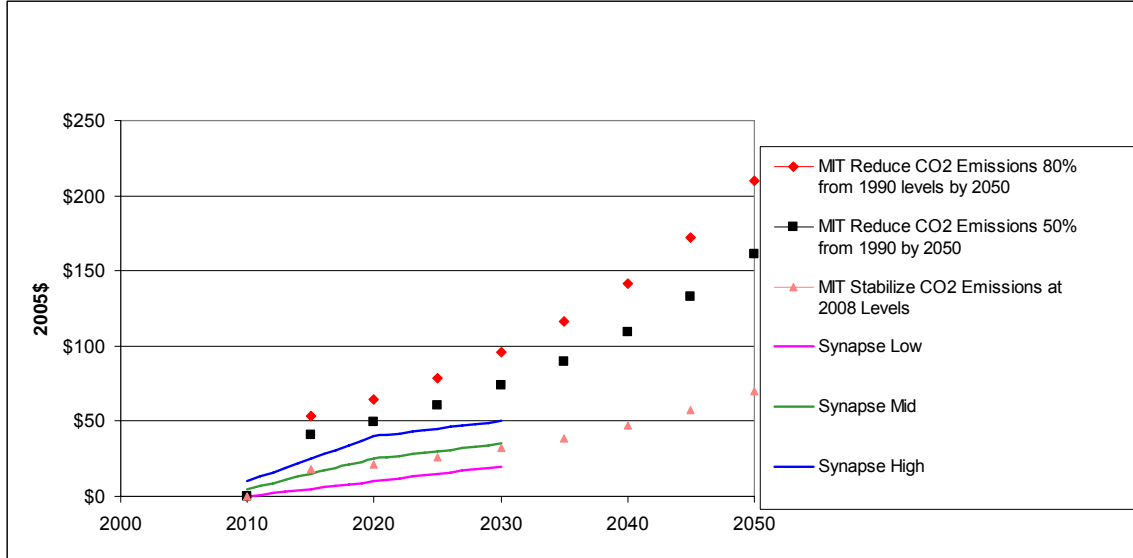
11 In general, the ranges of the projected CO₂ prices in these scenarios were
12 significantly higher than the range of CO₂ prices in the Synapse forecast. For
13 example, twelve of the 29 scenarios modeled by MIT projected higher CO₂ prices
14 in 2020 than the High Synapse forecast. Fourteen of the 29 scenarios projected
15 higher CO₂ prices in 2030 than the High Synapse forecast.

16 Figure 6 below compares the three Core Scenarios in the MIT *Assessment* with
17 the Synapse CO₂ price forecasts.

¹⁸ The scenarios examined in the MIT *Assessment of U.S. Cap-and-Trade Proposals* are listed in Exhibit DAS-4.

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1 **Figure 6: CO₂ Price Scenarios – Synapse and Core Scenarios in April**
2 **2007 MIT Assessment of U.S. Cap-and-Trade Proposals**



3

4 **Q. Did the recent MIT Assessment of U.S. Cap-and-Trade Proposals examine any**
5 **scenarios in which there would be “safety valve” prices similar to those in the**
6 **draft bill by Senator Bingaman on which SWEPCO has relied, at least in**
7 **part, for its moderate CO₂ price forecast?**

8 **A.** Yes. Although these scenarios forecast significantly lower CO₂ emissions
9 allowance prices than the Synapse Mid and High forecasts, the CO₂ emission
10 reductions achieved by 2050 in these scenarios were not close to the 60% to 80%
11 levels that are set forth as the goals in most of the legislation that has been
12 introduced in the current Congress.

13 The results of the recent MIT Assessment confirm the reasonableness of the range
14 of the current Synapse forecast of future CO₂ prices.

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1 **Q. How much additional CO₂ would the proposed Hempstead Project emit into**
2 **the atmosphere?**

3 A. The proposed Hempstead Project would emit approximately 4 to 5 million tons of
4 CO₂ annually.

5 **Q. What would be the annual incremental costs of greenhouse gas regulations to**
6 **SWEPCO and its customers?**

7 A. Assuming 3 million tons for SWEPCO's share of the CO₂, emissions from
8 Hempstead, the range of the incremental annual, levelized cost to the Company
9 and its ratepayers from greenhouse gas regulations would be:

10 SWEPCO Low CO₂ Case – 3 million tons of CO₂ ·

11 SWEPCO Mid CO₂ Case – 3 million tons of CO₂ ·

12 Synapse Low CO₂ Case - 3 million tons of CO₂ · \$8.23/ton = \$25 million

13 SWEPCO High CO₂ Case – 3 million tons of CO₂ ·

14 Synapse Mid CO₂ Case - 3 million tons of CO₂ · \$19.83/ton = \$59 million

15 Synapse High CO₂ Case - 3 million tons of CO₂ · \$31.43/ton = \$94 million

16 **4. Synapse's Evaluation of the Probable Economic Impact of the**
17 **Proposed Hempstead Project**

18 **Q. Please describe how you performed your evaluation of the probable**
19 **economic impact of SWEPCO's proposed Hempstead Project.**

20 A. Synapse has reviewed the modeling that SWEPCO had performed in its analyses
21 of alternatives for adding new generating capacity in 2011 and subsequent years.
22 Synapse also asked SWEPCO to perform a number of additional runs using the
23 STRATEGIST model to evaluate the probable economics of adding natural gas-
24 fired generating facilities, additional energy efficiency investments, or coal-fired

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1 facilities, such as the proposed Hempstead Project, to meet forecast system
2 demands.

3 **Q. Please describe the modeling analyses that Synapse asked SWEPCO to**
4 **undertake with the STRATEGIST model.**

5 A. Synapse asked SWEPCO to use the STRATEGIST model to produce new
6 optimized system expansion plans that reflected our Synapse Mid-CO₂ and High-
7 CO₂ price forecasts and that considered the potential for additional energy
8 efficiency investments. In the new runs, Synapse asked SWEPCO to compare
9 energy efficiency, combined cycle units, combustion turbines, and coal (i.e., the
10 Hempstead Project).

11 **Q. Why didn't Synapse ask SWEPCO to rerun the STRATEGIST model using**
12 **the Synapse Low-CO₂ price forecast?**

13 A. At the time Synapse asked SWEPCO to rerun the STRATEGIST analyses using
14 the Synapse Mid- and High-CO₂ price forecasts, Synapse expected that the
15 Company would also rerun the model to reflect its own Moderate and High-CO₂
16 forecasts. As can be seen in Figure 4, the Synapse Low-CO₂ price forecast is
17 generally between the Company's Mid- and High forecasts. Therefore, Synapse
18 didn't believe that it was necessary to ask SWEPCO to make any additional runs
19 with our Synapse Low-CO₂ price forecast.

20 **Q. Did you request that SWEPCO use higher natural gas prices in the**
21 **STRATEGIST runs that reflected the potential impact of CO₂ regulations?**

22 A. Yes. At Synapse's request, SWEPCO used its current high natural gas price
23 forecast for the STRATEGIST runs using the Synapse Mid-CO₂ price forecast.¹⁹
24 As Mr. Weaver notes in his Additional Supplemental Testimony of June 19, 2007,
25 this high forecast is about 50 percent to 60 percent higher than the Company's

¹⁹ Additional Supplemental Testimony of Scott C. Weaver, June 19, 2007, at page 17, lines 4-6.

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1 current base natural gas price forecast (about \$4/MMBtu higher).²⁰ Mr. Weaver
2 also noted that the Company's current base natural gas price forecast itself is
3 about 10 percent higher than previous forecasts due to the impact of an assumed
4 carbon dioxide allowance system.²¹

5 For the STRATEGIST runs using our High-CO₂ price forecast, we asked
6 SWEPCO to increase the assumed natural gas prices by another 4 percent above
7 the Company's current high natural gas price forecast.²²

8 **Q. What energy efficiency assumptions did you ask SWEPCO to include in the**
9 **new STRATEGIST runs?**

10 A. The energy efficiency assumptions that we requested SWEPCO to include are
11 described in the testimony of Mr. Jeff Loiter.

12 **Q. Did you identify any problems in the manner in which SWEPCO's new**
13 **STRATEGIST runs were undertaken as compared to the assumptions you**
14 **had asked SWEPCO to include?**

15 A. Yes. After receiving the input and output files from the new runs, Synapse
16 realized that, as a result of miscommunications, the energy efficiency assumptions
17 we had provided to SWEPCO had not been accurately represented. As a result,
18 the model had not selected any energy efficiency in any of the three plans (CC or
19 CT, Port CC and Hempstead) that SWEPCO provided to us. We subsequently
20 asked SWEPCO to rerun the STRATEGIST model with corrected assumptions.

21 The net result is that there are now two sets of STRATEGIST runs. One set is
22 without any additional energy efficiency investments and compares only new gas-
23 fired units (combined cycle and combustion turbines) with the proposed

²⁰ Id., at page 10, lines 5-6,

²¹ Id., at page 9, lines 14-17.

²² Id., at page 17, lines 6-8.

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1 Hempstead Project. The second set of STRATEGIST model runs includes
2 additional energy efficiency investments. We have designated these two sets of
3 runs as “DSM” and “no DSM.” in the following discussion and tables.

4 **Q. What were the results of the new STRATEGIST model runs that Synapse**
5 **asked SWEPCO to prepare using the Synapse Mid-CO₂ and High-CO₂ price**
6 **forecasts?**

7 A. The results of the new STRATEGIST model runs that SWEPCO prepared for
8 Staff are presented in Table 4 below. As I noted above, the phrase “No DSM”
9 refers to the runs in which the energy efficiency assumptions were incorrectly
10 input and in which, consequently, the model selected no energy efficiency. As I
11 noted above, the results of these runs are still useful because they can serve to
12 compare only new combined cycle units, combustion turbines, and coal units,
13 including the proposed Hempstead Project.

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1 **Table 4: Results of recent STRATEGIST model runs reflecting Synapse**
2 **Mid-CO₂ and High CO₂ Prices and SWEPCO Mid-CO₂**
3 **Prices²³**

| A | B | C | D | E | F |
|--|---------------|--------------|----------------|---|---|
| <i>CPW (\$000)</i> | | | | | |
| Run | CC or CT Plan | Port CC Plan | Hempstead Plan | Difference (Hempstead - CC or CT) | Difference (Hempstead - Port CC Plan) |
| Synapse Mid CO ₂ , no DSM | | | | | |
| Synapse High CO ₂ , no DSM | | | | | |
| Synapse Mid CO ₂ , DSM | | | | | |
| Synapse High CO ₂ , DSM | | | | | |
| SWEPCO Base CO ₂ , Base Commodities | | | | | |
| SWEPCO Base CO ₂ , Mid-High Commodities | | | | | |
| 4 SWEPCO Base CO ₂ , High Commodities | | | | | |

5 **Q. What are the results of SWEPCO’s supplemental STRATEGIST runs with**
6 **the Company’s Base or Mid CO₂ prices?**

7 A. As shown in Table 4 above, with SWEPCO’s Mid-CO₂ price forecast, Hempstead
8 is

10 **Q, In its new STRATEGIST runs, did SWEPCO allow the model to consider**
11 **adding any additional energy efficiency in any years as opposed to adding a**
12 **CC, a CT or a pulverized coal plant?**

13 A. No.

14 **Q. What was the effect of the energy efficiency when it was correctly**
15 **represented in the model?**

16 A. In the CC or CT Plan, as well as the best Port CC and Hempstead Plans, the
17 model took the highest level of cost-effective energy efficiency it could starting in
18 the first year energy efficiency was available, 2009. As Table 4 illustrates,

19 The level of energy efficiency

²³ The Summary Pages from SWEPCO’s recent STRATEGIST model runs are included in Exhibit DAS-5 (Confidential).

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1 savings did not eliminate the need to add capacity in 2011. However, it
2 significantly delayed the addition of units post-2011.

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All expansion plans for all of the model runs in Table 4 are included in Confidential Exhibit DAS-5.

9 **Q. Has Synapse examined whether these results remain the same if you consider**
10 **the potential uncertainty in natural gas prices?**

11 A. Yes. Synapse prepared a break-even natural gas price analysis in which we varied
12 the cost of natural gas above the levels that were already assumed in the new
13 STRATEGIST model runs that SWEPCO prepared using the Synapse Mid-CO₂
14 and High CO₂ price forecasts. The results of this break-even natural gas price
15 analysis are presented in Table 5 below:

16 **Table 5: Additional Increases in Natural Gas Prices that would be**
17 **required before Hempstead Project would be as economic as**
18 **the other alternatives**

| | Port CC Plan | CC or CT Plan |
|-------------------------------------|--------------|---------------|
| Mid Synapse CO ₂ Prices | 31% | 30% |
| High Synapse CO ₂ Prices | 52% | 39% |

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1 **Q. The Company's witnesses emphasize that the Commission should focus on**
2 **the benefits of the proposed Hempstead Project for fuel diversity.²⁴ Do you**
3 **agree that fuel diversity is an issue that the Commission should consider as it**
4 **evaluates the proposed Hempstead Project?**

5 **A.** Yes. I think fuel diversity is a very important consideration. However, I would
6 note that, as shown in Figure 7 below, SWEPCO already is heavily dependent
7 upon coal and natural gas-fired generation. As a result, the Company's
8 dependence upon these fossil fuels would continue whether it builds the
9 Hempstead Project or any of the natural gas-fired alternatives.

²⁴ For example, see the Supplemental Testimony of Venita McCellon-Allen, at page 7, lines 10-13.

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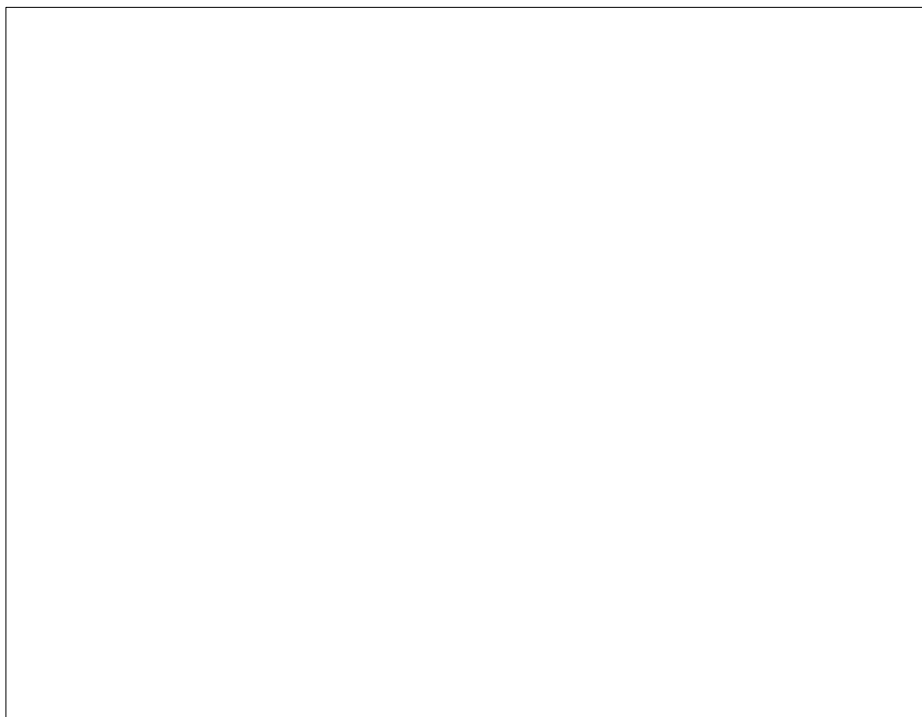
Figure 7a: SWEPCO Generation Mix 2007



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Figure 7b: SWEPCO Generation Mix 2015 With Hempstead Project



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1 As shown in Figure 7b., SWEPCO will continue to be very heavily dependent
2 upon coal-fired generation for energy if the Hempstead Project is built. As shown
3 in Figure 7c. below, SWEPCO will remain very heavily dependent upon coal-
4 fired generation even if it pursued the Port CC alternative plan it studied in the
5 recent STRATEGIST model analyses. Under that option, with natural gas-fired
6 produced energy would represent

7 **Figure 7c: SWEPCO Generation Mix 2015 With Port CC Plan**



8

9 **Q. Why is considering a company's generation mix the appropriate way to**
10 **evaluate its fuel diversity?**

11 A. Because the issue of fuel diversity is a matter of the amount of each type of fuel
12 that the company burns, and the cost consequences of burning that fuel. Simply
13 looking at its capacity mix does not offer any information about the utilization of
14 that capacity.

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1 **Q. Is fuel diversity a broader issue than merely deciding whether to build a coal-**
2 **or gas-fired generating unit?**

3 A. Yes, it should be. The issue that SWEPCO is presenting to the Commission is not
4 whether SWEPCO's fuel mix should be diversified – it is merely whether the
5 Company's next generating unit should be another new gas-fired unit or the
6 Hempstead Project. SWEPCO's generation mix will remain heavily coal-fired
7 whichever option is built.

8 **Q. How do investments in energy efficiency affect fuel diversity?**

9 A. Energy efficiency investments would provide real benefits in terms of fuel
10 diversity by reducing SWEPCO's dependency on either coal or natural gas.
11 Development of non- or low carbon-emitting renewable technology options also
12 would provide true fuel diversity.

13 **Q. SWEPCO's witnesses stress the uncertainties associated with the price of**
14 **natural gas and the cost of building new natural gas fired facilities. Are there**
15 **any similar uncertainties associated with the building and operation of new**
16 **coal-fired generating facilities?**

17 A. Yes. There are a number of potential uncertainties associated with coal-fired
18 facilities that the Commission should consider as it evaluates the proposed
19 Hempstead Project. The primary uncertainty is associated with the potential for
20 greenhouse gas regulations. As I have noted earlier in this testimony, there is a
21 significant potential that substantial CO₂ emissions allowance prices will be set as
22 part of a cap-and-trade plan for reducing carbon dioxide emissions by perhaps
23 60% to 80% by the middle of this century.

24 The serious deliverability problems that have been experienced with coal from the
25 Powder River Basin ("PRB") since May 2005 and the disputes that have arisen
26 between coal shippers, utilities and the railroads that deliver coal from the Powder
27 River Basin represent uncertainties to be considered. Such fuel supply disruptions

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1 could affect plant operating performance and fuel prices. There is likely to be
2 increased demand for Powder River Basin coal and for transportation delivery
3 capacity for that coal if all or even much of the new coal capacity that SWEPCO
4 witness Rose discusses actually is built.²⁵ This increased demand for PRB coal
5 and related rail transportation could lead to higher coal and transportation prices.

6 **A. Does Mr. Weaver’s Additional Supplemental or Rebuttal Testimony discuss**
7 **the results of any STRATEGIST model runs that used the Company’s High-**
8 **CO₂ price forecast?**

9 A. Yes. In his Rebuttal Testimony, Mr. Weaver presents the results of what he terms
10 a “SWEPCO High CO₂, Correlated Commodity” run. As shown in Exhibit SCW-
11 R1-2, the results of this run show that what he terms CT and the CC Plans each
12 have lower levelized costs than the Hempstead Plan.

13 **Q. What impact would SWEPCO’s Mid-CO₂ price forecast have on the**
14 **emissions of CO₂ from the Company’s generating facilities?**

15 A. As shown in Figure 8 below, the results of each of SWEPCO’s new
16 STRATEGIST runs with its Moderate CO₂ price forecast show that, if the
17 Hempstead Project is built, the levels of the CO₂ emissions from the Company’s
18 generating facilities

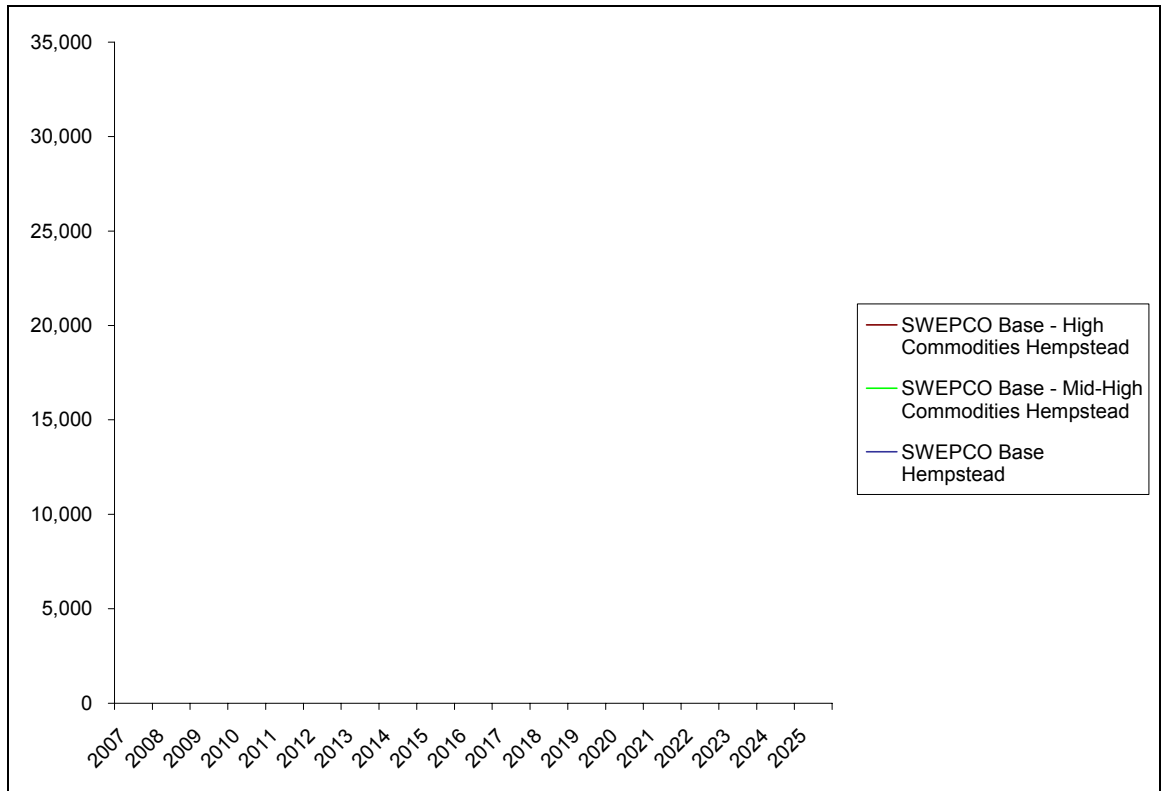
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²⁵ See Supplemental Testimony of Judah L. Rose, at page 13, line 22, to page 14, line 11.

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Figure 8. SWEPCO System CO₂ Emissions (from new STRATEGIST Model runs with Company's Moderate CO₂ Price Forecast)



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4 I do not believe that these increases in CO₂ emissions would be likely in light of
5 the reductions being proposed in the bills and proposals currently being
6 considered by the U.S. Congress and could have a significant adverse economic
7 impact on SWEPCO's customers when CO₂ regulations are adopted and
8 implemented.

9 **Q. What impact would the use of SWEPCO's High CO₂ prices have on the**
10 **probable economic impact of the proposed Hempstead Project?**

11 A. Staff asked SWEPCO to rerun its STRATEGIST model to reflect the Company's
12 High CO₂ price forecast. As I noted earlier, SWEPCO has provided the results of
13 a run the reflected the High CO₂ price forecast and the Company's base natural
14 gas price forecast. The results of this run showed that the

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The results of the “SWEPCO High CO₂, Correlated Commodity” run, presented in Exhibit SCW-R-1-2,

Q. Mr. Weaver argues in his Additional Supplemental Testimony that the cost of the combined cycle and combustion turbine alternatives in the Company’s new STRATEGIST runs may be too low.²⁶ Do you have any comment on this testimony?

A. Yes. Synapse certainly believes that the Company should use the most realistic and reasonable forecasts for the capital and operating costs of all of the alternatives considered in its planning studies. However, here it does not appear that the use of a higher capital cost for the combined cycle or combustion turbine alternatives would reverse the results of the modeling analyses and show that the Hempstead Project would be the more economic option.

For example, Mr. Weaver has said that a 20 percent increase in the assumed capital cost for a combined cycle generating unit would increase the CPW revenue requirement of the plans without the Hempstead Project by \$101 million. Thus, a 20 percent increase, or even a 40 percent increase, in the assumed capital cost of a replacement combined cycle unit would not reverse the results of the new STRATEGIST runs using the Synapse Mid- or High-CO₂ price forecasts.

²⁶ Additional Supplemental Testimony of Scott C. Weaver, at page 13, line 12, to page 15, line 14.

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1 **Q. Should the Commission rely on the ICF modeling analyses discussed by**
2 **SWEPCO witnesses Weaver and Rose?**

3 A. No. The Commission should not rely on the results of the ICF modeling for many
4 reasons.

5 First, SWEPCO has done its own system-specific planning, the inputs and outputs
6 of which were made readily available to Staff.

7 Second, ICF does not allow review of the model's inputs and outputs except at its
8 offices in Virginia. This substantially limits any party's ability to evaluate the
9 reasonableness of all of the assumptions used by ICF or of the results of its
10 modeling. Synapse was not able to independently examine and assess the inputs
11 and assumptions of the ICF modeling. Consequently, it is not appropriate to base
12 any decisions with respect to new resource additions on the ICF modeling because
13 it cannot be thoroughly reviewed and evaluated by the Commission or the Staff.

14 Third, from what we have seen of the IPM model in a number of proceedings, it is
15 not appropriate for utility-specific resource planning. IPM does not represent
16 specific utility systems -- instead, when the model makes decisions about capacity
17 additions, it does so on the basis of whether the new capacity is cost effective for
18 a large multi-utility region.

19 Fourth, ICF has not included energy efficiency as an option in any of the studies it
20 has prepared for SWEPCO.

21 Fifth, IPM does not model all years in the planning period

22 Sixth, it appears that ICF did not determine an optimized capacity mix (CCs and
23 CTs) in the all gas and mixed portfolios in its original studies. For example, Mr.

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1 Rose has testified that in its original modeling analyses, ICF assumed that all gas
2 capacity additions after 2011 would be combustion turbines.²⁷

3 Seventh, there is no evidence that ICF optimized the capacity mixes in the
4 portfolios it examined as part of the additional analyses it recently prepared.
5 Instead, these additional analyses merely compare a plan with the Hempstead
6 Project in 2011 and a combined cycle plant in 2015 with a plan that reverses the
7 in-service dates for these facilities.

8 Finally, the results of ICF's recent additional analyses are strongly influenced by
9 a number of speculative assumptions concerning trends in the future construction
10 costs of new combined cycle facilities and the likelihood that new coal and gas-
11 fired on line before 2013 could be allocated substantial numbers of zero cost CO₂
12 emission allowances.

13 **Q. Does this conclude your testimony?**

14 **A. Yes.**

²⁷ Supplemental Testimony of Judah L. Rose, at page 33, lines 15-18.

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SUMMARY

I have worked for thirty years as a consultant and attorney on complex management, engineering, and economic issues, primarily in the field of energy. This work has involved conducting technical investigations, preparing economic analyses, presenting expert testimony, providing support during all phases of regulatory proceedings and litigation, and advising clients during settlement negotiations. I received undergraduate and advanced engineering degrees from the Massachusetts Institute of Technology and Stanford University, respectively, and a law degree from Stanford Law School

PROFESSIONAL EXPERIENCE

Electric System Reliability - Evaluated whether new transmission lines and generation facilities were needed to ensure adequate levels of system reliability. Investigated the causes of distribution system outages and inadequate service reliability. Examined the reasonableness of utility system reliability expenditures.

Transmission Line Siting – Examined the need for proposed transmission lines. Analyzed whether proposed transmission lines could be installed underground. Worked with clients to develop alternate routings for proposed lines that would have reduced impacts on the environment and communities.

Power Plant Operations and Economics - Investigated the causes of more than one hundred power plant and system outages, equipment failures, and component degradation, determined whether these problems could have been anticipated and avoided, and assessed liability for repair and replacement costs. Examined power plant operating, maintenance, and capital costs. Analyzed power plant operating data from the NERC Generating Availability Data System (GADS). Evaluated utility plans for and management of the replacement of major power plant components. Assessed the adequacy of power plant quality assurance and maintenance programs. Examined the selection and supervision of contractors and subcontractors.

Power Plant Repowering - Evaluated the environmental, economic and reliability impacts of rebuilding older, inefficient generating facilities with new combined cycle technology.

Power Plant Air Emissions – Investigated whether proposed generating facilities would provide environmental benefits in terms of reduced emissions of NO_x, SO₂ and CO₂. Examined whether new state emission standards would lead to the retirement of existing power plants or otherwise have an adverse impact on electric system reliability.

Power Plant Water Use – Examined power plant repowering as a strategy for reducing water consumption at existing electric generating facilities. Analyzed the impact of converting power plants from once-through to closed-loop systems with cooling towers on plant revenues and electric system reliability. Evaluated the potential impact of the EPA’s Proposed Clean Water Act Section 316(b) Rule for Cooling Water Intake Structures at existing power plants.

Nuclear Power - Examined the impact of the nuclear power plant life extensions and power uprates on decommissioning costs and collections policies. Evaluated utility decommissioning cost estimates and cost collection plans. Examined the reasonableness of utility decisions to sell nuclear power assets and evaluated the value received as a result of the auctioning of those plants. Investigated the significance of the increasing ownership of nuclear power plants by multiple tiered holding companies with limited liability company subsidiaries. Investigated the potential safety consequences of nuclear power plant structure, system, and component failures.

Electric Industry Regulation and Markets - Investigated whether new generating facilities that were built for a deregulated subsidiary should be included in the rate base of a regulated utility. Evaluated the reasonableness of proposed utility power purchase agreements with deregulated affiliates. Investigated the prudence of utility power purchases in deregulated markets. Examined whether generating facilities experienced more outages following the transition to a deregulated wholesale market in New England. Evaluated the reasonableness of nuclear and fossil plant sales, auctions, and power purchase agreements. Analyzed the impact of proposed utility mergers on market power. Assessed the reasonableness of contract provisions and terms in proposed power supply agreements.

Economic Analysis - Analyzed the costs and benefits of energy supply options. Examined the economic and system reliability consequences of the early retirement of major electric generating facilities. Evaluated whether new electric generating facilities are used and useful. Quantified replacement power costs and the increased capital and operating costs due to identified instances of mismanagement.

Expert Testimony - Presented the results of management, technical and economic analyses as testimony in more than ninety proceedings before regulatory boards and commissions in twenty three states, before two federal regulatory agencies, and in state and federal court proceedings.

Litigation and Regulatory Support - Participated in all aspects of the development and preparation of case presentations on complex management, technical, and economic issues. Assisted in the preparation and conduct of pre-trial discovery and depositions. Helped identify and prepare expert witnesses. Aided the preparation of pre-hearing petitions and motions and post-hearing briefs and appeals. Assisted counsel in preparing for hearings and oral arguments. Advised counsel during settlement negotiations.

TESTIMONY, AFFIDAVITS, DEPOSITIONS AND COMMENTS

North Dakota Public Service Commission (Case Nos. PU-06-481 and 482)

Whether the participation of Otter Tail Power Company and Montana-Dakota Utilities in the Big Stone II Generating Project is prudent.

Indiana Utility Regulatory Commission (Cause No. 43114) – May 2007

The appropriate carbon dioxide (“CO₂”) emissions prices that should be used to analyze the relative economic costs and benefits of Duke Energy Indiana and Vectren Energy Delivery of Indiana’s proposed Integrated Gasification Combined Cycle Facility and whether Duke and Vectren have appropriately reflected the capital cost of the proposed facility in their modeling analyses.

Public Service Commission of Wisconsin (Docket No. 6630-EI-113) – March 2007

Whether the proposed sale of the Point Beach Nuclear Plant to FPL Energy Point Beach, LLC, is in the interest of the ratepayers of Wisconsin Electric Power Company.

Florida Public Service Commission (Docket No. 070098-EI) – March 2007

Florida Light & Power Company’s need for and the economics of the proposed Glades Power Park.

Michigan Public Service Commission (Case No. 14992-U) – December 2006

The reasonableness of the proposed sale of the Palisades Nuclear Power Plant.

Minnesota Public Utilities Commission (Docket No. CN-05-619) – November 2006

Whether the co-owners of the proposed Big Stone II coal-fired generating plant have appropriately reflected the potential for the regulation of greenhouse gases in their analyses of the facility; and whether the proposed project is a lower cost alternative than renewable options, conservation and load management.

North Carolina Utilities Commission (Docket No. E-7, Sub 790) – September 2006 and January 2007

Duke’s need for two new 800 MW coal-fired generating units and the relative economics of adding these facilities as compared to other available options including energy efficiency and renewable technologies.

New Mexico Public Regulatory Commission (Case No. 05-00275-UT) – September 2006

Report to the New Mexico Commission on whether the settlement value of the adjustment for moving the 141 MW Afton combustion turbine merchant plant into rate base is reasonable.

Arizona Corporation Commission (Docket No. E-01345A-0816) – August and September 2006

Whether APS’s acquisition of the Sundance Generating Station was prudent and the reasonableness of the amounts that APS requested for fossil plant O&M.

U.S. District Court for the District of Montana (Billings Generation, Inc. vs. Electrical Controls, Inc, et al., CV-04-123-BLG-RFC) – August 2006

Quantification of plaintiff's business losses during an extended power plant outage and plaintiff's business earnings due to the shortening and delay of future plant outages.
[Confidential Expert Report]

Deposition in South Dakota Public Utility Commission Case No. EL05-022 – June 14, 2006

South Dakota Public Utility Commission (Case No. EL05-022) – May and June 2006

Whether the co-owners of the proposed Big Stone II coal-fired generating plant have appropriately reflected the potential for the regulation of greenhouse gases in their analyses of the alternatives to the proposed facility; the need and timing for new supply options in the co-owners' service territories; and whether there are alternatives to the proposed facility that are technically feasible and economically cost-effective.

Georgia Public Service Commission (Docket No. 22449-U) – May 2006

Georgia Power Company's request for an accounting order to record early site permitting and construction operating license costs for new nuclear power plants.

California Public Utilities Commission (Dockets Nos. A.05-11-008 and A.05-11-009) – April 2006

The estimated costs for decommissioning the Diablo Canyon, SONGS 2&3 and Palo Verde nuclear power plants and the annual contributions that are needed from ratepayers to assure that adequate funds will be available to decommission these plants at the projected ends of their service lives.

New Jersey Board of Public Utilities (Docket No. EM05020106) – November and December 2005 and March 2006

Joint Testimony with Bob Fagan and Bruce Biewald on the market power implications of the proposed merger between Exelon Corp. and Public Service Enterprise Group.

Virginia State Corporation Commission (Case No. PUE-2005-00018)– November 2005

The siting of a proposed 230 kV transmission line.

Iowa Utility Board (Docket No. SPU-05-15) – September and October 2005

The reasonableness of IPL's proposed sale of the Duane Arnold Energy Center nuclear plant.

New York State Department of Environmental Conservation (DEC #3-3346-00011/00002) – October 2005

The likely profits that Dynegy will earn from the sale of the energy and capacity of the Danskammer Generating Facility if the plant is converted from once-through to closed-cycle cooling with wet towers or to dry cooling.

Arkansas Public Service Commission (Docket 05-042-U) – July and August 2005

Arkansas Electric Cooperative Corporation's proposed purchase of the Wrightsville Power Facility.

Maine Public Utilities Commission (Docket No. 2005-17) – July 2005

Joint testimony with Peter Lanzalotta and Bob Fagan evaluating Eastern Maine Electric Cooperative's request for a CPCN to purchase 15 MW of transmission capacity from New Brunswick Power.

Federal Energy Regulatory Commission (Docket No. EC05-43-0000) – April and May 2005

Joint Affidavit and Supplemental Affidavit with Bruce Biewald on the market power aspects of the proposed merger of Exelon Corporation and Public Service Enterprise Group, Inc.

Maine Public Utilities Commission (Docket No. 2004-538 Phase II) – April 2005

Joint testimony with Peter Lanzalotta and Bob Fagan evaluating Maine Public Service Company's request for a CPCN to purchase 35 MW of transmission capacity from New Brunswick Power.

Maine Public Utilities Commission (Docket No. 2004-771) – March 2005

Analysis of Bangor Hydro-Electric's Petition for a Certificate of Public Convenience and Necessity to construct a 345 kV transmission line

**United States District Court for the Southern District of Ohio, Eastern Division
(Consolidated Civil Actions Nos. C2-99-1182 and C2-99-1250)**

Whether the public release of company documents more than three years old would cause competitive harm to the American Electric Power Company. [Confidential Expert Report]

New Jersey Board of Public Utilities (Docket No. EO03121014) – February 2005

Whether the Board of Public Utilities can halt further collections from Jersey Central Power & Light Company's ratepayers because there already are adequate funds in the company's decommissioning trusts for the Three Mile Island Unit No. 2 Nuclear Plant to allow for the decommissioning of that unit without endangered the public health and safety.

Maine Public Utilities Commission (Docket No. 2004-538) – January and March 2005

Analysis of Maine Public Service Company's request to construct a 138 kV transmission line from Limestone, Maine to the Canadian Border.

**California Public Utilities Commission (Application No. AO4-02-026) – December 2004
and January 2005**

Southern California Edison's proposed replacement of the steam generators at the San Onofre Unit 2 and Unit 3 nuclear power plants and whether the utility was imprudent for failing to initiate litigation against Combustion Engineering due to defects in the design of and materials used in those steam generators.

**United States District Court for the Southern District of Indiana, Indianapolis Division
(Civil Action No. IP99-1693) – December 2004**

Whether the public release of company documents more than three years old would cause competitive harm to the Cinergy Corporation. [Confidential Expert Report]

California Public Utilities Commission (Application No. AO4-01-009) – August 2004

Pacific Gas & Electric's proposed replacement of the steam generators at the Diablo Canyon nuclear power plant and whether the utility was imprudent for failing to initiate litigation against Westinghouse due to defects in the design of and materials used in those steam generators.

Public Service Commission of Wisconsin (Docket No. 6690-CE-187) – June, July and August 2004

Whether Wisconsin Public Service Corporation's request for approval to build a proposed 515 MW coal-burning generating facility should be granted.

Public Service Commission of Wisconsin (Docket No. 05-EI-136) – May and June 2004

Whether the proposed sale of the Kewaunee Nuclear Power Plant to a subsidiary of an out-of-state holding company is in the public interest.

Connecticut Siting Council (Docket No. 272) – May 2004

Whether there are technically viable alternatives to the proposed 345-kV transmission line between Middletown and Norwalk Connecticut and the length of the line that can be installed underground.

Arizona Corporation Commission (Docket No. E-01345A-03-0437 – February 2004

Whether Arizona Public Service Company should be allowed to acquire and include in rate base five generating units that were built by a deregulated affiliate.

State of Rhode Island Energy Facilities Siting Board (Docket No. SB-2003-1) – February 2004

Whether the cost of undergrounding a relocated 115kV transmission line would be eligible for regional cost socialization.

State of Maine Department of Environmental Protection (Docket No. A-82-75-0-X) – December 2003

The storage of irradiated nuclear fuel in an Independent Spent Fuel Storage Installation (ISFSI) and whether such an installation represents an air pollution control facility.

Rhode Island Public Utility Commission (Docket No. 3564) – December 2003 and January 2004

Whether Narragansett Electric Company should be required to install a relocated 115kV transmission line underground.

New York State Board on Electric Generation Siting and the Environment (Case No. 01-F-1276) – September, October and November 2003

The environmental, economic and system reliability benefits that can reasonably be expected from the proposed 1,100 MW TransGas Energy generating facility in Brooklyn, New York.

Wisconsin Public Service Commission (Case 6690-UR-115209) - September and October 2003

The reasonableness of Wisconsin Public Service Corporation's decommissioning cost collections for the Kewaunee Nuclear Plant.

Oklahoma Corporation Commission (Cause No. 2003-121) – July 2003

Whether Empire District Electric Company properly reduced its capital costs to reflect the write-off of a portion of the cost of building a new electric generating facility.

Arkansas Public Service Commission (Docket 02-248-U) – May 2003

Entergy's proposed replacement of the steam generators and the reactor vessel head at the ANO Unit 1 Steam Generating Station.

Appellate Tax Board, State of Massachusetts (Docket No C258405-406) – May 2003

The physical nature of electricity and whether electricity is a tangible product or a service.

Maine Public Utilities Commission (Docket 2002-665-U) – April 2003

Analysis of Central Maine Power Company's proposed transmission line for Southern York County and recommendation of alternatives.

Massachusetts Legislature, Joint Committees on Government Regulations and Energy – March 2003

Whether PG&E can decide to permanently retire one or more of the generating units at its Salem Harbor Station if it is not granted an extension beyond October 2004 to reduce the emissions from the Station's three coal-fired units and one oil-fired unit.

New Jersey Board of Public Utilities (Docket No. ER02080614) – January 2003

The prudence of Rockland Electric Company's power purchases during the period August 1, 1999 through July 31, 2002.

New York State Board on Electric Generation Siting and the Environment (Case No. 00-F-1356) – September and October 2002 and January 2003

The need for and the environmental benefits from the proposed 300 MW Kings Park Energy generating facility.

Arizona Corporation Commission (Docket No. E-01345A-01-0822) – March 2002

The reasonableness of Arizona Public Service Company's proposed long-term power purchase agreement with an affiliated company.

New York State Board on Electric Generation Siting and the Environment (Case No. 99-F-1627) – March 2002

Repowering NYPA's existing Poletti Station in Queens, New York.

Connecticut Siting Council (Docket No. 217) – March 2002, November 2002, and January 2003

Whether the proposed 345-kV transmission line between Plumtree and Norwalk substations in Southwestern Connecticut is needed and will produce public benefits.

Vermont Public Service Board (Case No. 6545) – January 2002

Whether the proposed sale of the Vermont Yankee Nuclear Plant to Entergy is in the public interest of the State of Vermont and Vermont ratepayers.

Connecticut Department of Public Utility Control (Docket 99-09-12RE02) – December 2001

The reasonableness of adjustments that Connecticut Light and Power Company seeks to make to the proceeds that it received from the sale of Millstone Nuclear Power Station.

Connecticut Siting Council (Docket No. 208) – October 2001

Whether the proposed cross-sound cable between Connecticut and Long Island is needed and will produce public benefits for Connecticut consumers.

New Jersey Board of Public Utilities (Docket No. EM01050308) - September 2001

The market power implications of the proposed merger between Conectiv and Pepco.

Illinois Commerce Commission Docket No. 01-0423 – August, September, and October 2001

Commonwealth Edison Company's management of its distribution and transmission systems.

New York State Board on Electric Generation Siting and the Environment (Case No. 99-F-1627) - August and September 2001

The environmental benefits from the proposed 500 MW NYPA Astoria generating facility.

New York State Board on Electric Generation Siting and the Environment (Case No. 99-F-1191) - June 2001

The environmental benefits from the proposed 1,000 MW Astoria Energy generating facility.

New Jersey Board of Public Utilities (Docket No. EM00110870) - May 2001

The market power implications of the proposed merger between FirstEnergy and GPU Energy.

Connecticut Department of Public Utility Control (Docket 99-09-12RE01) - November 2000

The proposed sale of Millstone Nuclear Station to Dominion Nuclear, Inc.

Illinois Commerce Commission (Docket 00-0361) - August 2000

The impact of nuclear power plant life extensions on Commonwealth Edison Company's decommissioning costs and collections from ratepayers.

Vermont Public Service Board (Docket 6300) - April 2000

Whether the proposed sale of the Vermont Yankee nuclear plant to AmerGen Vermont is in the public interest.

Massachusetts Department of Telecommunications and Energy (Docket 99-107, Phase II) - April and June 2000

The causes of the May 18, 1999, main transformer fire at the Pilgrim generating station.

Connecticut Department of Public Utility Control (Docket 00-01-11) - March and April 2000

The impact of the proposed merger between Northeast Utilities and Con Edison, Inc. on the reliability of the electric service being provided to Connecticut ratepayers.

Connecticut Department of Public Utility Control (Docket 99-09-12) - January 2000

The reasonableness of Northeast Utilities plan for auctioning the Millstone Nuclear Station.

Connecticut Department of Public Utility Control (Docket 99-08-01) - November 1999

Generation, Transmission, and Distribution system reliability.

Illinois Commerce Commission (Docket 99-0115) - September 1999

Commonwealth Edison Company's decommissioning cost estimate for the Zion Nuclear Station.

Connecticut Department of Public Utility Control (Docket 99-03-36) - July 1999

Standard offer rates for Connecticut Light & Power Company.

Connecticut Department of Public Utility Control (Docket 99-03-35) - July 1999

Standard offer rates for United Illuminating Company.

Connecticut Department of Public Utility Control (Docket 99-02-05) - April 1999

Connecticut Light & Power Company stranded costs.

Connecticut Department of Public Utility Control (Docket 99-03-04) - April 1999

United Illuminating Company stranded costs.

Maryland Public Service Commission (Docket 8795) - December 1998

Future operating performance of Delmarva Power Company's nuclear units.

Maryland Public Service Commission (Dockets 8794/8804) - December 1998

Baltimore Gas and Electric Company's proposed replacement of the steam generators at the Calvert Cliffs Nuclear Power Plant. Future performance of nuclear units.

Indiana Utility Regulatory Commission (Docket 38702-FAC-40-S1) - November 1998

Whether the ongoing outages of the two units at the D.C. Cook Nuclear Plant were caused or extended by mismanagement.

Arkansas Public Service Commission (Docket 98-065-U) - October 1998

Entergy's proposed replacement of the steam generators at the ANO Unit 2 Steam Generating Station.

Massachusetts Department of Telecommunications and Energy (Docket 97-120) - October 1998

Western Massachusetts Electric Company's Transition Charge. Whether the extended 1996-1998 outages of the three units at the Millstone Nuclear Station were caused or extended by mismanagement.

Connecticut Department of Public Utility Control (Docket 98-01-02) - September 1998

Nuclear plant operations, operating and capital costs, and system reliability improvement costs.

Illinois Commerce Commission (Docket 97-0015) - May 1998

Whether any of the outages of Commonwealth Edison Company's twelve nuclear units during 1996 were caused or extended by mismanagement. Whether equipment problems, personnel performance weaknesses, and program deficiencies could have been avoided or addressed prior to plant outages. Outage-related fuel and replacement power costs.

Public Service Commission of West Virginia (Case 97-1329-E-CN) - March 1998

The need for a proposed 765 kV transmission line from Wyoming, West Virginia, to Cloverdate, Virginia.

Illinois Commerce Commission (Docket 97-0018) - March 1998

Whether any of the outages of the Clinton Power Station during 1996 were caused or extended by mismanagement.

Connecticut Department of Public Utility Control (Docket 97-05-12) - October 1997

The increased costs resulting from the ongoing outages of the three units at the Millstone Nuclear Station.

New Jersey Board of Public Utilities (Docket ER96030257) - August 1996

Replacement power costs during plant outages.

Illinois Commerce Commission (Docket 95-0119) - February 1996

Whether any of the outages of Commonwealth Edison Company's twelve nuclear units during 1994 were caused or extended by mismanagement. Whether equipment problems, personnel performance weaknesses, and program deficiencies could have been avoided or addressed prior to plant outages. Outage-related fuel and replacement power costs.

Public Utility Commission of Texas (Docket 13170) - December 1994

Whether any of the outages of the River Bend Nuclear Station during the period October 1, 1991, through December 31, 1993, were caused or extended by mismanagement.

Public Utility Commission of Texas (Docket 12820) - October 1994

Operations and maintenance expenses during outages of the South Texas Nuclear Generating Station.

Wisconsin Public Service Commission (Cases 6630-CE-197 and 6630-CE-209) - September and October 1994

The reasonableness of the projected cost and schedule for the replacement of the steam generators at the Point Beach Nuclear Power Plant. The potential impact of plant aging on future operating costs and performance.

Public Utility Commission of Texas (Docket 12700) - June 1994

Whether El Paso Electric Company's share of Palo Verde Unit 3 was needed to ensure adequate levels of system reliability. Whether the Company's investment in Unit 3 could be expected to generate cost savings for ratepayers within a reasonable number of years.

Arizona Corporation Commission (Docket U-1551-93-272) - May and June 1994

Southwest Gas Corporation's plastic and steel pipe repair and replacement programs.

Connecticut Department of Public Utility Control (Docket 92-04-15) - March 1994

Northeast Utilities management of the 1992/1993 replacement of the steam generators at Millstone Unit 2.

Connecticut Department of Public Utility Control (Docket 92-10-03) - August 1993

Whether the 1991 outage of Millstone Unit 3 as a result of the corrosion of safety-related plant piping systems was due to mismanagement.

Public Utility Commission of Texas (Docket 11735) - April and July 1993

Whether any of the outages of the Comanche Peak Unit 1 Nuclear Station during the period August 13, 1990, through June 30, 1992, were caused or extended by mismanagement.

Connecticut Department of Public Utility Control (Docket 91-12-07) - January 1993 and August 1995

Whether the November 6, 1991, pipe rupture at Millstone Unit 2 and the related outages of the Connecticut Yankee and Millstone units were caused or extended by mismanagement. The impact of environmental requirements on power plant design and operation.

Connecticut Department of Public Utility Control (Docket 92-06-05) - September 1992

United Illuminating Company off-system capacity sales. [Confidential Testimony]

Public Utility Commission of Texas (Docket 10894) - August 1992

Whether any of the outages of the River Bend Nuclear Station during the period October 1, 1988, through September 30, 1991, were caused or extended by mismanagement.

Connecticut Department of Public Utility Control (Docket 92-01-05) - August 1992

Whether the July 1991 outage of Millstone Unit 3 due to the fouling of important plant systems by blue mussels was the result of mismanagement.

California Public Utilities Commission (Docket 90-12-018) - November 1991, April 1992, June and July 1993

Whether any of the outages of the three units at the Palo Verde Nuclear Generating Station during 1989 and 1990 were caused or extended by mismanagement. Whether equipment problems, personnel performance weaknesses and program deficiencies could have been avoided or addressed prior to outages. Whether specific plant operating cost and capital expenditures were necessary and prudent.

Public Utility Commission of Texas (Docket 9945) - June 1991

Whether El Paso Electric Company's share of Palo Verde Unit 3 was needed to ensure adequate levels of system reliability. Whether the Company's investment in the unit could be expected to generate cost savings for ratepayers within a reasonable number of years. El Paso Electric Company's management of the planning and licensing of the Arizona Interconnection Project transmission line.

Arizona Corporation Commission (Docket U-1345-90-007) - December 1990 and April 1991

Arizona Public Service Company's management of the planning, construction and operation of the Palo Verde Nuclear Generating Station. The costs resulting from identified instances of mismanagement.

New Jersey Board of Public Utilities (Docket ER89110912J) - July and October 1990

The economic costs and benefits of the early retirement of the Oyster Creek Nuclear Plant. The potential impact of the unit's early retirement on system reliability. The cost and schedule for siting and constructing a replacement natural gas-fired generating plant.

Public Utility Commission of Texas (Docket 9300) - June and July 1990

Texas Utilities management of the design and construction of the Comanche Peak Nuclear Plant. Whether the Company was prudent in repurchasing minority owners' shares of Comanche Peak without examining the costs and benefits of the repurchase for its ratepayers.

Federal Energy Regulatory Commission (Docket EL-88-5-000) - November 1989

Boston Edison's corporate management of the Pilgrim Nuclear Station.

Connecticut Department of Public Utility Control (Docket 89-08-11) - November 1989

United Illuminating Company's off-system capacity sales.

Kansas State Corporation Commission (Case 164,211-U) - April 1989

Whether any of the 127 days of outages of the Wolf Creek generating plant during 1987 and 1988 were the result of mismanagement.

Public Utility Commission of Texas (Docket 8425) - March 1989

Whether Houston Lighting & Power Company's new Limestone Unit 2 generating facility was needed to provide adequate levels of system reliability. Whether the Company's investment in Limestone Unit 2 would provide a net economic benefit for ratepayers.

Illinois Commerce Commission (Dockets 83-0537 and 84-0555) - July 1985 and January 1989

Commonwealth Edison Company's management of quality assurance and quality control activities and the actions of project contractors during construction of the Byron Nuclear Station.

New Mexico Public Service Commission (Case 2146, Part II) - October 1988

The rate consequences of Public Service Company of New Mexico's ownership of Palo Verde Units 1 and 2.

United States District Court for the Eastern District of New York (Case 87-646-JBW) - October 1988

Whether the Long Island Lighting Company withheld important information from the New York State Public Service Commission, the New York State Board on Electric Generating Siting and the Environment, and the U.S. Nuclear Regulatory Commission.

Public Utility Commission of Texas (Docket 6668) - August 1988 and June 1989

Houston Light & Power Company's management of the design and construction of the South Texas Nuclear Project. The impact of safety-related and environmental requirements on plant construction costs and schedule.

Federal Energy Regulatory Commission (Docket ER88-202-000) - June 1988

Whether the turbine generator vibration problems that extended the 1987 outage of the Maine Yankee nuclear plant were caused by mismanagement.

Illinois Commerce Commission (Docket 87-0695) - April 1988

Illinois Power Company's planning for the Clinton Nuclear Station.

North Carolina Utilities Commission (Docket E-2, Sub 537) - February 1988

Carolina Power & Light Company's management of the design and construction of the Harris Nuclear Project. The Company's management of quality assurance and quality control activities. The impact of safety-related and environmental requirements on construction costs and schedule. The cost and schedule consequences of identified instances of mismanagement.

Ohio Public Utilities Commission (Case 87-689-EL-AIR) - October 1987

Whether any of Ohio Edison's share of the Perry Unit 2 generating facility was needed to ensure adequate levels of system reliability. Whether the Company's investment in Perry Unit 1 would produce a net economic benefit for ratepayers.

North Carolina Utilities Commission (Docket E-2, Sub 526) - May 1987

Fuel factor calculations.

New York State Public Service Commission (Case 29484) - May 1987

The planned startup and power ascension testing program for the Nine Mile Point Unit 2 generating facility.

Illinois Commerce Commission (Dockets 86-0043 and 86-0096) - April 1987

The reasonableness of certain terms in a proposed Power Supply Agreement.

Illinois Commerce Commission (Docket 86-0405) - March 1987

The in-service criteria to be used to determine when a new generating facility was capable of providing safe, adequate, reliable and efficient service.

Indiana Public Service Commission (Case 38045) - November 1986

Northern Indiana Public Service Company's planning for the Schaefer Unit 18 generating facility. Whether the capacity from Unit 18 was needed to ensure adequate system reliability. The rate consequences of excess capacity on the Company's system.

Superior Court in Rockingham County, New Hampshire (Case 86E328) - July 1986

The radiation effects of low power testing on the structures, equipment and components in a new nuclear power plant.

New York State Public Service Commission (Case 28124) - April 1986 and May 1987

The terms and provisions in a utility's contract with an equipment supplier. The prudence of the utility's planning for a new generating facility. Expenditures on a canceled generating facility.

Arizona Corporation Commission (Docket U-1345-85) - February 1986

The construction schedule for Palo Verde Unit No. 1. Regulatory and technical factors that would likely affect future plant operating costs.

New York State Public Service Commission (Case 29124) – December 1985 and January 1986

Niagara Mohawk Power Corporation's management of construction of the Nine Mile Point Unit No. 2 nuclear power plant.

New York State Public Service Commission (Case 28252) - October 1985

A performance standard for the Shoreham nuclear power plant.

New York State Public Service Commission (Case 29069) - August 1985

A performance standard for the Nine Mile Point Unit No. 2 nuclear power plant.

Missouri Public Service Commission (Cases ER-85-128 and EO-85-185) - July 1985

The impact of safety-related regulatory requirements and plant aging on power plant operating costs and performance. Regulatory factors and plant-specific design features that will likely affect the future operating costs and performance of the Wolf Creek Nuclear Plant.

Massachusetts Department of Public Utilities (Case 84-152) - January 1985

The impact of safety-related regulatory requirements and plant aging on power plant operating costs and performance. Regulatory factors and plant-specific design features that will likely affect the future operating costs and performance of the Seabrook Nuclear Plant.

Maine Public Utilities Commission (Docket 84-113) - September 1984

The impact of safety-related regulatory requirements and plant aging on power plant operating costs and performance. Regulatory factors and plant-specific design features that will likely affect the future operating costs and performance of the Seabrook Nuclear Plant.

South Carolina Public Service Commission (Case 84-122-E) - August 1984

The repair and replacement strategy adopted by Carolina Power & Light Company in response to pipe cracking at the Brunswick Nuclear Station. Quantification of replacement power costs attributable to identified instances of mismanagement.

Vermont Public Service Board (Case 4865) - May 1984

The repair and replacement strategy adopted by management in response to pipe cracking at the Vermont Yankee nuclear plant.

New York State Public Service Commission (Case 28347) - January 1984

The information that was available to Niagara Mohawk Power Corporation prior to 1982 concerning the potential for cracking in safety-related piping systems at the Nine Mile Point Unit No. 1 nuclear plant.

New York State Public Service Commission (Case 28166) - February 1983 and February 1984

Whether the January 25, 1982, steam generator tube rupture at the Ginna Nuclear Plant was caused by mismanagement.

U.S. Nuclear Regulatory Commission (Case 50-247SP) - May 1983

The economic costs and benefits of the early retirement of the Indian Point nuclear plants.

REPORTS, ARTICLES, AND PRESENTATIONS

The Risks of Building New Nuclear Power Plants, U.S. Senate and House of Representative Briefings, April 20, 2007.

Carbon Dioxide Emissions Costs and Electricity Resource Planning, New Mexico Public Regulation Commission, Case 06-00448-UT, March 28, 2007, with Anna Sommer.

The Risks of Building New Nuclear Power Plants, Presentation to the New York Society of Securities Analysts, June 8, 2006.

Conservation and Renewable Energy Should be the Cornerstone for Meeting Future Natural Gas Needs. Presentation to the Global LNG Summit, June 1, 2004. Presentation given by Cliff Chen.

Comments on natural gas utilities' Phase I Proposals for pre-approved full cost recovery of contracts with liquid natural gas (LNG) suppliers and the costs of interconnecting their systems with LNG facilities. Comments in California Public Utilities Commission Rulemaking 04-01-025. March 23, 2004.

The 2003 Blackout: Solutions that Won't Cost a Fortune, The Electricity Journal, November 2003, with David White, Amy Roschelle, Paul Peterson, Bruce Biewald, and William Steinhurst.

The Impact of Converting the Cooling Systems at Indian Point Units 2 and 3 on Electric System Reliability. An Analysis for Riverkeeper, Inc. November 3, 2003.

The Impact of Converting Indian Point Units 2 and 3 to Closed-Cycle Cooling Systems with Cooling Towers on Energy's Likely Future Earnings. An Analysis for Riverkeeper, Inc. November 3, 2003.

Entergy's Lost Revenues During Outages of Indian Point Units 2 and 3 to Convert to Closed-Cycle Cooling Systems. An Analysis for Riverkeeper, Inc. November 3, 2003.

Power Plant Repowering as a Strategy for Reducing Water Consumption at Existing Electric Generating Facilities. A presentation at the May 2003 Symposium on Cooling Water Intake Technologies to Protect Aquatic Organisms. May 6, 2003.

Financial Insecurity: The Increasing Use of Limited Liability Companies and Multi-tiered Holding Companies to Own Electric Generating Plants. A presentation at the 2002 NASUCA Annual Meeting. November 12, 2002.

Determining the Need for Proposed Overhead Transmission Facilities. A Presentation by David Schlissel and Paul Peterson to the Task Force and Working Group for Connecticut Public Act 02-95. October 17, 2002.

Future PG&E Net Revenues From The Sale of Electricity Generated at its Brayton Point Station. An Analysis for the Attorney General of the State of Rhode Island. October 2, 2002.

PG&E's Net Revenues From The Sale of Electricity Generated at its Brayton Point Station During the Years 1999-2002. An Analysis for the Attorney General of the State of Rhode Island. October 2, 2002.

Financial Insecurity: The Increasing Use of Limited Liability Companies and Multi-Tiered Holding Companies to Own Nuclear Power Plants. A Synapse report for the STAR Foundation and Riverkeeper, Inc., by David Schlissel, Paul Peterson, and Bruce Biewald, August 7, 2002.

Comments on EPA's Proposed Clean Water Act Section 316(b) for Cooling Water Intake Structures at Phase II Existing Facilities, on behalf of Riverkeeper, Inc., by David Schlissel and Geoffrey Keith, August 2002.

The Impact of Retiring the Indian Point Nuclear Power Station on Electric System Reliability. A Synapse Report for Riverkeeper, Inc. and Pace Law School Energy Project. May 7, 2002.

Preliminary Assessment of the Need for the Proposed Plumtree-Norwalk 345-kV Transmission Line. A Synapse Report for the Towns of Bethel, Redding, Weston, and Wilton Connecticut. October 15, 2001.

ISO New England's Generating Unit Availability Study: Where's the Beef? A Presentation at the June 29, 2001 Restructuring Roundtable.

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Report on Indian Point 2 Steam Generator Issues, Schlissel Technical Consulting, Inc., March 10, 2000.

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Comments of Schlissel Technical Consulting, Inc. on the Nuclear Regulatory Commission's Draft Policy Statement on Electric Industry Economic Deregulation, February 1997.

Report to the Municipal Electric Utility Association of New York State on the Cost of Decommissioning the Fitzpatrick Nuclear Plant, August 1996.

Report to the Staff of the Arizona Corporation Commission on U.S. West Corporation's telephone cable repair and replacement programs, May, 1996.

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The Potential Safety Consequences of Steam Generator Tube Cracking at the Byron and Braidwood Nuclear Stations, a report for the Environmental Law and Policy Center of the Midwest, 1995.

Report to the Public Policy Group Concerning Future Trojan Nuclear Plant Operating Performance and Costs, July 15, 1992.

Report to the New York State Consumer Protection Board on the Costs of the 1991 Refueling Outage of Indian Point 2, December 1991.

Preliminary Report on Excess Capacity Issues to the Public Utility Regulation Board of the City of El Paso, Texas, April 1991.

Nuclear Power Plant Construction Costs, presentation at the November, 1987, Conference of the National Association of State Utility Consumer Advocates.

Comments on the Final Report of the National Electric Reliability Study, a report for the New York State Consumer Protection Board, February 27, 1981.

OTHER SIGNIFICANT INVESTIGATIONS AND LITIGATION SUPPORT WORK

Reviewed the salt deposition mitigation strategy proposed for Reliant Energy's repowering of its Astoria Generating Station. October 2002 through February 2003.

Assisted the Connecticut Office of Consumer Counsel in reviewing the auction of Connecticut Light & Power Company's power purchase agreements. August and September, 2000.

Assisted the New Jersey Division of the Ratepayer Advocate in evaluating the reasonableness of Atlantic City Electric Company's proposed sale of its fossil generating facilities. June and July, 2000.

Investigated whether the 1996-1998 outages of the three Millstone Nuclear Units were caused or extended by mismanagement. 1997 and 1998. Clients were the Connecticut Office of Consumer Counsel and the Office of the Attorney General of the Commonwealth of Massachusetts.

Investigated whether the 1995-1997 outages of the two units at the Salem Nuclear Station were caused or extended by mismanagement. 1996-1997. Client was the New Jersey Division of the Ratepayer Advocate.

Assisted the Associated Industries of Massachusetts in quantifying the stranded costs associated with utility generating plants in the New England states. May through July, 1996

Investigated whether the December 25, 1993, turbine generator failure and fire at the Fermi 2 generating plant was caused by Detroit Edison Company's mismanagement of fabrication, operation or maintenance. 1995. Client was the Attorney General of the State of Michigan.

Investigated whether the outages of the two units at the South Texas Nuclear Generating Station during the years 1990 through 1994 were caused or extended by mismanagement. Client was the Texas Office of Public Utility Counsel.

Assisted the City Public Service Board of San Antonio, Texas in litigation over Houston Lighting & Power Company's management of operations of the South Texas Nuclear Generating Station.

Investigated whether outages of the Millstone nuclear units during the years 1991 through 1994 were caused or extended by mismanagement. Client was the Office of the Attorney General of the Commonwealth of Massachusetts.

Evaluated the 1994 Decommissioning Cost Estimate for the Maine Yankee Nuclear Plant. Client was the Public Advocate of the State of Maine.

Evaluated the 1994 Decommissioning Cost Estimate for the Seabrook Nuclear Plant. Clients were investment firms that were evaluating whether to purchase the Great Bay Power Company, one of Seabrook's minority owners.

Investigated whether a proposed natural-gas fired generating facility was need to ensure adequate levels of system reliability. Examined the potential impacts of environmental regulations on the unit's expected construction cost and schedule. 1992. Client was the New Jersey Rate Counsel.

Investigated whether Public Service Company of New Mexico management had adequately disclosed to potential investors the risk that it would be unable to market its excess generating capacity. Clients were individual shareholders of Public Service Company of New Mexico.

Investigated whether the Seabrook Nuclear Plant was prudently designed and constructed. 1989. Clients were the Connecticut Office of Consumer Counsel and the Attorney General of the State of Connecticut.

Investigated whether Carolina Power & Light Company had prudently managed the design and construction of the Harris nuclear plant. 1988-1989. Clients were the North Carolina Electric Municipal Power Agency and the City of Fayetteville, North Carolina.

Investigated whether the Grand Gulf nuclear plant had been prudently designed and constructed. 1988. Client was the Arkansas Public Service Commission.

Reviewed the financial incentive program proposed by the New York State Public Service Commission to improve nuclear power plant safety. 1987. Client was the New York State Consumer Protection Board.

Reviewed the construction cost and schedule of the Hope Creek Nuclear Generating Station. 1986-1987. Client was the New Jersey Rate Counsel.

Reviewed the operating performance of the Fort St. Vrain Nuclear Plant. 1985. Client was the Colorado Office of Consumer Counsel.

WORK HISTORY

2000 - Present: Senior Consultant, Synapse Energy Economics, Inc.

1994 - 2000: President, Schlissel Technical Consulting, Inc.

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1979 - 1983: Private Legal and Consulting Practice

1975 - 1979: Attorney, New York State Consumer Protection Board

1973 - 1975: Staff Attorney, Georgia Power Project

EDUCATION

1983-1985: Massachusetts Institute of Technology
Special Graduate Student in Nuclear Engineering and Project Management,

1973: Stanford Law School,
Juris Doctor

1969: Stanford University
Master of Science in Astronautical Engineering,

1968: Massachusetts Institute of Technology
Bachelor of Science in Astronautical Engineering,

PROFESSIONAL MEMBERSHIPS

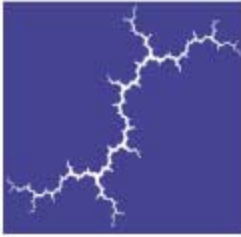
- New York State Bar since 1981
- American Nuclear Society
- National Association of Corrosion Engineers

Greenhouse Gas Cap-And-Trade Proposals in the Senate (110th Congress)

| Bill | Scope of Coverage | 2010-2019 Cap | 2020-2029 Cap | 2030-2050 Cap | Offsets | Allocation | Other Cost Controls | Early Action | Technology and Misc. |
|--|--|--|--|---|---|--|--|---|---|
| ECONOMY-WIDE (MULTI-SECTOR) LEGISLATION | | | | | | | | | |
| McCain-Lieberman S.280 – 1/12/2007 Climate Stewardship and Innovation Act | All 6 GHGs Economy-wide, "hybrid" – upstream for transportation sector; downstream for electric utilities & large sources | 2004 level in 2012 | 1990 level in 2020 | 20% below 1990 level in 2030. 60% below 1990 level in 2050 | 30% limit on use of international credits and domestic reduction or sequestration offsets | Administrator determines allocation/auction split; considering consumer impact, competitiveness, etc. | Borrowing for 5-year periods with interest | Credit for reductions before 2012 | Funds and incentives for tech R&D, efficiency adaptation, mitigating effects on poor |
| Sanders-Boxer S.309 – 1/16/2007 Global Warming Pollution Reduction Act | All 6 GHGs Economy-wide, point of regulation not specified | 2010 level in 2010 2%/year reduction from 2010-2020 | 1990 level in 2020 | 27% below 1990 level in 2030. 53% below 1990 level in 2040 80% below 1990 level in 2050 | Includes provision for offsets generated from biological sequestration | Cap and trade permitted but not required. Allocation criteria include transition assistance and consumer impacts | "Technology-indexed stop price" freezes cap if prices high relative to tech options | Not specified | Standards for vehicles, power plants, efficiency, renewables, certain categories of bio sequestration |
| Kerry-Snowe S.485 – 2/1/2007 Global Warming Reduction Act | All 6 GHGs Economy-wide, point of regulation not specified | 2010 level in 2010 | 1990 level in 2020 2.5%/year reduction from 2020-2029 | 3.5%/year reduction from 2030-2050. 62% below 1990 level in 2050 | Includes provision for offsets generated from biological sequestration | Determined by the President; requires unspecified amount of allowances to be auctioned | Not specified | Goal to "recognize and reward early reductions" | Funds for tech. R&D, consumer impacts, adaptation Standards for vehicles, efficiency, renewables, certain categories of bio sequestration |
| Bingaman-Specter S. 1766 – 7/11/2007 Low Carbon Economy Act | All 6 GHGs Economy-wide, "hybrid" – upstream for natural gas & petroleum; downstream for coal | 2012 level in 2012 | 2006 levels by 2020 | 1990 levels by 2030 President may set long-term target ≥60% below 2006 levels by 2050 contingent upon international effort | Provides certain initial categories including bio sequestration and industrial offsets President may implement use of international offsets subject to 10% limit | Increasing auction: 24% from 2012-2017, rising to 53% in 2030 Some sectors' allocation specified: 9% to states, 53% to industry declining 2%/year starting in 2017 5% set-aside of allowances for agricultural | \$12/ton CO ₂ e "technology accelerator payment" (i.e., safety valve) starting in 2012 and increasing 5%/year above inflation Allows banking | From 2012-2020, 1% of allowances allocated to those registering GHG reductions prior to enactment | Bonus allocation for carbon capture and storage Funds and incentives for technology R&D Target subject to 5-year review of new science and actions by other nations |

Greenhouse Gas Cap-And-Trade Proposals in the Senate (110th Congress)

| Bill | Scope of Coverage | 2010-2019 Cap | 2020-2029 Cap | 2030-2050 Cap | Offsets | Allocation | Other Cost Controls | Early Action | Technology and Misc. |
|--|---|---|---|---|---|--|---|---|---|
| ELECTRICITY SECTOR LEGISLATION | | | | | | | | | |
| Feinstein-Carper S.317 – 1/17/2007 Electric Utility Cap and Trade Act | All 6 GHGs Electricity sector, downstream | 2006 level in 2011 2001 level in 2015, 1%/year reduction from 2016-2019 | 1.5%/year reduction starting in 2020 (may be adjusted by Administrator) | 1.5%/year reduction starting in 2020 (may be adjusted by Administrator) | Certain categories of bio sequestration and industrial offsets; 5% limit on forest mgmt; 25% limit on intl. | Increasing auction: 15% in 2011; 60% in 2026; 100% in 2036 Output-based allocation to generators | If economic harm, potential for borrowing and/or increased international offsets. Borrowing of offsets | Credit for reductions from 2000-2010, limit 10% of cap | Funds for tech R&D, habitat protection, and adaptation Bills expected on industry, efficiency, fuels, and vehicles |
| Alexander-Lieberman S.1168 – 4/19/2007 Clean Air Climate Change Act of 2007 | 4 pollutants – SO ₂ , NO _x , mercury, and CO ₂ Electricity sector | 2300 MMT CO ₂ (approx. 2006 level) from 2011-2014 2100 MMT CO ₂ (approx. 1997 level) from 2015-2019 | 1800 MMT CO ₂ (approx. 1990 level) from 2020-2024 1500 MMT CO ₂ (approx. 17% below 1990 level) from 2025 forward | 1500 MMT CO ₂ (approx. 17% below 1990 level) indefinitely | System of offsets considering RGGI model rules | 75% historical allocation; 25% auction Input-based “benchmarked” allocation to generators. | Auction revenue can offset costs of electricity increases to consumers and affected industries | Bonus allowances to first 30 new or modified coal-fired utilities meeting new performance standards | Standards for new power plants |
| Carper S. 1177 – 4/20/2007 Clean Air Planning Act of 2007 | 4 pollutants – SO ₂ , NO _x , mercury, and CO ₂ Electricity Sector | 2006 CO ₂ level in 2012-2014 2001 CO ₂ level in 2015 1%/year reduction CO ₂ level from 2016-2019 | 1.5%/year reduction CO ₂ levels starting in 2020 | 1.5%/year reduction CO ₂ levels starting in 2020 (may be adjusted by Administrator to 3% in 2030 & beyond) 25% below 1990 CO ₂ level in 2050 | Agricultural sequestration allowances | Increasing auction: 18% in 2012; 60% in 2026; 100% in 2036 and beyond Output-based allocation to generators transitioning to 100% auction | Purchase offsets from other sectors of economy; transition assistance to affected workers and communities | From 2012-2025, 3% set-aside of allowances for clean coal Credit for reductions from 2000-2012 | Funds and incentives for CCS technology R&D; efficiency adaptation; mitigating effects on communities and wildlife |
| Sanders S. 1201 – 4/24/2007 Clean Power Act of 2007 <i>* If Congress has not passed, and the President has not signed, legislation to address 85% of GHG emissions economy-wide by 2012, further 3%/year reduction in CO₂ limits until global GHG emissions reach 450ppm.</i> | 4 pollutants – SO ₂ , NO _x , mercury, and CO ₂ Electricity sector | 2300 MMT CO ₂ (approx. 2006 level) by 2011 2100 MMT CO ₂ (approx. 1997 level) by 2015* | 1803 MMT CO ₂ (approx. 1990 level) by 2020* 1500 MMT CO ₂ (approx. 17% below 1990 level) by 2025* | <i>Goal is to facilitate the worldwide stabilization of atmospheric concentrations of global warming pollutants at 450ppm CO₂e by 2050*</i> | Includes provision for offsets generated from biological sequestration | Administrator determines; considers consumer and corporate impact, Increasing auction: 50% in 2020; rising annually to 100% by 2035 | Consideration of costs and competitiveness concerns in allocation | Credit for low-carbon generation | Standards for power plants, efficiency, renewables, certain categories of bio sequestration Funds for tech R&D, specifically geologic carbon sequestration |



Synapse
Energy Economics, Inc.

**Climate Change and Power:
Carbon Dioxide Emissions Costs
and Electricity Resource Planning**

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Executive Summary

The fact of human-induced global climate change as a consequence of our greenhouse gas emissions is now well established, and the only remaining questions among mainstream scientists concern the nature and timing of future disruptions and dislocations and the magnitude of the socio-economic impacts. It is also generally agreed that different CO₂ emissions trajectories will lead to varying levels of environmental, economic, and social costs – which means that the more sharply and the sooner we can reduce emissions, the greater the avoided costs will be.

This report is designed to assist utilities, regulators, consumer advocates and others in projecting the future cost of complying with carbon dioxide regulations in the United States.¹ These cost forecasts are necessary for use in long-term electricity resource planning, in electricity resource economics, and in utility risk management.

We recognize that there is considerable uncertainty inherent in projecting long-term carbon emissions costs, not least of which concerns the timing and form of future emissions regulations in the United States. However, this uncertainty is no reason to ignore this very real component of future production cost. In fact, this type of uncertainty is similar to that of other critical electricity cost drivers such as fossil-fuel prices.

Accounting for Climate Change Regulations in Electricity Planning

The United States contributes more than any other nation, by far, to global greenhouse gas emissions on both a total and a per capita basis. The United States contributes 24 percent of the world CO₂ emissions, but has only 4.6 percent of the population.

Within the United States, the electricity sector is responsible for roughly 39% of CO₂ emissions. Within the electricity industry, roughly 82% of CO₂ emissions come from coal-fired plants, roughly 13% come from gas-fired plants, and roughly 5% come from oil-fired plants.

Because of its contribution to US and worldwide CO₂ emissions, the US electricity industry will clearly need to play a critical role in reducing greenhouse gas (GHG) emissions. In addition, the electricity industry is composed of large point sources of emissions, and it is often easier and more cost-effective to control emissions from large sources than multiple small sources. Analyses by the US Energy Information Administration indicate that 65% to 90% of energy-related carbon dioxide emissions reductions are likely to come from the electric sector under a wide range of economy-wide federal policy scenarios.²

¹ This paper does not address the determination of an “externality value” associated with greenhouse gas emissions. The externality value would include societal costs beyond those internalized into market costs through regulation. While this report refers to the ecological and socio-economic impacts of climate change, estimation of the external costs of greenhouse gas emissions is beyond the scope of this analysis.

² EIA 2003, page 13; EIA 2004, page 5; EIA 2006, page 19.

In this context, the failure of entities in the electric sector to anticipate the future costs associated with carbon dioxide regulations is short-sighted, economically unjustifiable, and ultimately self-defeating. Long-term resource planning and investment decisions that do not quantify the likely future cost of CO₂ regulations will understate the true cost of future resources, and thus will result in uneconomic, imprudent decisions. Generating companies will naturally attempt to pass these unnecessarily high costs on to electricity ratepayers. Thus, properly accounting for future CO₂ regulations is as much a consumer issue as it is an issue of prudent resource selection.

Some utility planners argue that the cost of complying with future CO₂ regulations involves too much uncertainty, and thus they leave the cost out of the planning process altogether. This approach results in making an implicit assumption that the cost of complying with future CO₂ regulations will be zero. This assumption of zero cost will apply to new generation facilities that may operate for 50 or more years into the future. In this report, we demonstrate that under all reasonable forecasts of the near- to mid-term future, the cost of complying with CO₂ regulations will certainly be greater than zero.

Federal Initiatives to Regulate Greenhouse Gases

The scientific consensus on climate change has spurred efforts around the world to reduce greenhouse gas emissions, many of which are grounded in the United Nations Framework Convention on Climate Change (UNFCCC). The United States is a signatory to this convention, which means that it has agreed to a goal of “stabilization of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system.” However, the United States has not yet agreed to the legally binding limits on greenhouse gas emissions contained in the Kyoto Protocol, a supplement to the UNFCCC.

Table ES-1. Summary of Federal Mandatory Emission Reduction Legislation

| Proposed National Policy | Title or Description | Year Proposed | Emission Targets | Sectors Covered |
|--|---|----------------------|--|--|
| McCain Lieberman S.139 | Climate Stewardship Act | 2003 | Cap at 2000 levels 2010-2015. Cap at 1990 levels beyond 2015. | Economy-wide, large emitting sources |
| McCain Lieberman SA 2028 | Climate Stewardship Act | 2003 | Cap at 2000 levels | Economy-wide, large emitting sources |
| National Commission on Energy Policy (basis for Bingaman- Domenici legislative work) | Greenhouse Gas Intensity Reduction Goals | 2005 | Reduce GHG intensity by 2.4%/yr 2010- 2019 and by 2.8%/yr 2020- 2025. Safety- valve on allowance price | Economy-wide, large emitting sources |
| Sen. Feinstein | Strong Economy and Climate Protection Act | 2006 | Stabilize emissions through 2010; 0.5% cut per year from 2011-15; 1% cut per year from 2016-2020. Total reduction is 7.25% below current levels. | Economy-wide, large emitting sources |
| Jeffords S. 150 | Multi-pollutant legislation | 2005 | 2.050 billion tons beginning 2010 | Existing and new fossil-fuel fired electric generating plants > 15 MW |
| Carper S. 843 | Clean Air Planning Act | 2005 | 2006 levels (2.655 billion tons CO2) starting in 2009, 2001 levels (2.454 billion tons CO2) starting in 2013. | Existing and new fossil-fuel fired, nuclear, and renewable electric generating plants > 25 MW |
| Rep. Udall - Rep. Petri | Keep America Competitive Global Warming Policy Act | 2006 | Establishes prospective baseline for greenhouse gas emissions, with safety valve. | Not available |

Nonetheless, there have been several important attempts at the federal level to limit the emissions of greenhouse gases in the United States. Table ES-1 presents a summary of federal legislation that has been introduced in recent years. Most of this legislation includes some form of mandatory national limits on the emissions of greenhouse gases, as well as market-based cap and trade mechanisms to assist in meeting those limits.

State and Regional Initiatives to Regulate Greenhouse Gases

Many states across the country have not waited for federal policies, and are developing and implementing climate change-related policies that have a direct bearing on electric resource planning. States, acting individually and through regional coordination, have been the leaders on climate change policies in the United States.

State policies generally fall into the following categories: (a) direct policies that require specific emission reductions from electric generation sources; (b) indirect policies that affect electric sector resource mix such as through promoting low-emission electric sources; (c) legal proceedings; or (d) voluntary programs including educational efforts and energy planning. Table ES-2 presents a summary of types of policies with recent state policies on climate change listed on the right side of the table.

Table ES-2. Summary of Individual State Climate Change Policies

| Type of Policy | State Examples |
|--|--|
| <p>Direct</p> <ul style="list-style-type: none"> • Power plant emission restrictions (e.g. cap or emission rate) • New plant emission restrictions • State GHG reduction targets • Fuel/generation efficiency | <ul style="list-style-type: none"> • MA, NH • OR, WA • CT, NJ, ME, MA, CA, NM, NY, OR, WA • CA vehicle emissions standards to be adopted by CT, NY, ME, MA, NJ, OR, PA, RI, VT, WA |
| <p>Indirect (clean energy)</p> <ul style="list-style-type: none"> • Load-based GHG cap • GHG in resource planning • Renewable portfolio standards • Energy efficiency/renewable charges and funding; energy efficiency programs • Net metering, tax incentives | <ul style="list-style-type: none"> • CA • CA, WA, OR, MT, KY • 22 states and D.C. • More than half the states • 41 states |
| <p>Lawsuits</p> <ul style="list-style-type: none"> • States, environmental groups sue EPA to determine whether greenhouse gases can be regulated under the Clean Air Act • States sue individual companies to reduce GHG emissions | <ul style="list-style-type: none"> • States include CA, CT, ME, MA, NM, NY, OR, RI, VT, and WI • NY, CT, CA, IA, NJ, RI, VT, WI |
| <p>Climate change action plans</p> | <ul style="list-style-type: none"> • 28 states, with NC and AZ in progress |

Several states require that regulated utilities evaluate costs or risks associated with greenhouse gas emissions regulations in long-range planning or resource procurement. Some of the states require that companies use a specific value, while other states require that companies consider the risk of future regulation in their planning process. Table ES-3 summarizes state requirements for considering greenhouse gas emissions in electricity resource planning.

Table ES-3. Requirements for Consideration of GHG Emissions in Electric Resource Decisions

| Program type | State | Description | Date | Source |
|--------------------------------|--------------|--|-----------------|---|
| GHG value in resource planning | CA | PUC requires that regulated utility IRPs include carbon adder of \$8/ton CO ₂ , escalating at 5% per year. | April 1, 2005 | CPUC Decision 05-04-024 |
| GHG value in resource planning | WA | Law requiring that cost of risks associated with carbon emissions be included in Integrated Resource Planning for electric and gas utilities | January, 2006 | WAC 480-100-238 and 480-90-238 |
| GHG value in resource planning | OR | PUC requires that regulated utility IRPs include analysis of a range of carbon costs | Year 1993 | Order 93-695 |
| GHG value in resource planning | NWPCC | Inclusion of carbon tax scenarios in Fifth Power Plan | May, 2006 | NWPCC Fifth Energy Plan |
| GHG value in resource planning | MN | Law requires utilities to use PUC established environmental externalities values in resource planning | January 3, 1997 | Order in Docket No. E-999/CI-93-583 |
| GHG in resource planning | MT | IRP statute includes an "Environmental Externality Adjustment Factor" which includes risk due to greenhouse gases. PSC required Northwestern to account for financial risk of carbon dioxide emissions in 2005 IRP. | August 17, 2004 | Written Comments Identifying Concerns with NWE's Compliance with A.R.M. 38.5.8209-8229; Sec. 38.5.8219, A.R.M. |
| GHG in resource planning | KY | KY staff reports on IRP require IRPs to demonstrate that planning adequately reflects impact of future CO ₂ restrictions | 2003 and 2006 | Staff Report On the 2005 Integrated Resource Plan Report of Louisville Gas and Electric Company and Kentucky Utilities Company - Case 2005-00162, February 2006 |
| GHG in resource planning | UT | Commission directs PacifiCorp to consider financial risk associated with potential future regulations, including carbon regulation | June 18, 1992 | Docket 90-2035-01, and subsequent IRP reviews |
| GHG in resource planning | MN | Commission directs Xcel to "provide an expansion of CO ₂ contingency planning to check the extent to which resource mix changes can lower the cost of meeting customer demand under different forms of regulation." | August 29, 2001 | Order in Docket No. RP00-787 |
| GHG in CON | MN | Law requires that proposed non-renewable generating facilities consider the risk of environmental regulation over expected useful life of the facility | 2005 | Minn. Stat. §216B.243 subd. 3(12) |

States are not just acting individually; there are several examples of innovative regional policy initiatives. To date, there are regional initiatives including Northeastern and Mid-Atlantic states (CT, DE, MD, ME, NH, NJ, NY, and VT), West Coast states (CA, OR, WA), Southwestern states (NM, AZ), and Midwestern states (IL, IA, MI, MN, OH, WI).

The Northeastern and Mid-Atlantic states recently reached agreement on the creation of the Regional Greenhouse Gas Initiative (RGGI); a multi-year cooperative effort to design a regional cap and trade program covering CO₂ emissions from power plants in the region. The RGGI states have agreed to the following:

- Stabilization of CO₂ emissions from power plants at current levels for the period 2009-2015, followed by a 10 percent reduction below current levels by 2019.
- Allocation of a minimum of 25 percent of allowances for consumer benefit and strategic energy purposes.
- Certain offset provisions that increase flexibility to moderate price impacts.
- Development of complimentary energy policies to improve energy efficiency, decrease the use of higher polluting electricity generation and to maintain economic growth.

Electric Industry Actions to Address Greenhouse Gases

Some CEOs in the electric industry have determined that inaction on climate change issues is not good corporate strategy, and individual electric companies have begun to evaluate the risks associated with future greenhouse gas regulation and take steps to reduce greenhouse gas emissions. Their actions represent increasing initiative in the electric industry to address the threat of climate change and manage risk associated with future carbon constraints.

Recently, eight US-based utility companies have joined forces to create the “Clean Energy Group.” This group’s mission is to seek “national four-pollutant legislation that would, among other things... stabilize carbon emissions at 2001 levels by 2013.”

In addition, leaders of electric companies such as Duke and Exelon have vocalized support for mandatory national carbon regulation. These companies urge a mandatory federal policy, stating that climate change is a pressing issue that must be resolved, that voluntary action is not sufficient, and that companies need regulatory certainty to make appropriate decisions. Even companies that do not advocate federal requirements, anticipate their adoption and urge regulatory certainty. Several companies have established greenhouse gas reduction goals for their company.

Several electric utilities and electric generation companies have incorporated specific forecasts of carbon regulation and costs into their long term planning practices. Table ES-4 illustrates the range of carbon cost values, in \$/ton CO₂, that are currently being used in the industry for both resource planning and modeling of carbon regulation policies.

Table ES-4. CO₂ Cost Estimates Used in Electricity Resource Plans

| Company | CO ₂ emissions trading assumptions for various years (\$2005) |
|--|--|
| PG&E* | \$0-9/ton (start year 2006) |
| Avista 2003* | \$3/ton (start year 2004) |
| Avista 2005 | \$7 and \$25/ton (2010) \$15 and \$62/ton (2026 and 2023) |
| Portland General Electric* | \$0-55/ton (start year 2003) |
| Xcel-PSCCO | \$9/ton (start year 2010) escalating at 2.5%/year |
| Idaho Power* | \$0-61/ton (start year 2008) |
| PacifiCorp 2004 | \$0-55/ton |
| Northwest Energy 2005 | \$15 and \$41/ton |
| Northwest Power and Conservation Council | \$0-15/ton between 2008 and 2016 \$0-31/ton after 2016 |

**Values for these utilities from Wiser, Ryan, and Bolinger, Mark. "Balancing Cost and Risk: The Treatment of Renewable Energy in Western Utility Resource Plans." Lawrence Berkeley National Laboratories. August 2005. LBNL-58450. Table 7.*

Other values: PacifiCorp, Integrated Resource Plan 2004, pages 62-63; and Idaho Power Company, 2004 Integrated Resource Plan Draft, July 2004, page 59; Avista Integrated Resource Plan 2005, Section 6.3; Northwestern Energy Integrated Resource Plan 2005, Volume 1 p. 62; Northwest Power and Conservation Council, Fifth Power Plan pp. 6-7. Xcel-PSCCO, Comprehensive Settlement submitted to the CO PUC in dockets 04A-214E, 215E and 216E, December 3, 2004. Converted to \$2005 using GDP implicit price deflator.

Synapse Forecast of Carbon Dioxide Allowance Prices

This report presents our current forecast of the most likely costs of compliance with future climate change regulations. In making this forecast we review a range of current estimates from a variety of different sources. We review the results of several analyses of federal policy proposals, and a few analyses of the Kyoto Protocol. We also look briefly at carbon markets in the European Union to demonstrate the levels at which carbon dioxide emissions are valued in an active market.

Figure ES-1 presents CO₂ allowance price forecasts from the range of recent studies that we reviewed. All of the studies here are based on the costs associated with complying with potential CO₂ regulations in the United States. The range of these price forecasts reflects the range of policy initiatives that have been proposed in the United States, as well as the diversity of economic models and methodologies used to estimate their price impacts.

Figure ES-1 superimposes the Synapse long term forecasts of CO₂ allowance prices upon the other forecasts gleaned from the literature. In order to help address the uncertainty involved in forecasting CO₂ prices, we present a "base case" forecast as well as a "low case" and a "high case." All three forecasts are based on our review of both regulatory trends and economic models, as outlined in this document.

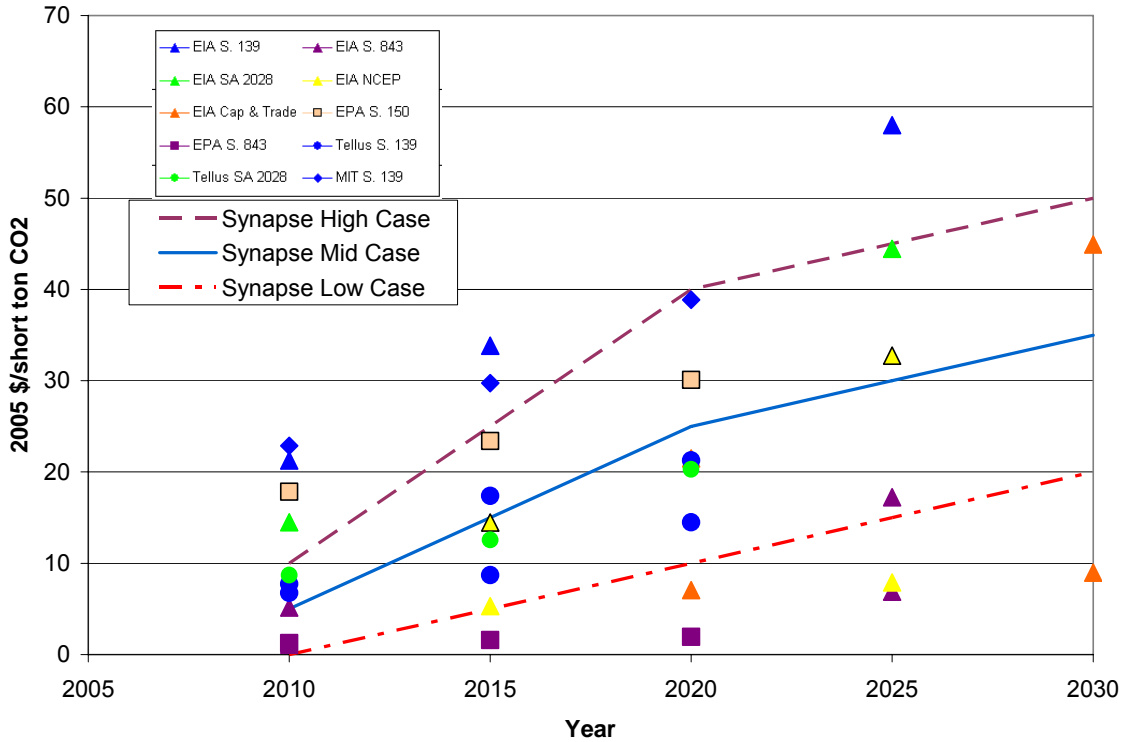


Figure ES-1. Synapse Forecast of Carbon Dioxide Allowance Prices

High, mid and low-case Synapse carbon emissions price forecasts superimposed on policy model forecasts as presented in Figure 6.3.

As with any forecast, our forecast is likely to be revised over time as the form and timing of carbon emission regulations come increasingly into focus. It is our judgment that this range represents a reasonable quantification of what is known today about future carbon emissions costs in the United States. As such, it is appropriate for use in long range resource planning purposes until better information or more clarity become available.

Additional Costs Associated with Greenhouse Gases

This report summarizes current policy initiatives and costs associated with greenhouse gas emissions from the electric sector. It is important to note that the greenhouse gas emission reduction requirements contained in federal legislation proposed to date, and even the targets in the Kyoto Protocol, are relatively modest compared with the range of emissions reductions that are anticipated to be necessary for keeping global warming at a manageable level. Further, we do not attempt to calculate the full cost to society (or to electric utilities) associated with anticipated future climate changes. Even if electric utilities comply with some of the most aggressive regulatory requirements underlying our CO₂ price forecasts presented above, climate change will continue to occur, albeit at a slower pace, and more stringent emissions reductions will be necessary to avoid dangerous changes to the climate system.

The consensus from the international scientific community clearly indicates that in order to stabilize the concentration of greenhouse gases in the atmosphere and to try to keep

further global warming trends manageable, greenhouse gas emissions will have to be reduced significantly below those limits underlying our CO₂ price forecasts. The scientific consensus expressed in the Intergovernmental Panel on Climate Change Report from 2001 is that greenhouse gas emissions would have to decline to a very small fraction of current emissions in order to stabilize greenhouse gas concentrations, and keep global warming in the vicinity of a 2-3 degree centigrade temperature increase. Simply complying with the regulations underlying our CO₂ price forecasts does not eliminate the ecological and socio-economic threat created by CO₂ emissions – it merely mitigates that threat.

In keeping with these findings, the European Union has adopted an objective of keeping global surface temperature increases to 2 degrees centigrade above pre-industrial levels. The EU Environment Council concluded in 2005 that this goal is likely to require emissions reductions of 15-30% below 1990 levels by 2020, and 60-80% below 1990 levels by 2050.

In other words, incorporating a reasonable CO₂ price forecast into electricity resource planning will help address electricity consumer concerns about prudent economic decision-making and direct impacts on future electricity rates, but it does not address all the ecological and socio-economic concerns posed by greenhouse gas emissions. Regulators should consider other policy mechanisms to account for the remaining pervasive impacts associated with greenhouse gas emissions.

1. Introduction

Climate change is not only an “environmental” issue. It is at the confluence of energy and environmental policy, posing challenges to national security, economic prosperity, and national infrastructure. Many states do not require greenhouse gas reductions, nor do we yet have a federal policy requiring greenhouse gas reductions in the United States; thus many policy makers and corporate decision-makers in the electric sector may be tempted to consider climate change policy a hazy future possibility rather than a current factor in resource decisions. However, such a “wait and see” approach is imprudent for resource decisions with horizons of more than a few years. Scientific developments, policy initiatives at the local, state, and federal level, and actions of corporate leaders, all indicate that climate change policy will affect the electric sector – the question is not “whether” but “when,” and in what magnitude.

Attention to global warming and its potential environmental, economic, and social impacts has rapidly increased over the past few years, adding to the pressure for comprehensive climate change policy in the United States. The April 3, 2006 edition of TIME Magazine reports the results of a new survey conducted by TIME, ABC News and Stanford University which reveals that more than 80 percent of Americans believe global warming is occurring, while nearly 90 percent are worried that warming presents a serious problem for future generations. The poll reveals that 75 percent would like the US government, US businesses, and the American people to take further action on global warming in the next year.³

In the past several years, climate change has emerged as a significant financial risk for companies. A 2002 report from the investment community identifies climate change as representing a potential multi-billion dollar risk to a variety of US businesses and industries.⁴ Addressing climate change presents particular risk and opportunity to the electric sector. Because the electric sector (and associated emissions) continue to grow, and because controlling emissions from large point sources (such as power plants) is easier, and often cheaper, than small disparate sources (like automobiles), the electric sector is likely to be a prime component of future greenhouse gas regulatory scenarios. The report states that “climate change clearly represents a major strategic issue for the electric utilities industry and is of relevance to the long-term evolution of the industry and possibly the survival of individual companies.” Risks to electric companies include the following:

- Cost of reducing greenhouse gas emissions and cost of investment in new, cleaner power production technologies and methods;
- Higher maintenance and repair costs and reliability concerns due to more frequent weather extremes and climatic disturbance; and

³ TIME/ABC News/Stanford University Poll, appearing in April 3, 2006 issue of Time Magazine.

⁴ Innovest Strategic Value Advisors; “Value at Risk: Climate Change and the Future of Governance;” The Coalition for Environmentally Responsible Economies; April 2002.

- Growing pressure from customers and shareholders to address emissions contributing to climate change.⁵

A subsequent report, “Electric Power, Investors, and Climate Change: A Call to Action,” presents the findings of a diverse group of experts from the power sector, environmental and consumer groups, and the investment community.⁶ Participants in this dialogue found that greenhouse gas emissions, including carbon dioxide emissions, will be regulated in the United States; the only remaining issue is when and how. Participants also agreed that regulation of greenhouse gases poses financial risks and opportunities for the electric sector. Managing the uncertain policy environment on climate change is identified as “one of a number of significant environmental challenges facing electric company executives and investors in the next few years as well as the decades to come.”⁷ One of the report’s four recommendations is that investors and electric companies come together to quantify and assess the financial risks and opportunities of climate change.

In a 2003 report for the World Wildlife Fund, Innovest Strategic Advisors determined that climate policy is likely to have important consequences for power generation costs, fuel choices, wholesale power prices and the profitability of utilities and other power plant owners.⁸ The report found that, even under conservative scenarios, additional costs could exceed 10 percent of 2002 earnings, though there are also significant opportunities. While utilities and non-utility generation owners have many options to deal with the impact of increasing prices on CO₂ emissions, doing nothing is the worst option. The report concludes that a company’s profits could even increase with astute resource decisions (including fuel switching or power plant replacement).

Increased CO₂ emissions from fossil-fired power plants will not only increase environmental damages and challenges to socio-economic systems; on an individual company level they will also increase the costs of complying with future regulations – costs that are likely to be passed on to all customers. Power plants built today can generate electricity for as long as 50 years or more into the future.⁹

As illustrated in the table below, factoring costs associated with future regulations of carbon dioxide has an impact on the costs of resources. Resources with higher CO₂ emissions have a higher CO₂ cost per megawatt-hour than those with lower emissions.

⁵ Ibid., pages 45-48.

⁶ CERES; “Electric Power, Investors, and Climate Change: A Call to Action;” September 2003.

⁷ Ibid., p. 6

⁸ Innovest Strategic Value Advisors; “Power Switch: Impacts of Climate Change on the Global Power Sector;” WWF International; November 2003

⁹ Biewald et. al.; “A Responsible Electricity Future: An Efficient, Cleaner and Balanced Scenario for the US Electricity System;” prepared for the National Association of State PIRGs; June 11, 2004.

Table I.1. Comparison of CO₂ costs per MWh for Various Resources

| Resource | Scrubbed Coal (Bit) | Scrubbed Coal (Sub) | IGCC | Combined Cycle | Source Notes |
|------------------------------------|---------------------|---------------------|---------|----------------|--------------|
| Size | 600 | 600 | 550 | 400 | 1 |
| CO ₂ (lb/MMBtu) | 205.45 | 212.58 | 205.45 | 116.97 | 2, 3 |
| Heat Rate (Btu/kWh) | 8844 | 8844 | 8309 | 7196 | 1 |
| CO ₂ Price (2005\$/ton) | 19.63 | 19.63 | 19.63 | 19.63 | 4 |
| CO ₂ Cost per MWh | \$17.83 | \$18.45 | \$16.75 | \$8.26 | |

1 - From AEO 2006

2 - From EIA's Electric Power Annual 2004, page 76

3 - IGCC emission rate assumed to be the same as the bituminous scrubbed coal rate

4 - From Synapse's carbon emissions price forecast levelized from 2010-2040 at a 7.32% real discount rate

Many trends in this country show increasing pressure for a federal policy requiring greenhouse gas emissions reductions. Given the strong likelihood of future carbon regulation in the United States, the contributions of the power sector to our nation's greenhouse gas emissions, and the long lives of power plants, utilities and non-utility generation owners should include carbon cost in all resource evaluation and planning.

The purpose of this report is to identify a reasonable basis for anticipating the likely cost of future mandated carbon emissions reductions for use in long-term resource planning decisions.¹⁰ Section 2 presents information on US carbon emissions. Section 3 describes recent scientific findings on climate change. Section 4 describes international efforts to address the threat of climate change. Section 5 summarizes various initiatives at the state, regional, and corporate level to address climate change. Finally, section 6 summarizes information that can form the basis for forecasts of carbon allowance prices; and provides a reasonable carbon allowance price forecast for use in resource planning and investment decisions in the electric sector.

2. Growing scientific evidence of climate change

In 2001 the Intergovernmental Panel on Climate Change issued its Third Assessment Report.¹¹ The report, prepared by hundreds of scientists worldwide, concluded that the earth is warming, that most of the warming over the past fifty years is attributable to human activities, and that average surface temperature of the earth is likely to increase

¹⁰ This paper focuses on anticipating the cost of future emission reduction requirements. This paper does not address the determination of an "externality value" associated with greenhouse gas emissions. The externality value would include societal costs beyond those internalized into market costs through regulation. While this report refers to the ecological and socio-economic impacts of climate change, estimation of the external costs of greenhouse gas emissions is beyond the scope of this analysis.

¹¹ Intergovernmental Panel on Climate Change, *Third Assessment Report*, 2001.

between 1.4 and 5.8 degrees Centigrade during this century, with a wide range of impacts on the natural world and human societies.

Scientists continue to explore the possible impacts associated with temperature increase of different magnitudes. In addition, they are examining a variety of possible scenarios to determine how much the temperature is likely to rise if atmospheric greenhouse gas concentrations are stabilized at certain levels. The consensus in the international scientific community is that greenhouse gas emissions will have to be reduced significantly below current levels. This would correspond to levels much lower than those limits underlying our CO₂ price forecasts. In 2001 the Intergovernmental Panel on Climate Change reported that greenhouse gas emissions would have to decline to a very small fraction of current emissions in order to keep global warming in the vicinity of a 2-3 degree centigrade temperature increase.¹²

Since 2001 the evidence of climate change, and human contribution to climate change, is even more compelling. In June 2005 the National Science Academies from eleven major nations, including the United States, issued a Joint Statement on a Global Response to Climate Change.¹³ Among the conclusions in the statement were that

- Significant global warming is occurring;
- It is likely that most of the warming in recent decades can be attributed to human activities;
- The scientific understanding of climate change is now sufficiently clear to justify nations taking prompt action;
- Action taken now to reduce significantly the build-up of greenhouse gases in the atmosphere will lessen the magnitude and rate of climate change;
- The Joint Academies urge all nations to take prompt action to reduce the causes of climate change, adapt to its impacts and ensure that the issue is included in all relevant national and international strategies.

There is increasing concern in the scientific community that the earth may be more sensitive to global warming than previously thought. Increasing attention is focused on understanding and avoiding dangerous levels of climate change. A 2005 Scientific Symposium on Stabilization of Greenhouse Gases reached the following conclusions:¹⁴

¹² IPCC, *Climate Change 2001: Synthesis Report*, Fourth Volume of the IPCC Third Assessment Report. IPCC 2001. Question 6.

¹³ *Joint Science Academies' Statement: Global Response to Climate Change*, National Academies of Brazil, Canada, China, France, Germany, India, Italy, Japan, Russia, United Kingdom, and United States, June 7, 2005.

¹⁴ UK Department of Environment, Food, and Rural Affairs, *Avoiding Dangerous Climate Change – Scientific Symposium on Stabilization of Greenhouse Gases, February 1-3, 2005 Exeter, U.K. Report of the International Scientific Steering Committee*, May 2005.
http://www.stabilisation2005.com/Steering_Committee_Report.pdf

- There is greater clarity and reduced uncertainty about the impacts of climate change across a wide range of systems, sectors and societies. In many cases the risks are more serious than previously thought.
- Surveys of the literature suggest increasing damage if the globe warms about 1 to 3⁰C above current levels. Serious risk of large scale, irreversible system disruption, such as reversal of the land carbon sink and possible de-stabilisation of the Antarctic ice sheets is more likely above 3⁰C.
- Many climate impacts, particularly the most damaging ones, will be associated with an increased frequency or intensity of extreme events (such as heat waves, storms, and droughts).
- Different models suggest that delaying action would require greater action later for the same temperature target and that even a delay of 5 years could be significant. If action to reduce emissions is delayed by 20 years, rates of emission reduction may need to be 3 to 7 times greater to meet the same temperature target.

As scientific evidence of climate change continues to emerge, including unusually high temperatures, increased storm intensity, melting of the polar icecaps and glaciers worldwide, coral bleaching, and sea level rise, pressure will continue to mount for concerted governmental action on climate change.¹⁵

3. US carbon emissions

The United States contributes more than any other nation, by far, to global greenhouse gas emissions on both a total and a per capita basis. The United States contributes 24 percent of the world CO₂ emissions from fossil fuel consumption, but has only 4.6 percent of the population. According to the International Energy Agency, 80 percent of 2002 global energy-related CO₂ emissions were emitted by 22 countries – from all world regions, 12 of which are OECD countries. These 22 countries also produced 80 percent of the world’s 2002 economic output (GDP) and represented 78 percent of the world’s Total Primary Energy Supply.¹⁶ Figure 3.1 shows the top twenty carbon dioxide emitters in the world.

¹⁵ Several websites provide summary information on climate change science including www.ipcc.org, www.nrdc.org, www.ucsusa.org, and www.climateark.org.

¹⁶ International Energy Agency, “CO₂ from Fuel Combustion – Fact Sheet,” 2005

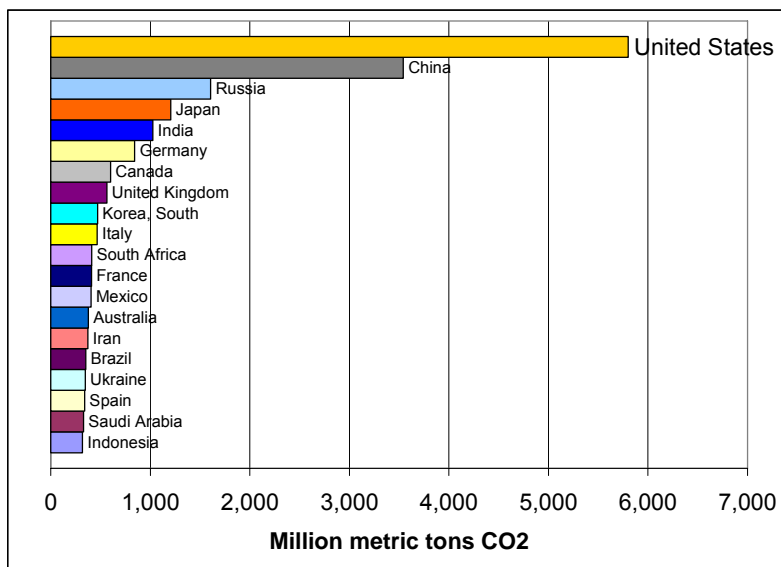


Figure 3.1. Top Worldwide Emitters of Carbon Dioxide in 2003

Source: Data from EIA Table H.1co2 World Carbon Dioxide Emissions from the Consumption and Flaring of Fossil Fuels, 1980-2003, July 11, 2005

Emissions in this country in 2004 were roughly divided among three sectors: transportation (1,934 million metric tons CO₂), electric generation (2,299 million metric tons CO₂), and other (which includes commercial and industrial heat and process applications – 1,673 million metric tons CO₂). These emissions, largely attributable to the burning of fossil fuels, came from combustion of oil (44%), coal (35.4%), and natural gas (20.4%). Figure 3.2 shows emissions from the different sectors, with the electric sector broken out by fuel source.

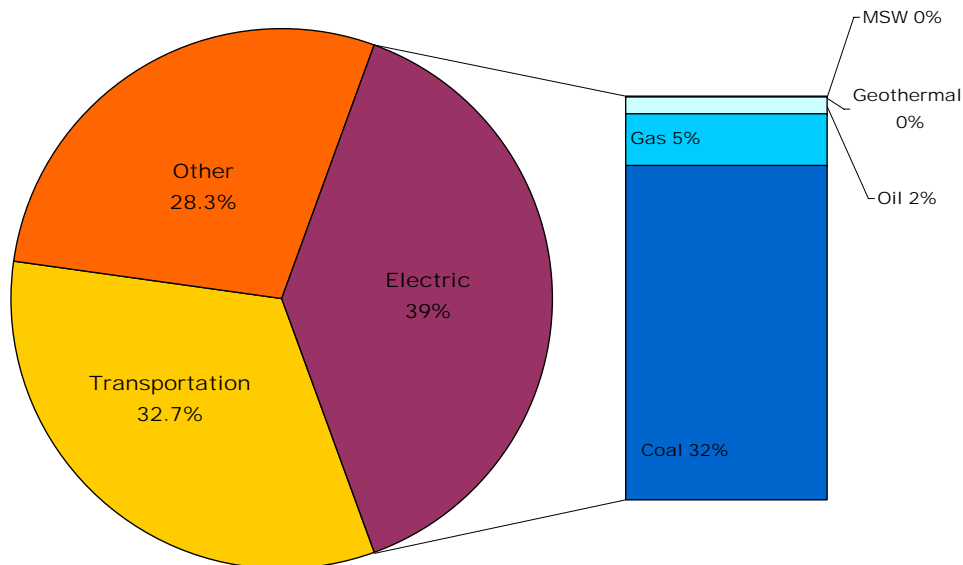


Figure 3.2. US CO₂ Emissions by Sector in 2004

Source: Data from EIA Emissions of Greenhouse Gases in the United States 2004, December 2005

Recent analysis has shown that in 2004, power plant CO₂ emissions were 27 percent higher than they were in 1990.¹⁷ US greenhouse gas emissions per unit of Gross Domestic Product (GDP) fell from 677 metric tons per million 2000 constant dollars of GDP (MTCO₂e/\$Million GDP) in 2003 to 662 MTCO₂e /\$Million GDP in 2004, a decline of 2.1 percent.¹⁸ However, while the carbon intensity of the US economy (carbon emissions per unit of GDP) fell by 12 percent between 1991 and 2002, the carbon intensity of the electric power sector held steady.¹⁹ This is because the carbon efficiency gains from the construction of efficient and relatively clean new natural gas plants have been offset by increasing reliance on existing coal plants. Since federal acid rain legislation was enacted in 1990, the average rate at which existing coal plants are operated increased from 61 percent to 72 percent. Power plant CO₂ emissions are concentrated in states along the Ohio River Valley and in the South. Five states – Indiana, Ohio, Pennsylvania, Texas, and West Virginia – are the source of 30 percent of the electric power industry's NO_x and CO₂ emissions, and nearly 40 percent of its SO₂ and mercury emissions.

¹⁷ EIA, "Emissions of Greenhouse Gases in the United States, 2004;" Energy Information Administration; December 2005, xiii

¹⁸ EIA Emissions of Greenhouse Gases in the United States 2004, December 2005.

¹⁹ Goodman, Sandra; "[Benchmarking Air Emissions of the 100 Largest Electric Generation Owners in the US - 2002](#);" CERES, Natural Resources Defense Council (NRDC), and Public Service Enterprise Group Incorporated (PSEG); April 2004. An updated "Benchmarking Study" has been released: Goodman, Sandra and Walker, Michael. "Benchmarking Air Emissions of the 100 Largest Electric Generation Owners in the US - 2004." CERES, Natural Resources Defense Council (NRDC), and Public Service Enterprise Group Incorporated (PSEG). April 2006.

4. Governments worldwide have agreed to respond to climate change by reducing greenhouse gas emissions

The prospect of global warming and associated climate change has spurred one of the most comprehensive international treaties on environmental issues.²⁰ The 1992 United Nations Framework Convention on Climate Change has almost worldwide membership; and, as such, is one of the most widely supported of all international environmental agreements.²¹ President George H.W. Bush signed the Convention in 1992, and it was ratified by Congress in the same year. In so doing, the United States joined other nations in agreeing that “The Parties should protect the climate system for the benefit of present and future generations of humankind, on the basis of equity and in accordance with their common but differentiated responsibilities and respective capabilities.”²² Industrialized nations, such as the United States, and Economies in Transition, known as Annex I countries in the UNFCCC, agree to adopt climate change policies to reduce their greenhouse gas emissions.²³ Industrialized countries that were members of the Organization for Economic Cooperation and Development (OECD) in 1992, called Annex II countries, have the further obligation to assist developing countries with emissions mitigation and climate change adaptation.

Following this historic agreement, most Parties to the UNFCCC adopted the Kyoto Protocol on December 11, 1997. The Kyoto Protocol supplements and strengthens the Convention; the Convention continues as the main focus for intergovernmental action to combat climate change. The Protocol establishes legally-binding targets to limit or reduce greenhouse gas emissions.²⁴ The Protocol also includes various mechanisms to cut emissions reduction costs. Specific rules have been developed on emissions sinks, joint implementation projects, and clean development mechanisms. The Protocol envisions a long-term process of five-year commitment periods. Negotiations on targets for the second commitment period (2013-2017) are beginning.

The Kyoto targets are shown below, in Table 4.1. Only Parties to the Convention that have also become Parties to the Protocol (i.e. by ratifying, accepting, approving, or acceding to it), are bound by the Protocol’s commitments, following its entry into force in

²⁰ For comprehensive information on the UNFCCC and the Kyoto Protocol, see UNFCCC, “Caring for Climate: a guide to the climate change convention and the Kyoto Protocol,” issued by the Climate Change Secretariat (UNFCCC) Bonn, Germany. 2003. This and other publications are available at the UNFCCC’s website: <http://unfccc.int/>.

²¹ The First World Climate Conference was held in 1979. In 1988, the World Meteorological Society and the United Nations Environment Programme created the Intergovernmental Panel on Climate Change to evaluate scientific information on climate change. Subsequently, in 1992 countries around the world, including the United States, adopted the United Nations Framework Convention on Climate Change.

²² From Article 3 of the United Nations Framework Convention on Climate Change, 1992.

²³ One of obligations of the United States and other industrialized nations is to a National Report describing actions it is taking to implement the Convention

²⁴ Greenhouse gases covered by the Protocol are CO₂, CH₄, N₂O, HFCs, PFCs and SF₆.

February 2005.²⁵ The individual targets for Annex I Parties add up to a total cut in greenhouse-gas emissions of at least 5 percent from 1990 levels in the commitment period 2008-2012.

Only a few industrialized countries have not signed the Kyoto Protocol; these countries include the United States, Australia, and Monaco. Of these, the United States is by far the largest emitter with 36.1 percent of Annex I emissions in 1990; Australia and Monaco were responsible for 2.1 percent and less than 0.1 percent of Annex I emissions, respectively. The United States did not sign the Kyoto protocol, stating concerns over impacts on the US economy and absence of binding emissions targets for countries such as India and China. Many developing countries, including India, China and Brazil have signed the Protocol, but do not yet have emission reduction targets.

In December 2005, the Parties agreed to final adoption of a Kyoto "rulebook" and a two-track approach to consider next steps. These next steps will include negotiation of new binding commitments for Kyoto's developed country parties, and, a nonbinding "dialogue on long-term cooperative action" under the Framework Convention.

Table 4.1. Emission Reduction Targets Under the Kyoto Protocol²⁶

| Country | Target: change in emissions from 1990** levels by 2008/2012 |
|---|---|
| EU-15*, Bulgaria, Czech Republic, Estonia, Latvia, Liechtenstein, Lithuania, Monaco, Romania, Slovakia, Slovenia, Switzerland | -8% |
| United States*** | -7% |
| Canada, Hungary, Japan, Poland | -6% |
| Croatia | -5% |
| New Zealand, Russian Federation, Ukraine | 0 |
| Norway | +1% |
| Australia*** | +8% |
| Iceland | +10% |

* The EU's 15 member States will redistribute their targets among themselves, as allowed under the Protocol. The EU has already reached agreement on how its targets will be redistributed.

** Some Economies In Transition have a baseline other than 1990.

*** The United States and Australia have indicated their intention not to ratify the Kyoto Protocol.

As the largest single emitter of greenhouse gas emissions, and as one of the only industrialized nations not to sign the Kyoto Protocol, the United States is under significant international scrutiny; and pressure is building for the United States to take more initiative in addressing the emerging problem of climate change. In 2005 climate change was a priority at the G8 Summit in Gleneagles, with the G8 leaders agreeing to "act with resolve and urgency now" on the issue of climate change.²⁷ The leaders

²⁵ Entry into force required 55 Parties to the Convention to ratify the Protocol, including Annex I Parties accounting for 55 percent of that group's carbon dioxide emissions in 1990. This threshold was reached when Russia ratified the Protocol in November 2004. The Protocol entered into force February 16, 2005.

²⁶ Background information at: http://unfccc.int/essential_background/kyoto_protocol/items/3145.php

²⁷ G8 Leaders, *Climate Change, Clean Energy, and Sustainable Development*, Political Statement and Action Plan from the G8 Leaders' Communiqué at the G8 Summit in Gleneagles U.K., 2005. Available

reached agreement that greenhouse gas emissions should slow, peak and reverse, and that the G8 nations must make “substantial cuts” in greenhouse gas emissions. They also reaffirmed their commitment to the UNFCCC and its objective of stabilizing greenhouse gas concentrations in the atmosphere at a level that prevents dangerous anthropogenic interference with the climate system.

The EU has already adopted goals for emissions reductions beyond the Kyoto Protocol. The EU has stated its commitment to limiting global surface temperature increases to 2 degrees centigrade above pre-industrial levels.²⁸ The EU Environment Council concluded in 2005 that to meet this objective in an equitable manner, developed countries should reduce emissions 15-30% below 1990 levels by 2020, and 60-80% below 1990 levels by 2050. A 2005 report from the European Environment Agency concluded that a 2 degree centigrade temperature increase was likely to require that global emissions increases be limited at 35% above 1990 levels by 2020, with a reduction by 2050 of between 15 and 50% below 1990 levels.²⁹ The EU has committed to emission reductions of 20-30% below 1990 levels by 2020, and reduction targets for 2050 are still under discussion.³⁰

5. Legislators, state governmental agencies, shareholders, and corporations are working to reduce greenhouse gas emissions from the United States

There is currently no mandatory federal program requiring greenhouse gas emission reductions. Nevertheless, various federal legislative proposals are under consideration, and President Bush has acknowledged that humans are contributing to global warming. Meanwhile, state and municipal governments (individually and in cooperation), are leading the development and design of climate policy in the United States. Simultaneously, companies in the electric sector, acting on their own initiative or in compliance with state requirements, are beginning to incorporate future climate change policy as a factor in resource planning and investment decisions.

at:

<http://www.g8.gov.uk/servlet/Front?pagename=OpenMarket/Xcelerate/ShowPage&c=Page&cid=1094235520309>

²⁸ Council of the European Union, *Information Note – Brussels March 10, 2005*.
<http://ue.eu.int/uedocs/cmsUpload/st07242.en05.pdf>

²⁹ European Environment Agency, *Climate Change and a European Low Carbon Energy System*, 2005. EEA Report No 1/2005. ISSN 1725-9177.
http://reports.eea.europa.eu/eea_report_2005_1/en/Climate_change-FINAL-web.pdf

³⁰ *Ibid*; and European Parliament Press Release “Winning the Battle Against Climate Change” November 17, 2005. http://www.europarl.europa.eu/news/expert/infopress_page/064-2439-320-11-46-911-20051117IPR02438-16-11-2005-2005-false/default_en.htm

5.1 Federal initiatives

With ratification of the United Nations Framework Convention on Climate Change in 1992, the United States agreed to a goal of “stabilization of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system.”³¹ To date, the Federal Government in the United States has not required greenhouse gas emission reductions, and the question of what constitutes a dangerous level of human interference with the climate system remains unresolved. However, legislative initiatives for a mandatory market-based greenhouse gas cap and trade program are under consideration.

To date, the Bush Administration has relied on voluntary action. In July 2005, President Bush changed his public position on causation, acknowledging that the earth is warming and that human actions are contributing to global warming.³² That summer, the Administration launched a new climate change pact between the United States and five Asian and Pacific nations aimed at stimulating technology development and inducing private investments in low-carbon and carbon-free technologies. The Asia-Pacific Partnership on Clean Development and Climate – signed by Australia, China, India, Japan, South Korea and the United States – brings some of the largest greenhouse gas emitters together; however its reliance on voluntary measures reduces its effectiveness.

The legislative branch has been more active in exploring mandatory greenhouse gas reduction policies. In June 2005, the Senate passed a sense of the Senate resolution recognizing the need to enact a US cap and trade program to slow, stop and reverse the growth of greenhouse gases.³³

³¹ The UNFCCC was signed by President George H. Bush in 1992 and ratified by the Senate in the same year.

³² “Bush acknowledges human contribution to global warming; calls for post-Kyoto strategy.” Greenwire, July 6, 2005.

³³ US Senate, *Sense of the Senate Resolution on Climate Change*, US Senate Resolution 866; June 22, 2005. Available at: http://energy.senate.gov/public/index.cfm?FuseAction=PressReleases.Detail&PressRelease_id=234715&Month=6&Year=2005&Party=0

Sense of the Senate Resolution – June 2005

It is the sense of the Senate that, before the end of the 109th Congress, Congress should enact a comprehensive and effective national program of mandatory, market-based limits on emissions of greenhouse gases that slow, stop, and reverse the growth of such emissions at a rate and in a manner that

- (1) will not significantly harm the United States economy; and
- (2) will encourage complementary action by other nations that are major trading partners and key contributors to global emissions.

This Resolution built upon previous areas of agreement in the Senate, and provides a foundation for future agreement on a cap and trade program. On May 10, 2006 the House Appropriations Committee adopted very similar language supporting a mandatory cap on greenhouse gas emissions in a non-binding amendment to a 2007 spending bill.³⁴

Several mandatory emissions reduction proposals have been introduced in Congress. These proposals establish emission trajectories below the projected business-as-usual emission trajectories, and they generally rely on market-based mechanisms (such as cap and trade programs) for achieving the targets. The proposals also include various provisions to spur technology innovation, as well as details pertaining to offsets, allowance allocation, restrictions on allowance prices and other issues. Through their consideration of these proposals, legislators are increasingly educated on the complex details of different policy approaches, and they are laying the groundwork for a national mandatory program. Federal proposals that would require greenhouse gas emission reductions are summarized in Table 5.1, below.

³⁴ “House appropriators OK resolution on need to cap emissions,” Greenwire, May 10, 2005.

Table 5.1. Summary of Federal Mandatory Emission Reduction Proposals

| Proposed National Policy | Title or Description | Year Proposed | Emission Targets | Sectors Covered |
|--|---|----------------------|--|---|
| McCain Lieberman S.139 | Climate Stewardship Act | 2003 | Cap at 2000 levels 2010-2015. Cap at 1990 levels beyond 2015. | Economy-wide, large emitting sources |
| McCain Lieberman SA 2028 | Climate Stewardship Act | 2003 | Cap at 2000 levels | Economy-wide, large emitting sources |
| National Commission on Energy Policy (basis for Bingaman- Domenici legislative work) | Greenhouse Gas Intensity Reduction Goals | 2005 | Reduce GHG intensity by 2.4%/yr 2010- 2019 and by 2.8%/yr 2020- 2025. Safety- valve on allowance price | Economy-wide, large emitting sources |
| Sen. Feinstein | Strong Economy and Climate Protection Act | 2006 | Stabilize emissions through 2010; 0.5% cut per year from 2011-15; 1% cut per year from 2016-2020. Total reduction is 7.25% below current levels. | Economy-wide, large emitting sources |
| Jeffords S. 150 | Multi-pollutant legislation | 2005 | 2.050 billion tons beginning 2010 | Existing and new fossil-fuel fired electric generating plants >15 MW |
| Carper S. 843 | Clean Air Planning Act | 2005 | 2006 levels (2.655 billion tons CO ₂) starting in 2009, 2001 levels (2.454 billion tons CO ₂) starting in 2013. | Existing and new fossil-fuel fired, nuclear, and renewable electric generating plants >25 MW |
| Rep. Udall - Rep. Petri | Keep America Competitive Global Warming Policy Act | 2006 | Establishes prospective baseline for greenhouse gas emissions, with safety valve. | Not available |

Landmark legislation that would regulate carbon, the Climate Stewardship Act (S.139), was introduced by Senators McCain and Lieberman in 2003, and received 43 votes in the Senate. A companion bill was introduced in the House by Congressmen Olver and Gilchrest. As initially proposed, the bill created an economy-wide two-step cap on greenhouse gas emissions. The bill was reintroduced in the 109th Congress on February 10, 2005; the revised Climate Stewardship Act, SA 2028, would create a national cap and

trade program to reduce CO₂ to year 2000 emission levels over the period 2010 to 2015. Other legislative initiatives on climate change were also under consideration in the spring of 2005, including a proposal by Senator Jeffords (D-VT) to cap greenhouse gas emissions from the electric sector (S. 150), and an electric sector four-pollutant bill from Senator Carper (D-DE) (S. 843).

In 2006, the Senate appears to be moving beyond the question of whether to regulate greenhouse gas emissions, to working out the details of how to regulate greenhouse gas emissions. Senators Domenici (R-NM) and Bingaman (D-NM) are working on bipartisan legislation based on the recommendations of the National Commission on Energy Policy (NCEP). The NCEP – a bipartisan group of energy experts from industry, government, labor, academia, and environmental and consumer groups – released a consensus strategy in December 2004 to address major long-term US energy challenges. Their report recommends a mandatory economy-wide tradable permits program to limit GHG. Costs would be capped at \$7/metric ton of CO₂ equivalent in 2010 with the cap rising 5 percent annually.³⁵ The Senators are investigating the details of creating a mandatory economy-wide cap and trade system based on mandatory reductions in greenhouse gas intensity (measured in tons of emissions per dollar of GDP). In the spring of 2006, the Senate Energy and Natural Resources Committee held hearings to develop the details of a proposal.³⁶ During these hearings many companies in the electric power sector, such as Exelon, Duke Energy, and PNM Resources, expressed support for a mandatory national greenhouse gas cap and trade program.³⁷

Two other proposals in early 2006 have added to the detail of the increasingly lively discussion of federal climate change strategies. Senator Feinstein (D-CA) issued a proposal for an economy-wide cap and trade system in order to further spur debate on the issue.³⁸ Senator Feinstein's proposal would cap emissions and seek reductions at levels largely consistent with the original McCain-Lieberman proposal. The most recent proposal to be added to the discussion is one by Reps. Tom Udall (D-NM) and Tom Petri (R-WI). The proposal includes a market-based trading system with an emissions cap to be established by the EPA about three years after the bill becomes law. The bill includes provisions to spur new research and development by setting aside 25 percent of the trading system's allocations for a new Energy Department technology program, and 10 percent of the plan's emission allowances to the State Department for spending on zero-carbon and low-carbon projects in developing nations. The bill would regulate greenhouse gas emissions at "upstream" sources such as coal mines and oil imports. Also,

³⁵ National Commission on Energy Policy, *Ending the Energy Stalemate*, December 2004, pages 19-29.

³⁶ The Senators have issued a white paper, inviting comments on various aspects of a greenhouse gas regulatory system. See, Senator Pete V. Domenici and Senator Jeff Bingaman, "Design Elements of a Mandatory Market-based Greenhouse Gas Regulatory System," issued February 2, 2006.

³⁷ All of the comments submitted to the Senate Energy and Natural Resources Committee are available at: http://energy.senate.gov/public/index.cfm?FuseAction=IssueItems.View&IssueItem_ID=38

³⁸ Letter of Senator Feinstein announcing "Strong Economy and Climate Protection Act of 2006," March 20, 2006.

it would establish a "safety valve" initially limiting the price of a ton of carbon dioxide emission to \$25.³⁹

Figure 5.1 illustrates the anticipated emissions trajectories from the economy-wide proposals - though the most recent proposal in the House is not included due to its lack of a specified emissions cap.



Figure 5.1. Emission Trajectories of Proposed Federal Legislation

Anticipated emissions trajectories from federal proposals for economy-wide greenhouse gas cap and trade proposals (McCain Lieberman S.139 Climate Stewardship Act 2003, McCain-Lieberman SA 2028 Climate Stewardship Act 2005, National Commission on Energy Policy greenhouse gas emissions intensity cap, and Senator Feinstein’s Strong Economy and Climate Protection Act). EIA Reference trajectory is a composite of Reference cases in EIA analyses of the above policy proposals.

The emissions trajectories contained in the proposed federal legislation are in fact quite modest compared with emissions reductions that are anticipated to be necessary to achieve stabilization of atmospheric concentrations of greenhouse gases at levels that correspond to temperature increase of about 2 degrees centigrade. Figure 5.2 compares various emission reduction trajectories and goals in relation to a 1990 baseline. US federal proposals, and even Kyoto Protocol reduction targets, are small compared with the current EU emissions reduction target for 2020, and emissions reductions that will ultimately be necessary to cope with global warming.

³⁹ Press release, “Udall and Petri introduce legislation to curb global warming,” March 29, 2006.

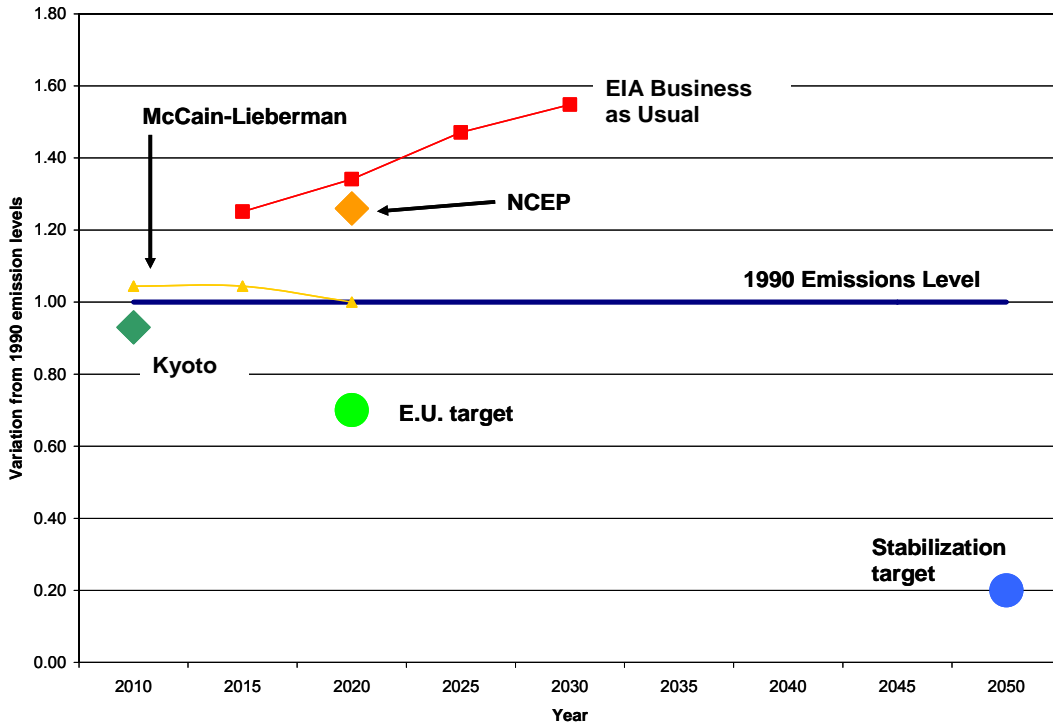


Figure 5.2 Comparison of Emission Reduction Goals

Figure compares emission reduction goals with 1990 as the baseline. Kyoto Protocol target for the United States would have been 7% below 1990 emissions levels. EU target is 20-30% below 1990 emissions levels. Stabilization target represents a reduction of 80% below 1990 levels. While there is no international agreement on the level at which emissions concentrations should be stabilized, and the emissions trajectory to achieve a stabilization target is not determined, reductions of 80% below 1990 levels indicates the magnitude of emissions reductions that are currently anticipated to be necessary.

As illustrated in the above figure, long term emission reduction goals are likely to be much more aggressive than those contained in federal policy proposals to date. Thus it is likely that cost projections will increase as targets become more stringent.

While efforts continue at the federal level, some individual states and regions are adopting their own greenhouse gas mitigation policies. Many corporations are also taking steps, on their own initiative, pursuant to state requirements, or under pressure from shareholder resolutions, in anticipation of mandates to reduce emissions of greenhouse gases. These efforts are described below.

5.2 State and regional policies

Many states across the country have not waited for federal policies and are developing and implementing climate change-related policies that have a direct bearing on resource choices in the electric sector. States, acting individually, and through regional coordination, have been the leaders on climate change policies in the United States. Generally, policies that individual states adopt fall into the following categories: (1) Direct policies that require specific emission reductions from electric generation sources; and (2) Indirect policies that affect electric sector resource mix such as through

promoting low-emission electric sources; (3) Legal proceedings; or (4) Voluntary programs including educational efforts and energy planning.

Table 5.2. Summary of Individual State Climate Change Policies

| Type of Policy | Examples |
|--|--|
| <p>Direct</p> <ul style="list-style-type: none"> • Power plant emission restrictions (e.g. cap or emission rate) • New plant emission restrictions • State GHG reduction targets • Fuel/generation efficiency | <ul style="list-style-type: none"> • MA, NH • OR, WA • CT, NJ, ME, MA, CA, NM, NY, OR, WA • CA vehicle emissions standards to be adopted by CT, NY, ME, MA, NJ, OR, PA, RI, VT, WA |
| <p>Indirect (clean energy)</p> <ul style="list-style-type: none"> • Load-based GHG cap • GHG in resource planning • Renewable portfolio standards • Energy efficiency/renewable charges and funding; energy efficiency programs • Net metering, tax incentives | <ul style="list-style-type: none"> • CA • CA, WA, OR, MT, KY • 22 states and D.C. • More than half the states • 41 states |
| <p>Lawsuits</p> <ul style="list-style-type: none"> • States, environmental groups sue EPA to determine whether greenhouse gases can be regulated under the Clean Air Act • States sue individual companies to reduce GHG emissions | <ul style="list-style-type: none"> • States include CA, CT, ME, MA, NM, NY, OR, RI, VT, and WI • NY, CT, CA, IA, NJ, RI, VT, WI |
| <p>Climate change action plans</p> | <ul style="list-style-type: none"> • 28 states, with NC and AZ in progress |

Several states have adopted direct policies that require specific emission reductions from specific electric sources. Some states have capped carbon dioxide emissions from sources in the state (through rulemaking or legislation), and some restrict emissions from new sources through offset requirements. The California Public Utilities Commission recently stated that it will develop a load-based cap on greenhouse gas emissions in the electric sector. Table 5.3 summarizes these direct policies.

Table 5.3. State Policies Requiring GHG Emission Reductions From Power Plants

| Program type | State | Description | Date | Source |
|-------------------------------|-------|---|------------------------|-------------------------------------|
| Emissions limit | MA | Department of Environmental Protection decision capping GHG emissions, requiring 10 percent reduction from historic baseline | April 1, 2001 | 310 C.M.R. 7.29 |
| Emissions limit | NH | NH Clean Power Act | May 1, 2002 | HB 284 |
| Emissions limit on new plants | OR | Standard for CO ₂ emissions from new electricity generating facilities (base-load gas, and non-base load generation) | Updated September 2003 | OR Admin. Rules, Ch. 345, Div 24 |
| Emissions limit on new plants | WA | Law requiring new power plants to mitigate emissions or pay for a portion of emissions | March 1, 2004 | RCW 80.70.020 |
| Load-based emissions limit | CA | Public Utilities Commission decision stating intent to establish load-based cap on GHG emissions | February 17, 2006 | D. 06-02-032 in docket R. 04-04-003 |

Several states require that integrated utilities or default service suppliers evaluate costs or risks associated with greenhouse gas emissions in long-range planning or resource procurement. Some of the states such as California require that companies use a specific value, while other states require generally that companies consider the risk of future regulation in their planning process. Table 5.4 summarizes state requirements for consideration of greenhouse gas emissions in the planning process.

Table 5.4. Requirements for Consideration of GHG Emissions in Electric Resource Decisions

| Program type | State | Description | Date | Source |
|--------------------------------|--------------|--|-----------------|---|
| GHG value in resource planning | CA | PUC requires that regulated utility IRPs include carbon adder of \$8/ton CO ₂ , escalating at 5% per year. | April 1, 2005 | CPUC Decision 05-04-024 |
| GHG value in resource planning | WA | Law requiring that cost of risks associated with carbon emissions be included in Integrated Resource Planning for electric and gas utilities | January, 2006 | WAC 480-100-238 and 480-90-238 |
| GHG value in resource planning | OR | PUC requires that regulated utility IRPs include analysis of a range of carbon costs | Year 1993 | Order 93-695 |
| GHG value in resource planning | NWPC C | Inclusion of carbon tax scenarios in Fifth Power Plan | May, 2006 | NWPCC Fifth Energy Plan |
| GHG value in resource planning | MN | Law requires utilities to use PUC established environmental externalities values in resource planning | January 3, 1997 | Order in Docket No. E-999/CI-93-583 |
| GHG in resource planning | MT | IRP statute includes an "Environmental externality Adjustment Factor" which includes risk due to greenhouse gases. PSC required Northwestern to account for financial risk of carbon dioxide emissions in 2005 IRP. | August 17, 2004 | Written Comments Identifying Concerns with NWE's Compliance with A.R.M. 38.5.8209-8229; Sec. 38.5.8219, A.R.M. |
| GHG in resource planning | KY | KY staff reports on IRP require IRPs to demonstrate that planning adequately reflects impact of future CO ₂ restrictions | 2003 and 2006 | Staff Report On the 2005 Integrated Resource Plan Report of Louisville Gas and Electric Company and Kentucky Utilities Company - Case 2005-00162, February 2006 |
| GHG in resource planning | UT | Commission directs PacifiCorp to consider financial risk associated with potential future regulations, including carbon regulation | June 18, 1992 | Docket 90-2035-01, and subsequent IRP reviews |
| GHG in resource planning | MN | Commission directs Xcel to "provide an expansion of CO ₂ contingency planning to check the extent to which resource mix changes can lower the cost of meeting customer demand under different forms of regulation." | August 29, 2001 | Order in Docket No. RP00-787 |
| GHG in CON | MN | Law requires that proposed non-renewable generating facilities consider the risk of environmental regulation over expected useful life of the facility | 2005 | Minn. Stat. §216B.243 subd. 3(12) |

In June 2005 both California and New Mexico adopted ambitious greenhouse gas emission reduction targets that are consistent with current scientific understanding of the emissions reductions that are likely to be necessary to avoid dangerous human interference with the climate system. In California, an Executive Order directs the state to reduce GHG emissions to 2000 levels by 2010, 1990 levels by 2020, and 80 percent below 1990 levels by 2050. In New Mexico, an Executive Order established statewide goals to reduce New Mexico's total greenhouse gas emissions to 2000 levels by 2012, 10 percent below those levels by 2020, and 75 percent below 2000 levels by 2050. In September 2005 New Mexico also adopted a legally binding agreement to lower emissions through the Chicago Climate Exchange. More broadly, to date at least twenty-eight states have developed Climate Action Plans that include statewide plans for addressing climate change issues. Arizona and North Carolina are in the process of developing such plans.

States are also pursuing other approaches. For example, in November 2005, the governor of Pennsylvania announced a new program to modernize energy infrastructure through replacement of traditional coal technology with advanced coal gasification technology. Energy Deployment for a Growing Economy allows coal plant owners a limited time to continue to operate without updated emissions technology as long as they make a commitment by 2007 to replace older plants with IGCC by 2013.⁴⁰ In September of 2005 the North Carolina legislature formed a commission to study and make recommendations on voluntary GHG emissions controls. In October 2005, New Jersey designated carbon dioxide as a pollutant, a necessary step for the state's participation in the Regional Greenhouse Gas Initiative (described below).⁴¹

Finally, states are pursuing legal proceedings addressing greenhouse gas emissions. Many states have participated in one or several legal proceedings to seek greenhouse gas emission reductions from some of the largest polluting power plants. Some states have also sought a legal determination regarding regulation of greenhouse gases under the Clean Air Act. The most recent case involves 10 states and two cities suing the Environmental Protection Agency to determine whether greenhouse gases can be regulated under the Clean Air Act.⁴² The states argue that EPA's recent emissions standards for new sources should include carbon dioxide since carbon dioxide, as a major contributor to global warming, harms public health and welfare, and thus falls within the scope of the Clean Air Act.

While much of the focus to date has been on the electric sector, states are also beginning to address greenhouse gas emissions in other sectors. For example, California has

⁴⁰ Press release, "Governor Rendell's New Initiative, 'The Pennsylvania EDGE,' Will Put Commonwealth's Energy Resources to Work to Grow Economy, Clean Environment," November 28, 2005.

⁴¹ Press release, "Codey Takes Crucial Step to Combat Global Warming," October 18, 2005.

⁴² The states are CA, CT, ME, MA, NM, NY, OR, RI, VT, and WI. New York City and Washington D.C., as well as the Natural Resources Defense Council, the Sierra Club, and Environmental Defense. New York State Attorney General Eliot Spitzer, "States Sue EPA for Violating Clean Air Act and Failing to Act on Global Warming," press release, April 27, 2006.

adopted emissions standards for vehicles that would restrict carbon dioxide emissions. Ten other states have decided to adopt California’s vehicle emissions standards.

States are not just acting individually; there are several examples of innovative regional policy initiatives that range from agreeing to coordinate information (e.g. Southwest governors, and Midwestern legislators) to development of a regional cap and trade program through the Regional Greenhouse Gas Initiative in the Northeast. These regional activities are summarized in Table 5.5, below.

Table 5.5. Regional Climate Change Policy Initiatives

| Program type | State | Description | Date | Source |
|-------------------------------------|--------------------------------|---|---|--|
| Regional GHG reduction Plan | CT, DE, MD, ME, NH, NJ, NY, VT | Regional Greenhouse Gas Initiative capping GHG emissions in the region and establishing trading program | MOU December 20, 2005, Model Rule February 2006 | Memorandum of Understanding and Model Rule |
| Regional GHG reduction Plan | CA, OR, WA | West Coast Governors' Climate Change Initiative | September 2003, Staff report November 2004 | Staff Report to the Governors |
| Regional GHG coordination | NM, AZ | Southwest Climate Change Initiative | February 28, 2006 | Press release |
| Regional legislative coordination | IL, IA, MI, MN, OH, WI | Legislators from multiple states agree to coordinate regional initiatives limiting global warming pollution | February 7, 2006 | Press release |
| Regional Climate Change Action Plan | New England, Eastern Canada | New England Governors and Eastern Canadian Premiers agreement for comprehensive regional Climate Change Action Plan. Targets are to reduce regional GHG emissions to 1990 levels by 2010, at least 10 percent below 1990 levels by 2020, and long-term reduction consistent with elimination of dangerous threat to climate (75-85 percent below current levels). | August, 2001 | Memorandum of Understanding |

Seven Northeastern and Mid-Atlantic states (CT, DE, ME, NH, NJ, NY, and VT) reached agreement in December 2005 on the creation of a regional greenhouse gas cap and trade program. The Regional Greenhouse Gas Initiative (RGGI) is a multi-year cooperative effort to design a regional cap and trade program initially covering CO₂ emissions from power plants in the region. Massachusetts and Rhode Island have actively participated in RGGI, but have not yet signed the agreement. Collectively, these states and Massachusetts and Rhode Island (which participated in RGGI negotiations) contribute 9.3 percent of total US CO₂ emissions and together rank as the fifth highest CO₂ emitter

in the world. Maryland passed a law in April 2006 requiring participation in RGGI.⁴³ Pennsylvania, the District of Columbia, the Eastern Canadian Provinces, and New Brunswick are official “observers” in the RGGI process.⁴⁴

The RGGI states have agreed to the following:

- Stabilization of CO₂ emissions from power plants at current levels for the period 2009-2015, followed by a 10 percent reduction below current levels by 2019.
- Allocation of a minimum of 25 percent of allowances for consumer benefit and strategic energy purposes
- Certain offset provisions that increase flexibility to moderate price impacts
- Development of complimentary energy policies to improve energy efficiency, decrease the use of higher polluting electricity generation and to maintain economic growth.⁴⁵

The states released a Model Rule in February 2006. The states must next consider adoption of rules consistent with the Model Rule through their regular legislative and regulatory policies and procedures.

Many cities and towns are also adopting climate change policies. Over 150 cities in the United States have adopted plans and initiatives to reduce emissions of greenhouse gases, setting emissions reduction targets and taking measures within municipal government operations. Climate change was a major issue at the annual US Conference of Mayors convention in June 2005, when the Conference voted unanimously to support a climate protection agreement, which commits cities to the goal of reducing emissions seven percent below 1990 levels by 2012.⁴⁶ World-wide, the Cities for Climate Protection Campaign (CCP), begun in 1993, is a global campaign to reduce emissions that cause climate change and air pollution. By 1999, the campaign had engaged more than 350 local governments in this effort, who jointly accounted for approximately seven percent of global greenhouse gas emissions.⁴⁷ All of these recent activities contribute to growing pressure within the United States to adopt regulations at a national level to reduce the emissions of greenhouse gases, particularly CO₂. This pressure is likely to increase over time as climate change issues and measures for addressing them become better

⁴³ Maryland Senate Bill 154 *Healthy Air Act*, signed April 6, 2006.

⁴⁴ Information on this effort is available at www.rggi.org

⁴⁵ The MOU states “Each state will maintain and, where feasible, expand energy policies to decrease the use of less efficient or relatively higher polluting generation while maintaining economic growth. These may include such measures as: end-use efficiency programs, demand response programs, distributed generation policies, electricity rate designs, appliance efficiency standards and building codes. Also, each state will maintain and, where feasible, expand programs that encourage development of non-carbon emitting electric generation and related technologies.” RGGI MOU, Section 7, December 20, 2005.

⁴⁶ the [US Mayors Climate Protection Agreement](http://www.ci.seattle.wa.us/mayor/climate), 2005. Information available at <http://www.ci.seattle.wa.us/mayor/climate>

⁴⁷ Information on the Cities for Climate Protection Campaign, including links to over 150 cities that have adopted greenhouse gas reduction measures, is available at <http://www.iclei.org/projserv.htm#ccp>

understood by the scientific community, by the public, the private sector, and particularly by elected officials.

5.3 Investor and corporate action

Several electric companies and other corporate leaders have supported the concept of a mandatory greenhouse gas emissions program in the United States. For example, in April 2006, the Chairman of Duke Energy, Paul Anderson, stated:

From a business perspective, the need for mandatory federal policy in the United States to manage greenhouse gases is both urgent and real. In my view, voluntary actions will not get us where we need to be. Until business leaders know what the rules will be – which actions will be penalized and which will be rewarded – we will be unable to take the significant actions the issue requires.⁴⁸

Similarly, in comments to the Senate Energy and Natural Resources Committee, the vice president of Exelon reiterated the company's support for a federal mandatory carbon policy, stating that "It is critical that we start now. We need the economic and regulatory certainty to invest in a low-carbon energy future."⁴⁹ Corporate leaders from other sectors are also increasingly recognizing climate change as a significant policy issue that will affect the economy and individual corporations. For example, leaders from Wal-Mart, GE, Shell, and BP, have all taken public positions supporting the development of mandatory climate change policies.⁵⁰

In a 2004 national survey of electric generating companies in the United States, conducted by PA Consulting Group, about half the respondents believe that Congress will enact mandatory limits on CO₂ emissions within five years, while nearly 60 percent anticipate mandatory limits within the next 10 years. Respondents represented companies that generate roughly 30 percent of US electricity.⁵¹ Similarly, in a 2005 survey of the North American electricity industry, 93% of respondents anticipate increased pressure to take action on global climate change.⁵²

⁴⁸ Paul Anderson, Chairman, Duke Energy, "Being (and Staying in Business): Sustainability from a Corporate Leadership Perspective," April 6, 2006 speech to CERES Annual Conference, at: http://www.duke-energy.com/news/mediainfo/viewpoint/PAnderson_CERES.pdf

⁴⁹ Elizabeth Moler, Exelon V.P., to the Senate Energy and Natural Resources Committee, April 4, 2006, quoted in Grist, <http://www.grist.org/news/muck/2006/04/14/griscom-little/>

⁵⁰ See, e.g., Raymond Bracy, V.P. for Corporate Affairs, Wal-Mart, Comments to Senate Energy and Natural Resources Committee hearings on the design of CO₂ cap-and-trade system, April 4, 2006; David Slump, GE Energy, General Manager, Global Marketing, Comments to Senate Energy and Natural Resources Committee hearings on the design of CO₂ cap-and-trade system, April 4, 2006; John Browne, CEO of BP, "Beyond Kyoto," Foreign Affairs, July/August 2004; Shell company website at www.shell.com.

⁵¹ PA Consulting Group, "Environmental Survey 2004" Press release, October 22, 2004.

⁵² GF Energy, "GF Energy 2005 Electricity Outlook" January 2005. However, it is interesting to note that climate ranked 11th among issues deemed important to individual companies.

Some investors and corporate leaders have taken steps to manage risk associated with climate change and carbon policy. Investors are gradually becoming aware of the financial risks associated with climate change, and there is a growing body of literature regarding the financial risks to electric companies and others associated with climate change. Many investors are now demanding that companies take seriously the risks associated with carbon emissions. Shareholders have filed a record number of global warming resolutions for 2005 for oil and gas companies, electric power producers, real estate firms, manufacturers, financial institutions, and auto makers.⁵³ The resolutions request financial risk disclosure and plans to reduce greenhouse gas emissions. Four electric utilities – AEP, Cinergy, TXU and Southern – have all released reports on climate risk following shareholder requests in 2004. In February 2006, four more US electric power companies in Missouri and Wisconsin also agreed to prepare climate risk reports.⁵⁴

State and city treasurers, labor pension fund officials, and foundation leaders have formed the Investor Network on Climate Risk (INCR) which now includes investors controlling \$3 trillion in assets. In 2005, the INCR issued “A New Call for Action: Managing Climate Risk and Capturing the Opportunities,” which discusses efforts to address climate risk since 2003 and identifies areas for further action. It urges institutional investors, fund managers, companies, and government policymakers to increase their oversight and scrutiny of the investment implications of climate change.⁵⁵ A 2004 report cites analysis indicating that carbon constraints affect market value – with modest greenhouse gas controls reducing the market capitalization of many coal-dependent US electric utilities by 5 to 10 percent, while a more stringent reduction target could reduce their market value 10 to 35 percent.⁵⁶ The report recommends, as one of the steps that company CEOs should pursue, integrating climate policy in strategic business planning to maximize opportunities and minimize risks.

Institutional investors have formed The Carbon Disclosure Project (CDP), which is a forum for institutional investors to collaborate on climate change issues. Its mission is to inform investors regarding the significant risks and opportunities presented by climate change; and to inform company management regarding the serious concerns of shareholders regarding the impact of these issues on company value. Involvement with the CDP tripled in about two and a half years, from \$10 trillion under managements in

⁵³ “US Companies Face Record Number of Global Warming Shareholder Resolutions on Wider Range of Business Sectors,” CERES press release, February 17, 2005.

⁵⁴ “Four Electric Power Companies in Midwest Agree to Disclose Climate Risk,” CERES press release February 21, 2006. Companies are Great Plains Energy Inc. in Kansas City, MO, Alliant Energy in Madison, WI, WPS Resources in Green Bay, WI and MGE Energy in Madison, WI.

⁵⁵ 2005 Institutional Investor Summit, “A New Call for Action: Managing Climate Risk and Capturing the Opportunities,” May 10, 2005. The Final Report from the 2003 Institutional Investors Summit on Climate Risk, November 21, 2003 contains good summary information on risk associated with climate change.

⁵⁶ Cogan, Douglas G.; “Investor Guide to Climate Risk: Action Plan and Resource for Plan Sponsors, Fund Managers, and Corporations;” Investor Responsibility Research Center; July 2004 citing Frank Dixon and Martin Whittaker, “Valuing Corporate Environmental Performance: Innovest’s Evaluation of the Electric Utilities Industry,” New York, 1999.

Nov. 2003 to \$31 trillion under management today.⁵⁷ The CDP released its third report in September 2005. This report continued the trend in the previous reports of increased participation in the survey, and demonstrated increasing awareness of climate change and of the business risks posed by climate change. CDP traces the escalation in scope and awareness – on behalf of both signatories and respondents – to an increased sense of urgency with respect to climate risk and carbon finance in the global business and investment community.⁵⁸

Findings in the third CDP report included:

- More than 70% of FT500 companies responded to the CDP information request, a jump from 59% in CDP2 and 47% in CDP1.⁵⁹
- More than 90% of the 354 responding FT500 companies flagged climate change as posing commercial risks and/or opportunities to their business.
- 86% reported allocating management responsibility for climate change.
- 80% disclosed emissions data.
- 63% of FT500 companies are taking steps to assess their climate risk and institute strategies to reduce greenhouse gas emissions.⁶⁰

The fourth CDP information request (CDP4) was sent on behalf of 211 institutional investors with significant assets under management to the Chairmen of more than 1900 companies on February 1, 2006, including 300 of the largest electric utilities globally.

The California Public Employees' Retirement System (CalPERS) announced that it will use the influence made possible by its \$183 billion portfolio to try to convince companies it invests in to release information on how they address climate change. The CalPERS board of trustees voted unanimously for the environmental initiative, which focuses on the auto and utility sectors in addition to promoting investment in firms with good environmental practices.⁶¹

Major financial institutions have also begun to incorporate climate change into their corporate policy. For example, Goldman Sachs and JP Morgan support mandatory market-based greenhouse gas reduction policies, and take greenhouse gas emissions into account in their financial analyses. Goldman Sachs was the first global investment bank to adopt a comprehensive environmental policy establishing company greenhouse gas

⁵⁷ See: <http://www.cdproject.net/aboutus.asp>

⁵⁸ Innovest Strategic Value Advisors; "Climate Change and Shareholder Value In 2004," second report of the Carbon Disclosure Project; Innovest Strategic Value Advisors and the Carbon Disclosure Project; May 2004.

⁵⁹ FT 500 is the Financial Times' ranking of the top 500 companies ranked globally and by sector based on market capital.

⁶⁰ CDP press release, September 14, 2005. Information on the Carbon Disclosure Project, including reports, are available at: <http://www.cdproject.net/index.asp>.

⁶¹ *Greenwire*, February 16, 2005

reduction targets and supporting a national policy to limit greenhouse gas emissions.⁶² JP Morgan, Citigroup, and Bank of America have all adopted lending policies that cover a variety of project impacts including climate change.

Some CEOs in the electric industry have determined that inaction on climate change issues is not good corporate strategy, and individual electric companies have taken steps to reduce greenhouse gas emissions. Their actions represent increasing initiative in the electric industry to address the threat of climate change and manage risk associated with future carbon constraints. Recently, eight US-based utility companies have joined forces to create the “Clean Energy Group.” This group’s mission is to seek “national four-pollutant legislation that would, among other things... stabilize carbon emissions at 2001 levels by 2013.”⁶³ The President of Duke Energy urges a federal carbon tax, and states that Duke should be a leader on climate change policy.⁶⁴ Prior to its merger with Duke, Cinergy Corporation was vocal on its support of mandatory national carbon regulation. Cinergy established a target is to produce 5 percent below 2000 levels by 2010 – 2012. AEP adopted a similar target. FPL Group and PSEG are both aiming to reduce total emissions by 18 percent between 2000 and 2008.⁶⁵ A fundamental impediment to action on the part of electric generating companies is the lack of clear, consistent, national guidelines so that companies could pursue emissions reductions without sacrificing competitiveness.

While statements such as these are an important first step, they are only a starting point, and do not, in and of themselves, cause reductions in carbon emissions. It is important to keep in mind the distinction between policy statements and actions consistent with those statements.

6. Anticipating the cost of reducing carbon emissions in the electric sector

Uncertainty about the form of future greenhouse gas reduction policies poses a planning challenge for generation-owning entities in the electric sector, including utilities and non-utility generators. Nevertheless, it is not reasonable or prudent to assume in resource planning that there is no cost or financial risk associated with carbon dioxide emissions, or with other greenhouse gas emissions. There is clear evidence of climate change, federal legislation has been under discussion for the past few years, state and regional regulatory efforts are currently underway, investors are increasingly pushing for companies to address climate change, and the electric sector is likely to constitute one of

⁶² Goldman Sachs Environmental Policy Framework, http://www.gs.com/our_firm/our_culture/corporate_citizenship/environmental_policy_framework/docs/EnvironmentalPolicyFramework.pdf

⁶³ Jacobson, Sanne, Neil Numark and Paloma Sarria, “Greenhouse Gas Emissions: A Changing US Climate,” *Public Utilities Fortnightly*, February 2005.

⁶⁴ Paul M. Anderson Letter to Shareholders, March 15, 2005.

⁶⁵ Ibid.

the primary elements of any future regulatory plan. Analyses of various economy-wide policies indicate that a majority of emissions reductions will come from the electric sector. In this context and policy climate, utilities and non-utility generators must develop a reasoned assessment of the costs associated with expected emissions reductions requirements. Including this assessment in the evaluation of resource options enables companies to judge the robustness of a plan under a variety of potential circumstances.

This is particularly important in an industry where new capital stock usually has a lifetime of 50 or more years. An analysis of capital cycles in the electric sector finds that “external market conditions are the most significant influence on a firm’s decision to invest in or decommission large pieces of physical capital stock.”⁶⁶ Failure to adequately assess market conditions, including the potential cost increases associated with likely regulation, poses a significant investment risk for utilities. It would be imprudent for any company investing in plants in the electric sector, where capital costs are high and assets are long-lived, to ignore policies that are inevitable in the next five to twenty years. Likewise, it would be short-sighted for a regulatory entity to accept the valuation of carbon emissions at no cost.

Evidence suggests that a utility’s overall compliance decisions will be more efficient if based on consideration of several pollutants at once, rather than addressing pollutants separately. For example, in a 1999 study EPA found that pollution control strategies to reduce emissions of nitrogen oxides, sulfur dioxide, carbon dioxide, and mercury are highly inter-related, and that the costs of control strategies are highly interdependent.⁶⁷ The study found that the total costs of a coordinated set of actions is less than that of a piecemeal approach, that plant owners will adopt different control strategies if they are aware of multiple pollutant requirements, and that combined SO₂ and carbon emissions reduction options lead to further emissions reductions.⁶⁸ Similarly, in one of several studies on multi-pollutant strategies, the Energy Information Administration (EIA) found that using an integrated approach to NO_x, SO₂, and CO₂, is likely to lead to lower total costs than addressing pollutants one at a time.⁶⁹ While these studies clearly indicate that federal emissions policies should be comprehensive and address multiple pollutants, they also demonstrate the value of including future carbon costs in current resource planning activities.

There are a variety of sources of information that form a basis for developing a reasonable estimate of the cost of carbon emissions for utility planning purposes. Useful sources include recent market transactions in carbon markets, values that are currently being used in utility planning, and costs estimates based on scenario modeling of proposed federal legislation and the Regional Greenhouse Gas Initiative.

⁶⁶ Lempert, Popper, Resitar and Hart, “Capital Cycles and the Timing of Climate Change Policy.” Pew Center on Global Climate Change, October 2002. page

⁶⁷ US EPA, *Analysis of Emissions Reduction Options for the Electric Power Industry*, March 1999.

⁶⁸ US EPA, *Briefing Report*, March 1999.

⁶⁹ EIA, *Analysis of Strategies for Reducing Multiple Emissions from Power Plants: Sulfur Dioxide, Nitrogen Oxides, and Carbon Dioxide*. December 2000.

6.1 International market transactions

Implementation of the Kyoto Protocol has moved forward with great progress in recent years. Countries in the European Union (EU) are now trading carbon in the first international emissions market, the EU Emissions Trading Scheme (ETS), which officially launched on January 1, 2005. This market, however, was operating before that time – Shell and Nuon entered the first trade on the ETS in February 2003. Trading volumes increased steadily throughout 2004 and totaled approximately 8 million tons CO₂ in that year.⁷⁰

Prices for current- and near-term EU allowances (2006-2007) escalated sharply in 2005, rising from roughly \$11/ton CO₂ (9 euros/ton-CO₂) in the second half of 2004 and leveling off at about \$36/ton CO₂ (28 euros/ton- CO₂) early in 2006. In March 2006, the market price for 2008 allowances hovered at around \$32/ton CO₂ (25 euros/ton- CO₂).⁷¹ Lower prices in late April resulted from several countries' announcements that their emissions were lower than anticipated. The EU member states will submit their carbon emission allocation plans for the period 2008-2012 in June. Market activity to date in the EU Emissions trading system illustrates the difficulty of predicting carbon emissions costs, and the financial risk potentially associated with carbon emissions.

With the US decision not to ratify the Kyoto Protocol, US businesses are unable to participate in the international markets, and emissions reductions in the United States have no value in international markets. When the United States does adopt a mandatory greenhouse gas policy, the ability of US businesses and companies to participate in international carbon markets will be affected by the design of the mandatory program. For example, if the mandatory program in the United States includes a safety valve price, it may restrict participation in international markets.⁷²

6.2 Values used in electric resource planning

Several companies in the electric sector evaluate the costs and risks associated with carbon emissions in resource planning. Some of them do so at their own initiative, as part of prudent business management, others do so in compliance with state law or regulation.

Some states require companies under their jurisdiction to account for costs and/or risks associated with regulation of greenhouse gas emissions in resource planning. These states include California, Oregon, Washington, Montana, Kentucky (through staff reports), and Utah. Other states, such as Vermont, require that companies take into account environmental costs generally. The Northwest Power and Conservation Council

⁷⁰ “What determines the Price of Carbon,” Carbon Market Analyst, *Point Carbon*, October 14, 2004.

⁷¹ These prices are from Evolution Express trade data, <http://www.evomarkets.com/>, accessed on 3/31/06.

⁷² See, e.g. Pershing, Jonathan, Comments in Response to Bingaman-Domenici Climate Change White Paper, March 13, 2006. Sandalow, David, Comments in Response to Bingaman-Domenici Climate Change White Paper, The Brookings Institution, March 13, 2006.

includes various carbon scenarios in its Fifth Power Plan. For more information on these requirements, see the section above on state policies.⁷³

California has one of the most specific requirements for valuation of carbon in integrated resource planning. The California Public Utilities Commission (PUC) requires companies to include a carbon adder in long-term resource procurement plans. The Commission's decision requires the state's largest electric utilities (Pacific Gas & Electric, Southern California Edison, and San Diego Gas & Electric) to factor the financial risk associated with greenhouse gas emissions into new long-term power plant investments, and long-term resource plans. The Commission initially directed utilities to include a value between \$8–25/ton CO₂ in their submissions, and to justify their selection of a number.⁷⁴ In April 2005, the Commission adopted, for use in resource planning and bid evaluation, a CO₂ adder of \$8 per ton of CO₂ in 2004, escalating at 5% per year.⁷⁵ The Montana Public Service Commission specifically directed Northwest Energy to evaluate the risks associated with greenhouse gas emissions in its 2005 Integrated Resource Plan (IRP).⁷⁶ In 2006 the Oregon Public Utilities Commission (PUC) will be investigating its long-range planning requirements, and will consider whether a specific carbon adder should be required in the base case (Docket UM 1056).

Several electric utilities and electric generation companies have incorporated assumptions about carbon regulation and costs in their long term planning, and have set specific agendas to mitigate shareholder risks associated with future US carbon regulation policy. These utilities cite a variety of reasons for incorporating risk of future carbon regulation as a risk factor in their resource planning and evaluation, including scientific evidence of human-induced climate change, the US electric sector emissions contribution to emissions, and the magnitude of the financial risk of future greenhouse gas regulation.

Some of the companies believe that there is a high likelihood of federal regulation of greenhouse gas emissions within their planning period. For example, Pacificorp states a 50% probability of a CO₂ limit starting in 2010 and a 75% probability starting in 2011. The Northwest Power and Conservation Council models a 67% probability of federal regulation in the twenty-year planning period ending 2025 in its resource plan. Northwest Energy states that CO₂ taxes “are no longer a remote possibility.”⁷⁷ Table 6.1 illustrates the range of carbon cost values, in \$/ton CO₂, that are currently being used in the industry for both resource planning and modeling of carbon regulation policies.

⁷³ For a discussion of the use of carbon values in integrated resource planning see, Wisner, Ryan, and Bolinger, Mark; *Balancing Cost and Risk: The Treatment of Renewable Energy in Western Utility Resource Plans*; Lawrence Berkeley National Laboratories; August 2005. LBNL-58450

⁷⁴ California Public Utilities Commission, Decision 04-12-048, December 16, 2004

⁷⁵ California Public Utilities Commission, Decision 05-04-024, April 2005.

⁷⁶ Montana Public Service Commission, “Written Comments Identifying Concerns with NWE's Compliance with A.R.M. 38.5.8209-8229,” August 17, 2004.

⁷⁷ Northwest Energy 2005 Electric Default Supply Resource Procurement Plan, December 20, 2005; Volume 1, p. 4.

Table 6.1 CO₂ Costs in Long Term Resource Plans

| Company | CO ₂ emissions trading assumptions for various years (\$2005) |
|--|--|
| PG&E* | \$0-9/ton (start year 2006) |
| Avista 2003* | \$3/ton (start year 2004) |
| Avista 2005 | \$7 and \$25/ton (2010) \$15 and \$62/ton (2026 and 2023) |
| Portland General Electric* | \$0-55/ton (start year 2003) |
| Xcel-PSCCo | \$9/ton (start year 2010) escalating at 2.5%/year |
| Idaho Power* | \$0-61/ton (start year 2008) |
| Pacificorp 2004 | \$0-55/ton |
| Northwest Energy 2005 | \$15 and \$41/ton |
| Northwest Power and Conservation Council | \$0-15/ton between 2008 and 2016 \$0-31/ton after 2016 |

**Values for these utilities from Wiser, Ryan, and Bolinger, Mark. "Balancing Cost and Risk: The Treatment of Renewable Energy in Western Utility Resource Plans." Lawrence Berkeley National Laboratories. August 2005. LBNL-58450. Table 7.*

Other values: PacifiCorp, Integrated Resource Plan 2003, pages 45-46; and Idaho Power Company, 2004 Integrated Resource Plan Draft, July 2004, page 59; Avista Integrated Resource Plan 2005, Section 6.3; Northwestern Energy Integrated Resource Plan 2005, Volume 1 p. 62; Northwest Power and Conservation Council, Fifth Power Plan pp. 6-7. Xcel-PSCCo, Comprehensive Settlement submitted to the CO PUC in dockets 04A-214E, 215E and 216E, December 3, 2004. Converted to \$2005 using GDP implicit price deflator.

These early efforts by utilities have brought consideration of the risks associated with future carbon regulations into the mainstream in resource planning the electric sector.

6.3 Analyses of carbon emissions reduction costs

With the emergence of federal policy proposals in the United States in the past several years, there have been several policy analyses that project the cost of carbon-dioxide equivalent emission allowances under different policy designs. These studies reveal a range of cost estimates. While it is not possible to pinpoint emissions reduction costs given current uncertainties about the goal and design of carbon regulation as well as the inherent uncertainties in any forecast, the studies provide a useful source of information for inclusion in resource decisions. In addition to establishing ranges of cost estimates, the studies give a sense of which factors affect future costs of reducing carbon emissions.

There have been several studies of proposed federal cap and trade programs in the United States. Table 6.2 identifies some of the major recent studies of carbon policy proposals.

Table 6.2. Analyses of US Carbon Policy Proposals

| Policy proposal | Analysis |
|----------------------------------|---------------------------------|
| McCain Lieberman – S. 139 | EIA 2003, MIT 2003, Tellus 2003 |
| McCain Lieberman – SA 2028 | EIA 2004, MIT 2003, Tellus 2004 |
| Greenhouse Gas Intensity Targets | EIA 2005, EIA 2006 |
| Jeffords – S. 150 | EPA 2005 |
| Carper 4-P – S. 843 | EIA 2003, EPA 2005 |

Both versions of the McCain and Lieberman proposal (also known as the Climate Stewardship Act) were the subject of analyses by EIA, MIT, and the Tellus Institute. As originally proposed, the McCain Lieberman legislation capped 2010 emissions at 2000 levels, with a reduction in 2016 to 1990 levels. As revised, McCain Lieberman just included the initial cap at 2000 levels without a further restriction. In its analyses, EIA ran several sensitivity cases exploring the impact of technological innovation, gas prices, allowance auction, and flexibility mechanisms (banking and international offsets).⁷⁸

In 2003 researchers at the Massachusetts Institute of Technology also analyzed potential costs of the McCain Lieberman legislation.⁷⁹ MIT held emissions for 2010 and beyond at 2000 levels (not modeling the second step of the proposed legislation). Due to constraints of the model, the MIT group studied an economy-wide emissions limit rather than a limit on the energy sector. A first set of scenarios considers the cap tightening in Phase II and banking. A second set of scenarios examines the possible effects of outside credits. And a final set examines the effects of different assumptions about baseline gross domestic product (GDP) and emissions growth.

The Tellus Institute conducted two studies for the Natural Resources Defense Council of the McCain Lieberman proposals (July 2003 and June 2004).⁸⁰ In its analysis of the first proposal (S. 139), Tellus relied on a modified version of the National Energy Modeling System that used more optimistic assumptions for energy efficiency and renewable energy technologies based on expert input from colleagues at the ACEEE, the Union of Concerned Scientists, the National Laboratories and elsewhere. Tellus then modeled two policy cases. The “Policy Case” scenario included the provisions of the Climate Stewardship Act (S.139) as well as oil savings measures, a national renewable transportation fuel standard, a national RPS, and emissions standards contained in the Clean Air Planning Act. The “Advanced Policy Case” included the same complimentary energy policies as the “Policy Case” and assumed additional oil savings in the

⁷⁸ Energy Information Administration, *Analysis of S. 139, the Climate Stewardship Act of 2003*, EIA June 2003, SR/OIAF/2003-02; Energy Information Administration, *Analysis of Senate Amendment 2028, the Climate Stewardship Act of 2003*, EIA May 2004, SR/OIAF/2004-06

⁷⁹ Paltsev, Sergei; Reilly, John M.; Jacoby, Henry D.; Ellerman, A. Denny; Tay, Kok Hou; *Emissions Trading to Reduce Greenhouse Gas Emissions in the United States: the McCain-Lieberman Proposal*. MIT Joint Program on the Science and Policy of Global Change; Report No. 97; June 2003.

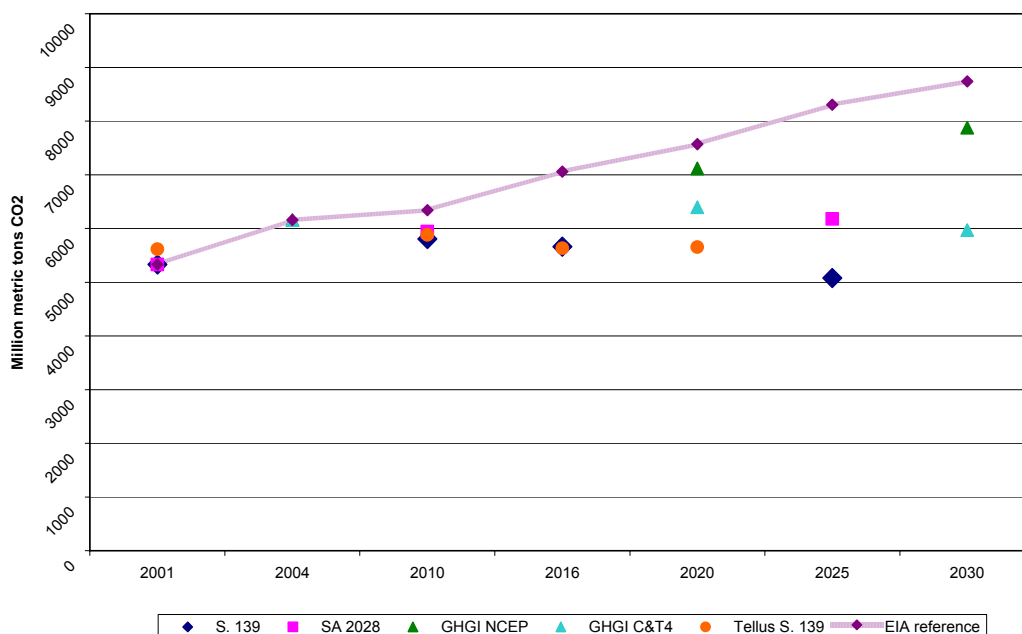
⁸⁰ Bailie et al., *Analysis of the Climate Stewardship Act*, July 2003; Bailie and Dougherty, *Analysis of the Climate Stewardship Act Amendment*, Tellus Institute, June, 2004. Available at <http://www.tellus.org/energy/publications/McCainLieberman2004.pdf>

transportation sector from increase the fuel efficiency of light-duty vehicles (CAFÉ) (25 mpg in 2005, increasing to 45 mpg in 2025).

EIA has also analyzed the effect and cost of greenhouse gas intensity targets as proposed by Senator Bingaman based on the National Commission on Energy Policy, as well as more stringent intensity targets.⁸¹ Some of the scenarios included safety valve prices, and some did not.

In addition to the analysis of economy-wide policy proposals, proposals for GHG emissions restrictions have also been analyzed. Both EIA and the U.S. Environmental Protection Agency (EPA) analyzed the four-pollutant policy proposed by Senator Carper (S. 843).⁸² EPA also analyzed the power sector proposal from Senator Jeffords (S. 150).⁸³

Figure 6.1 shows the emissions trajectories that the analyses of economy-wide policies projected for specific policy proposals. The graph does not include projections for policies that would just apply to the electric sector since those are not directly comparable to economy-wide emissions trajectories.



⁸¹ EIA, *Energy Market Impacts of Alternative Greenhouse Gas Intensity Reduction Goals*, March 2006. SR/OIAF/2006-01.

⁸² EIA. Analysis of S. 485, the Clear Skies Act of 2003, and S. 843, the Clean Air Planning Act of 2003. EIA Office of Integrated Analysis and Forecasting. SR/OIAF/2003-03. September 2003. US EPA, *Multi-pollutant Legislative Analysis: The Clean Power Act (Jeffords, S. 150 in the 109th)*. US EPA Office of Air and Radiation, October 2005.

⁸³ US Environmental Protection Agency, *Multi-pollutant Legislative Analysis: The Clean Air Planning Act (Carper, S. 843 in the 108th)*. US EPA Office of Air and Radiation, October 2005.

Figure 6.1. Projected Emissions Trajectories for US Economy-wide Carbon Policy Proposals.

Projected emissions trajectories from EIA and Tellus Institute Analyses of US economy-wide carbon policies. Emissions projections are for “affected sources” under proposed legislation. S. 139 is the EIA analysis of McCain Lieberman Climate Stewardship Act from 2003, SA 2028 is the EIA analysis of McCain Lieberman Climate Stewardship Act as amended in 2005. GHGI NCEP is the EIA analysis of greenhouse gas intensity targets recommended by the National Commission on Energy Policy and endorsed by Senators Bingaman and Domenici, GHGIC&T4 is the most stringent emission reduction target modeled by EIA in its 2006 analysis of greenhouse gas intensity targets, and Tellus S.139 is from the Tellus Institute analysis of S. 139.

Figure 6.2 presents projected carbon allowance costs from the economy-wide and electric sector studies in constant 2005 dollars per ton of carbon dioxide.

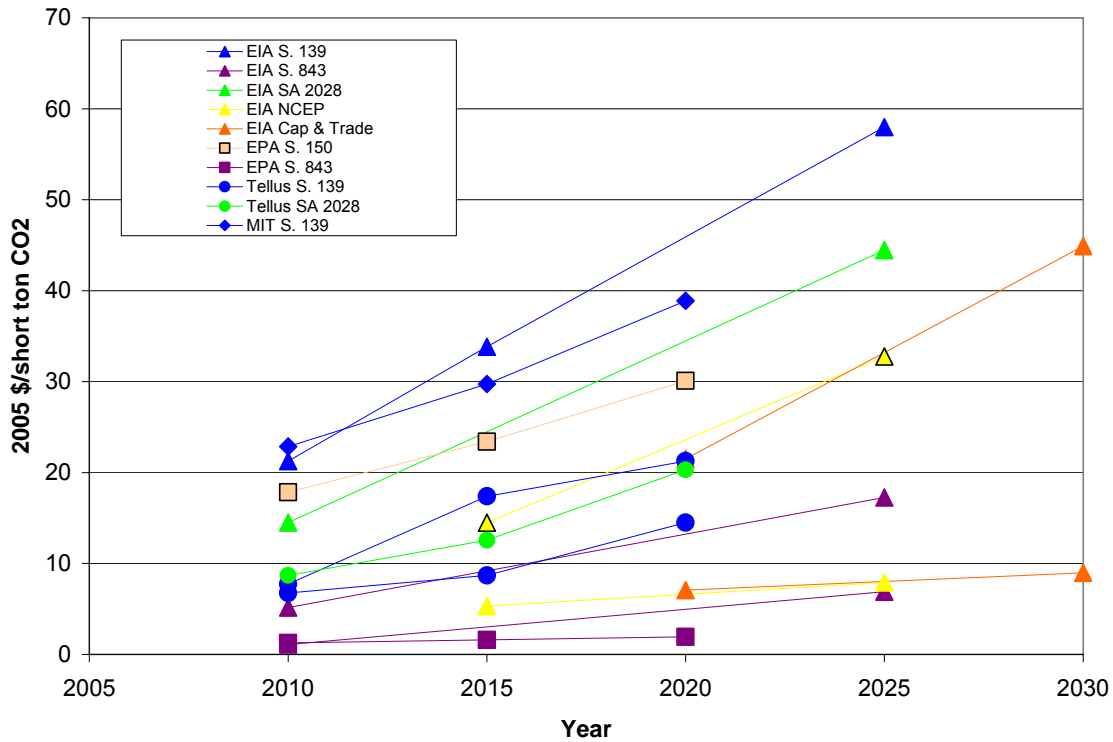


Figure 6.2. Allowance Cost Estimates From Studies of Economy-wide and Electric Sector US Policy Proposals

Carbon emissions price forecasts based on a range of proposed federal carbon regulations. Sources of data include: Triangles – US Energy Information Agency (EIA); Square – US EPA; Circles – Tellus Institute; Diamond – MIT. All values shown have been converted into 2005 dollars per short ton CO₂ equivalent. Color-coded policies evaluated include:

Blue: S. 139, the McCain-Lieberman Climate Stewardship Act of January 2003. MIT Scenario includes banking and zero-cost credits (effectively relaxing the cap by 15% and 10% in phase I and II, respectively.) The Tellus scenarios are the “Policy” case (higher values) and the “Advanced” case (lower values). Both Tellus cases include complimentary emission reduction policies, with “advance” policy case assuming additional oil savings in the transportation sector from increase the fuel efficiency of light-duty vehicles (CAFÉ).

Tan: S.150, the Clean Power Act of 2005

Violet: S. 843, the Clean Air Planning Act of 2003. Includes international trading of offsets. EIA data include “High Offsets”(lower prices) and “Mid Offsets” (higher prices) cases. EPA data shows effect of tremendous offset flexibility.

Bright Green: SA 2028, the McCain-Lieberman Climate Stewardship Act Amendment of October 2003. This version sets the emissions cap at constant 2000 levels and allows for 15% of the carbon reductions to be met through offsets from non-covered sectors, carbon sequestration and qualified international sources.

Yellow: EIA analysis of the National Commission on Energy Policy (NCEP) policy option recommendations. Lower series has a safety-valve maximum permit price of \$6.10 per metric ton CO₂ in 2010 rising to \$8.50 per metric ton CO₂ in 2025, in 2003 dollars. Higher series has no safety value price. Both include a range of complementary policies recommended by NCEP.

Orange: EIA analysis of cap and trade policies based on NCEP, but varying the carbon intensity reduction goals. Lower-priced series (Cap and trade 1) has an intensity reduction of 2.4%/yr from 2010 to 2020 and 2.8%/yr from 2020 to 2030; safety-valve prices are \$6.16 in 2010, rising to \$9.86 in 2030, in 2004 dollars. Higher-priced series (Cap and trade 4) has intensity reductions of 3% per year and 4% per year for 2010-2020 and 2020-2030, respectively, and safety-valve prices of \$30.92 in 2010 rising to \$49.47 in 2030, in 2004 dollars.

The lowest allowance cost results (EPA S. 843, EIA NCEP, and EIA Cap & Trade) correspond to the EPA analysis of a power sector program with very extensive offset use, and to EIA analyses of greenhouse gas intensity targets with allowance safety valve prices. In these analyses, the identified emission reduction target is not achieved because the safety valve is triggered. In EIA GHGI C&T 4, the price is higher because the greenhouse gas intensity target is more stringent, and there is no safety valve. The EIA analysis of S. 843 shows higher cost projections because of the treatment of offsets, which clearly cause a huge range in the projections for this policy. In the EPA analysis, virtually all compliance is from offsets from sources outside of the power sector.

In addition to its recent modeling of US policy proposals, EIA has performed several studies projecting costs associated with compliance with the Kyoto Protocol. In 1998, EIA performed a study analyzing allowance costs associated with six scenarios ranging from emissions in 2010 at 24 percent above 1990 emissions levels, to emissions in 2010 at 7 percent below 1990 emissions levels.⁸⁴ In 1999 EIA performed a very similar study, but looked at phasing in carbon prices beginning in 2000 instead of 2005 as in the

⁸⁴ EIA, “Impacts of the Kyoto Protocol on US Energy Markets and Economic Activity,” October 1998. SR/OIAD/98-03

original study.⁸⁵ Carbon dioxide costs projected in these EIA studies of Kyoto targets were generally higher than those projected in the studies of economy-wide legislative proposals due in part to the more stringent emission reduction requirements of the Kyoto Protocol. For example, carbon dioxide allowances for 2010 were projected at \$91 per short ton CO₂ (\$2005) and \$100 per short ton CO₂ (\$2005) respectively for targets of seven percent below 1990 emissions levels. While the United States has not ratified the Kyoto Protocol, these studies are informative since they evaluate more stringent emission reduction requirements than those contained in current federal policy proposals. Scientists anticipate that avoiding dangerous climate change will require even steeper reductions than those in the Kyoto Protocol.

The State Working Group of the RGGI in the Northeast engaged ICF Consulting to analyze the impacts of implementing a CO₂ cap on the electric sector in the northeastern states. ICF used the IPM model to analyze the program package that the RGGI states ultimately agreed to. ICF's analysis results (in \$2004) range from \$1-\$5/ton CO₂ in 2009 to about \$2.50-\$12/ton CO₂ in 2024.⁸⁶ The lowest CO₂ allowance prices are associated with the RGGI program package under the expected emission growth scenario. The costs increase significantly under a high emissions scenario, and increase even more when the high emissions scenario is combined with a national cap and trade program due to the greater demand for allowances in a national program. ICF performed some analysis that included aggressive energy efficiency scenarios and found that those energy efficiency components would reduce the costs of the RGGI program significantly.

In 2003 ICF was retained by the state of Connecticut to model a carbon cap across the 10 northeastern states. The cap is set at 1990 levels in 2010, 5 percent below 1990 levels in 2015, and 10 percent below 1990 levels in 2020. The use of offsets is phased in with entities able to offset 5 percent of their emissions in 2015 and 10 percent in 2020. The CO₂ allowance price, in \$US2004, for the 10-state region increases over the forecast period in the policy case, rising from \$7/ton in 2010 to \$11/ton in 2020.⁸⁷

6.4 Factors that affect projections of carbon cost

Results from a range of studies highlight certain factors that affect projections of future carbon emissions prices. In particular, the studies provide insight into whether the factors increase or decrease expected costs, and to the relationships among different factors. A number of the key assumptions that affect policy cost projections (and indeed policy costs) are discussed in this section, and summarized in Table 6.3.

⁸⁵ EIA, "Analysis of the Impacts of an Early Start for Compliance with the Kyoto Protocol," July 1999. SR/OIAF/99-02.

⁸⁶ ICF Consulting presentation of "RGGI Electricity Sector Modeling Results," September 21, 2005. Results of the ICF analysis are available at www.rggi.org

⁸⁷ Center for Clean Air Policy, *Connecticut Climate Change Stakeholder Dialogue: Recommendations to the Governors' Steering Committee*, January 2004, p. 3.3-27.

Here we only consider these factors in a qualitative sense, although quantitative meta-analyses do exist.⁸⁸ It is important to keep these factors in mind when attempting to compare and survey the range of cost/benefit studies for carbon emissions policies so the varying forecasts can be kept in the proper perspective.

Base case emissions forecast

Developing a business-as-usual case (in the absence of federal carbon emission regulations) is a complex modeling exercise in itself, requiring a wide range of assumptions and projections which are themselves subject to uncertainty. In addition to the question of future economic growth, assumptions must be made about the emissions intensity of that growth. Will growth be primarily in the service sector or in industry? Will technological improvements throughout the economy decrease the carbon emissions per unit of output?

In addition, a significant open question is the future generation mix in the United States. Throughout the 1990s most new generating investments were in natural gas-fired units, which emit much less carbon per unit of output than other fossil fuel sources. Today many utilities are looking at baseload coal due to the increased cost of natural gas, implying much higher emissions per MWh output. Some analysts predict a comeback for nuclear energy, which despite its high cost and unsolved waste disposal and safety issues has extremely low carbon emissions.

A business-as-usual case which included several decades of conventional base load coal, combined with rapid economic expansion, would present an extremely high emissions baseline. This would lead to an elevated projected cost of emissions reduction regardless of the assumed policy mechanism.

Complimentary policies

Complimentary energy policies, such as direct investments in energy efficiency, are a very effective way to reduce the demand for emissions allowances and thereby to lower their market price. A policy scenario which includes aggressive energy efficiency along with carbon emissions limits will result in lower allowances prices than one in which energy efficiency is not directly addressed.⁸⁹

Policy implementation timeline and reduction target

Most “policy” scenarios are structured according to a goal such as achieving “1990 emissions by 2010” meaning that emissions should be decreased to a level in 2010 which

⁸⁸ See, e.g., Carolyn Fischer and Richard D. Morgenstern, *Carbon Abatement Costs: Why the Wide Range of Estimates?* Resources for the Future, September, 2003. <http://www.rff.org/Documents/RFF-DP-03-42.pdf>

⁸⁹ A recent analysis by ACEEE demonstrates the effect of energy efficiency investments in reducing the projected costs of the Regional Greenhouse Gas Initiative. Prindle, Shipley, and Elliott; *Energy Efficiency's Role in a Carbon Cap-and-Trade System: Modeling Results from the Regional Greenhouse Gas Initiative*; American Council for an Energy Efficient Economy, May 2006. Report Number E064.

is no higher than they were in 1990. Both of these policy parameters have strong implications for policy costs, although not necessarily in the intuitive sense. A later implementation date means that there is more time for the electric generating industry to develop and install mitigation technology, but it also means that if they wait to act, they will have to make much more drastic cuts in a short period of time. Models which assume phased-in targets, forcing industry to take early action, may stimulate technological innovations so that later, more aggressive targets can be reached at lower cost.

Program flexibility

The philosophy behind cap and trade regulation is that the rules should specify an overall emissions goal, but the market should find the most efficient way of meeting that goal. For emissions with broad impacts (as opposed to local health impacts) this approach will work best at minimizing cost if maximum flexibility is built into the system. For example, trading should be allowed across as broad as possible a geographical region, so that regions with lower mitigation cost will maximize their mitigation and sell their emission allowances. This need not be restricted to CO₂ but can include other GHGs on an equivalent basis, and indeed can potentially include trading for offsets which reduce atmospheric CO₂ such as reforestation projects. Another form of flexibility is to allow utilities to put emissions allowances “in the bank” to be used at a time when they hold higher value, or to allow international trading as is done in Europe through the Kyoto protocol.

One drawback to programs with higher flexibility is that they are much more complex to administer, monitor, and verify.⁹⁰ Emissions reductions must be credited only once, and offsets and trades must be associated with verifiable actions to reduce atmospheric CO₂. A generally accepted standard is the “five-point” test: “at a minimum, eligible offsets shall consist of actions that are real, surplus, verifiable, permanent and enforceable.”⁹¹ Still, there is a clear benefit in terms of overall mitigation costs to aim for as much flexibility as possible, especially as it is impossible to predict with certainty what the most cost-effective mitigation strategies will be in the future. Models which assume higher flexibility in all of these areas are likely to predict lower compliance costs for reaching any specified goal.

Technological progress

The rate of improvement in mitigation technology is a crucial assumption in predicting future emissions control costs. This has been an important factor in every major air emissions law, and has resulted, for example, in the pronounced downward trend in allowance prices for SO₂ and NO_x in the years since regulations of those two pollutants were enacted. For CO₂, looming questions include the future feasibility and cost of carbon capture and sequestration, and cost improvements in carbon-free generation

⁹⁰ An additional consideration is that greater geographic flexibility reduces potential local co-benefits, discussed below, that can derive from efforts to reduce greenhouse gas emissions.

⁹¹ Massachusetts 310 CMR 7.29.

technologies. Improvements in the efficiency of coal burning technology or in the cost of nuclear power plants may also be a factor.

Reduced emissions co-benefits

Most technologies which reduce carbon emissions also reduce emissions of other criteria pollutants, such as NO_x, SO₂ and mercury. This results in cost savings not only to the generators who no longer need these permits, but also to broader economic benefits in the form of reduced permit costs and consequently lower priced electricity. In addition, there are a number of co-benefits such as improved public health, reduced premature mortality, and cleaner air associated with overall reductions in power plant emissions which have a high economic value to society. Models which include these co-benefits will predict a lower overall cost impact from carbon regulations, as the cost of reducing carbon emissions will be offset by savings in these other areas.

Table 6.3. Factors That Affect Future Carbon Emissions Policy Costs

| Assumption | Increases Prices if... | Decreases Prices if... |
|---|---|--|
| <ul style="list-style-type: none"> • “Base case” emissions forecast | Assumes high rates of growth in the absence of a policy, strong and sustained economic growth | Lower forecast of business-as-usual” emissions |
| <ul style="list-style-type: none"> • Complimentary policies | No investments in programs to reduce carbon emissions | Aggressive investments in energy efficiency and renewable energy independent of emissions allowance market |
| <ul style="list-style-type: none"> • Policy implementation timeline | Delayed and/or sudden program implementation | Early action, phased-in emissions limits. |
| <ul style="list-style-type: none"> • Reduction targets | Aggressive reduction target, requiring high-cost marginal mitigation strategies | Minimal reduction target, within range of least-cost mitigation strategies |
| <ul style="list-style-type: none"> • Program flexibility | Minimal flexibility, limited use of trading, banking and offsets | High flexibility, broad trading geographically and among emissions types including various GHGs, allowance banking, inclusion of offsets perhaps including international projects. |
| <ul style="list-style-type: none"> • Technological progress | Assume only today’s technology at today’s costs | Assume rapid improvements in mitigation technology and cost reductions |
| <ul style="list-style-type: none"> • Emissions co-benefits | Ignore emissions co-benefits | Includes savings in reduced emissions of criteria pollutants. |

Because of the uncertainties and interrelationships surrounding these factors, forecasting long-range carbon emissions price trajectories is quite complicated and involves significant uncertainty. Of course, this uncertainty is no greater than the uncertainty surrounding other key variables underlying future electricity costs, such as fuel prices, although there are certain characteristics that make carbon emissions price forecasting unique.

One of these is that the forecaster must predict the future political climate. As documented throughout this paper, recent years have seen a dramatic increase in both the documented effects of and the public awareness of global climate change. As these trends continue, it is likely that more aggressive and more expensive emissions policies will be politically feasible. Political events in other areas of the world may be another factor, in that it will be easier to justify aggressive policies in the United States if other nations such as China are also limiting emissions.

Another important consideration is the relationship between early investments and later emissions costs. It is likely that policies which produce high prices early will greatly accelerate technological innovation, which could lead to prices in the following decades which are lower than they would otherwise be. This effect has clearly played a role in NO_x and SO₂ allowance trading prices. However, the effect would be offset to some degree by the tendency for emissions limits to become more restrictive over time, especially if mitigation becomes less costly and the effects of global climate change become increasingly obvious.

6.5 Synapse forecast of carbon dioxide allowance prices

Below we offer an emissions price forecast which the authors judge to represent a reasonable range of likely future CO₂ allowance prices. Because of the factors discussed above and others, it is likely that the actual cost of emissions will not follow a smooth path like those shown here but will exhibit swings between and even outside of our “low” and “high” cases in response to political, technological, market and other factors. Nonetheless, we believe that these represent the most reasonable range to use for planning purposes, given all of the information we have been able to collect and analyze bearing on this important cost component of future electricity generation.

Figure 6.3 shows our price forecasts for the period 2010 through 2030, superimposed upon projections collected from other studies mentioned in this paper.

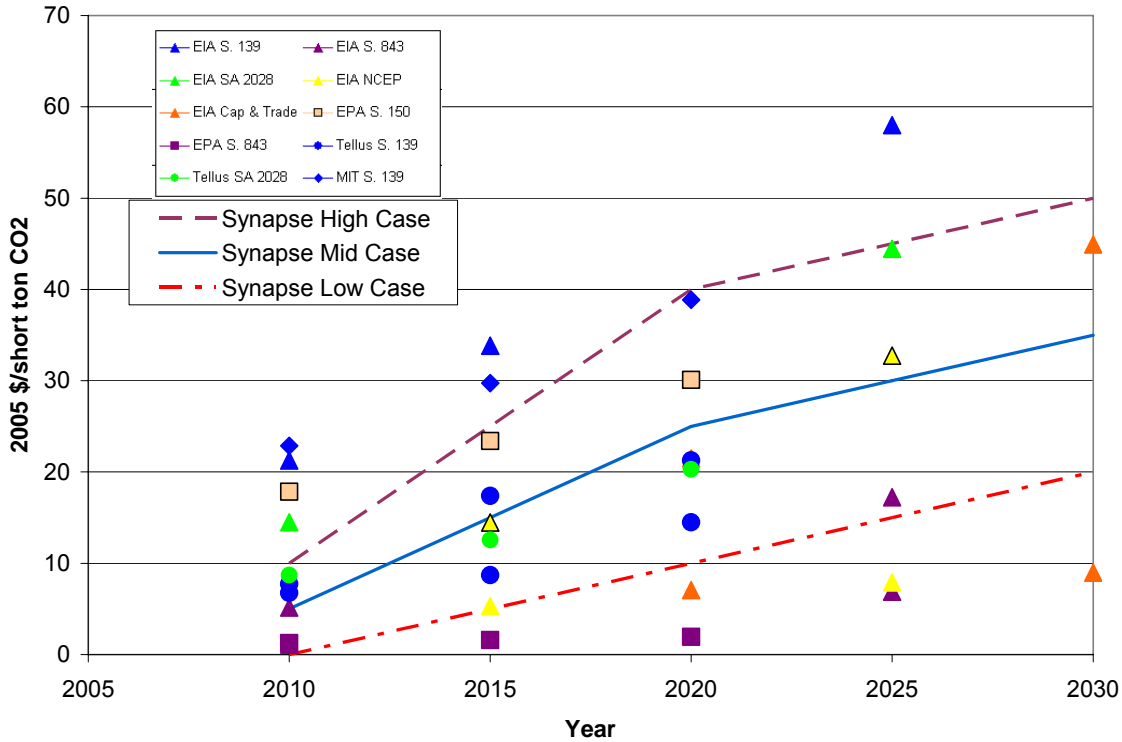


Figure 6.3. Synapse Forecast of Carbon Dioxide Allowance Prices

High, mid and low-case Synapse carbon dioxide emissions price forecasts superimposed on policy model forecasts as presented in Figure 6.2.

In developing our forecast we have reviewed the cost analyses of federal proposals, the Kyoto Protocol, and current electric company use of carbon values in IRP processes, as described earlier in this paper. The highest cost projections from studies of U.S. policy proposals generally reflect a combination of factors including more aggressive emissions reductions, conservative assumptions about complimentary energy policies, and limited or no offsets. For example, some of the highest results come from EIA analysis of the most aggressive emission reductions proposed -- the Climate Stewardship Act, as originally proposed by Senators McCain and Lieberman in 2003. Similarly, the highest cost projection for 2025 is from the EPA analysis of the Carper 4-P bill, S. 843, in a scenario with fairly restricted offset use. The lowest cost projections are from the analysis of the greenhouse gas intensity goal with a safety valve, as proposed by the National Commission on Energy Policy, as well as from an EPA analysis of the Carper 4-P bill, S. 843, with no restrictions on offset use. These highest and lowest cost estimates illustrate the effect of the factors that affect projections of CO₂ emissions costs, as discussed in the previous section.

We believe that the U.S. policies that have been modeled can reasonably be considered to represent the range of U.S. policies that could be adopted in the next several years. However, we do not anticipate the adoption of either the most aggressive or restrictive, or the most lenient and flexible policies illustrated in the range of projections from recent

analyses. Thus we consider both the highest and the lowest cost projections from those studies to be outside of our reasonable forecast.

We note that EIA projections of costs to comply with Kyoto Protocol targets were much higher, in the range of \$100/ton CO₂. The higher cost projections associated with the Kyoto Protocol targets, which are somewhat more aggressive than U.S. policy proposals, are consistent with the anticipated effect of a more carbon-constrained future. The EIA analysis also has pessimistic assumptions regarding carbon emission-reducing technologies and complementary policies. The range of values that certain electric companies currently use in their resource planning and evaluation processes largely fall within the high and low cost projections from policy studies. Our forecast of carbon dioxide allowance prices is presented in Table 6.4.

Table 6.4. Synapse forecast of carbon dioxide allowance prices (\$2005/ton CO₂).

| | 2010 | 2020 | 2030 | Levelized Value 2011-2030 |
|--------------------------|-------------|-------------|-------------|--------------------------------------|
| Synapse Low Case | 0 | 10 | 20 | 8.23 |
| Synapse Mid Case | 5 | 25 | 35 | 19.83 |
| Synapse High Case | 10 | 40 | 50 | 31.43 |

As illustrated in the table, we have identified what we believe to be a reasonable high, low, and mid case for three time periods: 2010, 2020, and 2030. These high, low, and mid case values for the years in question represent a range of values that are reasonably plausible for use in resource planning. Certainly other price trajectories are possible, indeed likely depending on factors such as level of reduction target, and year of implementation of a policy. We have much greater confidence in the levelized values over the period than we do in any particular annual values or in the specific shape of the price projections.

Using these value ranges, we have plotted cost lines in Figure 6.3 for use in resource analysis. In selecting these values, we have taken into account a variety of factors for the three time periods. While some regions and states may impose carbon emissions costs sooner, or federal legislation may be adopted sooner, our assumption conservatively assumes that implementation of any federal legislative requirements is unlikely before 2010. We project a cost in 2010 of between zero and \$10 per ton of CO₂.

During the decade from 2010 to 2020, we anticipate that a reasonable range of carbon emissions prices reflects the effects of increasing public concern over climate change (this public concern is likely to support increasingly stringent emission reduction requirements) and the reluctance of policymakers to take steps that would increase the cost of compliance (this reluctance could lead to increased emphasis on energy efficiency, modest emission reduction targets, or increased use of offsets). Thus we find the widest uncertainty in our forecasts begins at the end of this decade from \$10 to \$40 per ton of CO₂, depending on the relative strength of these factors.

After 2020, we expect the price of carbon emissions allowances to trend upward toward the marginal mitigation cost of carbon emissions. This number still depends on uncertain

factors such as technological innovation and the stringency of carbon caps, but it is likely that the least expensive mitigation options (such as simple energy efficiency and fuel switching) will be exhausted. Our projection for the end of this decade ranges from \$20 to \$50 per ton of CO₂ emissions.

We think the most likely scenario is that as policymakers commit to taking serious action to reduce carbon emissions, they will choose to enact both cap and trade regimes and a range of complementary energy policies that lead to lower cost scenarios, and that technology innovation will reduce the price of low-carbon technologies, making the most likely scenario closer to (though not equal to) low case scenarios than the high case scenario. The probability of taking this path increases over time, as society learns more about optimal carbon reduction policies.

After 2030, and possibly even earlier, the uncertainty surrounding a forecast of carbon emission prices increases due to interplay of factors such as the level of carbon constraints required, and technological innovation. As discussed in previous sections, scientists anticipate that very significant emission reductions will be necessary, in the range of 80 percent below 1990 emission levels, to achieve stabilization targets that keep global temperature increases to a somewhat manageable level. As such, we believe there is a substantial likelihood that response to climate change impacts will require much more aggressive emission reductions than those contained in U.S. policy proposals, and in the Kyoto Protocol, to date. If the severity and certainty of climate change are such that emissions levels 70-80% below current rates are mandated, this could result in very high marginal emissions reduction costs, though the cost of such deeper cuts has not been quantified on a per ton basis.

On the other hand, we also anticipate a reasonable likelihood that increasing concern over climate change impacts, and the accompanying push for more aggressive emission reductions, will drive technological innovation, which may be anticipated to prevent unlimited cost escalation. For example, with continued technology improvement, coupled with attainment of economies of scale, significant price declines in distributed generation, grid management, and storage technologies, are likely to occur. The combination of such price declines and carbon prices could enable tapping very large supplies of distributed resources, such as solar, low-speed wind and bioenergy resources, as well as the development of new energy efficiency options. The potential development of carbon sequestration strategies, and/or the transition to a renewable energy-based economy may also mitigate continued carbon price escalation.

7. Conclusion

The earth's climate is strongly influenced by concentrations of greenhouse gases in the atmosphere. International scientific consensus, expressed in the Third Assessment Report of the Intergovernmental Panel on Climate Change and in countless peer-reviewed scientific studies and reports, is that the climate system is already being – and will continue to be – disrupted due to anthropogenic emissions of greenhouse gases. Scientists expect increasing atmospheric concentrations of greenhouse gases to cause temperature increases of 1.4 – 5.8 degrees centigrade by 2100, the fastest rate of change

since end of the last ice age. Such global warming is expected to cause a wide range of climate impacts including changes in precipitation patterns, increased climate variability, melting of glaciers, ice shelves and permafrost, and rising sea levels. Some of these changes have already been observed and documented in a growing body of scientific literature. All countries will experience social and economic consequences, with disproportionate negative impacts on those countries least able to adapt.

The prospect of global warming and changing climate has spurred international efforts to work towards a sustainable level of greenhouse gas emissions. These international efforts are embodied in the United Nations Framework Convention on Climate Change. The Kyoto Protocol, a supplement to the UNFCCC, establishes legally binding limits on the greenhouse gas emissions by industrialized nations and by economies in transition.

The United States, which is the single largest contributor to global emissions of greenhouse gases, remains one of a very few industrialized nations that have not signed onto the Kyoto Protocol. Nevertheless, federal legislation seems likely in the next few years, and individual states, regional organizations, corporate shareholders and corporations themselves are making serious efforts and taking significant steps towards reducing greenhouse gas emissions in the United States. Efforts to pass federal legislation addressing carbon emissions, though not yet successful, have gained ground in recent years. And climate change issues have seen an unprecedented level of attention in the United States at all levels of government in the past few years.

These developments, combined with the growing scientific certainty related to climate change, mean that establishing federal policy requiring greenhouse gas emission reductions is just a matter of time. The question is not whether the United States will develop a national policy addressing climate change, but when and how, and how much additional damage will have been incurred by the process of delay. The electric sector will be a key component of any regulatory or legislative approach to reducing greenhouse gas emissions both because of this sector's contribution to national emissions and the comparative ease of controlling emissions from large point sources. While the future costs of compliance are subject to uncertainty, they are real and will be mandatory within the lifetime of electric industry capital stock being planned for and built today.

In this scientific, policy and economic context, it is imprudent for decision-makers in the electric sector to ignore the cost of future carbon emissions reductions or to treat future carbon emissions reductions merely as a sensitivity case. Failure to consider the potential future costs of greenhouse gas emissions under future mandatory emission reductions will result in investments that prove quite uneconomic in the future. Long term resource planning by utility and non-utility owners of electric generation must account for the cost of mitigating greenhouse gas emissions, particularly carbon dioxide. For example, decisions about a company's resource portfolio, including building new power plants, reducing other pollutants or installing pollution controls, avoided costs for efficiency or renewables, and retirement of existing power plants all can be more sophisticated and more efficient with appropriate consideration of future costs of carbon emissions mitigation.

Regulatory uncertainty associated with climate change clearly presents a planning challenge, but this does not justify proceeding as if no costs will be associated with

carbon emissions in the future. The challenge, as with any unknown future cost driver, is to forecast a reasonable range of costs based on analysis of the information available. This report identifies many sources of information that can form the basis of reasonable assumptions about the likely costs of meeting future carbon emissions reduction requirements.

Additional Costs Associated with Greenhouse Gases

It is important to note that the greenhouse gas emission reduction requirements contained in federal legislation proposed to date, and even the targets in the Kyoto Protocol, are relatively modest compared with the range of emissions reductions that are anticipated to be necessary for keeping global warming at a manageable level. Further, we do not attempt to calculate the full cost to society (or to electric utilities) associated with anticipated future climate changes. Even if electric utilities comply with some of the most aggressive regulatory requirements underlying our CO₂ price forecasts presented above, climate change will continue to occur, albeit at a slower pace, and more stringent emissions reductions will be necessary to avoid dangerous changes to the climate system.

The consensus from the international scientific community clearly indicates that in order to stabilize the concentration of greenhouse gases in the atmosphere and to try to keep further global warming trends manageable, greenhouse gas emissions will have to be reduced significantly below those limits underlying our CO₂ price forecasts. The scientific consensus expressed in the Intergovernmental Panel on Climate Change Report from 2001 is that greenhouse gas emissions would have to decline to a very small fraction of current emissions in order to stabilize greenhouse gas concentrations, and keep global warming in the vicinity of a 2-3 degree centigrade temperature increase. Simply complying with the regulations underlying our CO₂ price forecasts does not eliminate the ecological and socio-economic threat created by CO₂ emissions – it merely mitigates that threat.

Incorporating a reasonable CO₂ price forecast into electricity resource planning will help address electricity consumer concerns about prudent economic decision-making and direct impacts on future electricity rates. However, current policy proposals are just a first step in the direction of emissions reductions that are likely to ultimately be necessary. Consequently, electric sector participants should anticipate increasingly stringent regulatory requirements. In addition, anticipating the financial risks associated with greenhouse gas regulation does not address all the ecological and socio-economic concerns posed by greenhouse gas emissions. Regulators should consider other policy mechanisms to account for the remaining pervasive impacts associated with greenhouse gas emissions.

This report is unchanged from the August 31, 2006 version except for the correction of a graphical error.

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Carbon Dioxide Emission Allowance Prices
 Assessment of U.S. Cap-and -Trade Proposals (April 2007)
 M.I.T. Joint Program on the Science and Policy of Global Change
 (2005\$/Ton)

| Scenario | 2010 | 2015 | 2020 | 2025 | 2030 | 2035 | 2040 | 2045 | 2050 |
|--|--------|---------|---------|---------|----------|----------|----------|----------|------------|
| Reference Case | | | | | | | | | |
| Core Scenario - High | \$0.00 | \$53.17 | \$64.69 | \$78.70 | \$95.76 | \$116.50 | \$141.74 | \$172.45 | \$209.81 |
| Core Scenario - Mid | \$0.00 | \$40.92 | \$49.79 | \$60.58 | \$73.70 | \$89.67 | \$109.10 | \$132.74 | \$161.49 |
| Core Scenario - Low | \$0.00 | \$17.72 | \$21.56 | \$26.23 | \$31.92 | \$38.83 | \$47.25 | \$57.48 | \$69.94 |
| Developed countries only pursue mitigation - High | \$0.00 | \$46.73 | \$56.85 | \$69.16 | \$84.15 | \$102.38 | \$124.56 | \$151.55 | \$184.38 |
| Developed countries only pursue mitigation - Mid | \$0.00 | \$26.10 | \$31.78 | \$38.64 | \$47.01 | \$57.19 | \$69.58 | \$84.66 | \$103.00 |
| Developed countries only pursue mitigation - Low | \$0.00 | \$12.41 | \$15.09 | \$18.36 | \$22.34 | \$27.18 | \$33.07 | \$40.24 | \$48.96 |
| International emissions trading - High | \$0.00 | \$0.02 | \$0.72 | \$22.87 | \$36.53 | \$109.74 | \$121.35 | \$140.77 | \$155.63 |
| International emissions trading - Mid | \$0.00 | \$0.02 | \$0.35 | \$19.39 | \$31.92 | \$100.91 | \$108.51 | \$123.61 | \$137.67 |
| International emissions trading - Low | \$0.00 | \$0.01 | \$0.13 | \$13.09 | \$23.09 | \$77.41 | \$84.74 | \$92.96 | \$101.69 |
| Limited sectoral coverage - High | \$0.00 | \$40.92 | \$49.79 | \$60.58 | \$73.70 | \$89.67 | \$109.10 | \$132.74 | \$161.49 |
| Limited sectoral coverage - Mid | \$0.00 | \$30.61 | \$37.25 | \$45.31 | \$55.13 | \$67.08 | \$81.61 | \$99.29 | \$120.80 |
| Limited sectoral coverage - Low | \$0.00 | \$13.70 | \$16.66 | \$20.27 | \$24.66 | \$30.01 | \$36.51 | \$44.42 | \$54.04 |
| No banking - High | \$0.00 | \$16.60 | \$47.98 | \$64.23 | \$76.60 | \$119.74 | \$237.26 | \$624.73 | \$2,559.38 |
| No banking - Mid | \$0.00 | \$10.05 | \$30.25 | \$53.25 | \$64.50 | \$107.92 | \$121.49 | \$139.59 | \$261.76 |
| No banking - Low | \$0.00 | \$6.28 | \$10.46 | \$12.09 | \$26.23 | \$53.10 | \$77.31 | \$92.69 | \$76.67 |
| No biofuel trading - High | \$0.00 | \$66.70 | \$81.16 | \$98.74 | \$120.13 | \$146.16 | \$177.82 | \$216.22 | \$263.22 |
| No biofuel trading - Mid | \$0.00 | \$49.30 | \$59.98 | \$72.98 | \$88.79 | \$108.03 | \$131.43 | \$159.91 | \$194.55 |
| No biofuel trading - Low | \$0.00 | \$17.66 | \$21.48 | \$26.14 | \$31.80 | \$38.69 | \$47.08 | \$52.27 | \$69.68 |
| Nuclear expansion - High | \$0.00 | \$13.70 | \$16.66 | \$20.27 | \$24.66 | \$30.01 | \$36.51 | \$44.42 | \$54.04 |
| Nuclear expansion - Mid | \$0.00 | \$40.60 | \$49.40 | \$60.10 | \$73.12 | \$88.97 | \$108.24 | \$131.69 | \$160.22 |
| Nuclear expansion - Low | \$0.00 | \$50.27 | \$61.16 | \$74.41 | \$90.53 | \$110.15 | \$134.01 | \$163.05 | \$198.37 |
| Safety Valve: Safety valve price revised in 2030 | \$0.00 | \$7.02 | \$8.97 | \$11.44 | \$29.20 | \$37.26 | \$47.56 | \$60.69 | \$77.46 |
| Safety Valve: US and rest of world pursue mitigation | \$0.00 | \$7.02 | \$8.97 | \$11.44 | \$14.60 | \$18.64 | \$23.79 | \$30.36 | \$38.75 |
| Safety Valve: US only pursues mitigation | \$0.00 | \$7.02 | \$8.97 | \$11.44 | \$14.60 | \$18.64 | \$23.79 | \$30.36 | \$38.75 |
| US only pursues mitigation - High | \$0.00 | \$46.40 | \$56.46 | \$68.69 | \$83.57 | \$101.67 | \$123.70 | \$150.50 | \$183.11 |
| US only pursues mitigation - Mid | \$0.00 | \$20.30 | \$24.70 | \$30.05 | \$36.56 | \$44.48 | \$54.12 | \$65.85 | \$80.11 |
| US only pursues mitigation - Low | \$0.00 | \$9.99 | \$21.15 | \$14.79 | \$17.99 | \$21.89 | \$26.63 | \$32.40 | \$39.42 |
| Quadratic Path: 50% below 1990 levels (230 bmt) | \$0.00 | \$35.45 | \$43.13 | \$52.47 | \$63.84 | \$77.67 | \$94.50 | \$114.97 | \$139.88 |
| Quadratic Path: 80% below 1990 levels (206 bmt) | \$0.00 | \$41.89 | \$50.87 | \$62.01 | \$75.44 | \$91.79 | \$111.68 | \$135.87 | \$165.31 |

Table 1
 Synapse Mid CO₂ Price, No DSM with AEP High CO₂ Gas Price Forecast

| Study Period Plan Rank | Optimal Plan ¹ | Best Port CC Plan | Best Hempstead PC Plan |
|---|--|-----------------------|------------------------|
| 2011 | | | |
| 2012 | | | |
| 2013 | | | |
| 2014 | | | |
| 2015 | | | |
| 2016 | | | |
| 2017 | | | |
| 2018 | | | |
| 2019 | | | |
| 2020 | | | |
| 2021 | | | |
| 2022 | | | |
| 2023 | | | |
| 2024 | | | |
| 2025 | | | |
| 2026 | | | |
| 2027 | | | |
| 2028 | | | |
| 2029 | | | |
| 2030 | | | |
| 2031 | | | |
| 2032 | | | |
| 2033 | | | |
| 2034 | | | |
| 2035 | | | |
| | | Number of Units Added | |
| | CT | | |
| | CC | | |
| | Port CC | | |
| | <u>Hempstead PC</u> | | |
| | Capacity Added (MW) | | |
| | | | |
| <u>SWEPCO Total Cost CPW (\$000)</u> | | | |
| | Planning Period | | |
| | End-Effects | | |
| | Study Period | | |
| | Planning Period Rank | | |
| | | | |
| | Increased Planning Period (2007-2035) Cost over Optimal Plan | | |
| | Increased Study Period (2007-2051) Cost over Optimal Plan | | |
| | Percent Increase Study Period Cost over Optimal Plan | | |

Table 2
 Synapse High CO₂ Price, No DSM with AEP High CO₂ Gas Price Forecast Increased by 4%

| Study Period Plan Rank | Optimal Plan ¹ | Best Port CC Plan | Best Hempstead PC Plan |
|---|---------------------------|--|------------------------|
| 2011 | | | |
| 2012 | | | |
| 2013 | | | |
| 2014 | | | |
| 2015 | | | |
| 2016 | | | |
| 2017 | | | |
| 2018 | | | |
| 2019 | | | |
| 2020 | | | |
| 2021 | | | |
| 2022 | | | |
| 2023 | | | |
| 2024 | | | |
| 2025 | | | |
| 2026 | | | |
| 2027 | | | |
| 2028 | | | |
| 2029 | | | |
| 2030 | | | |
| 2031 | | | |
| 2032 | | | |
| 2033 | | | |
| 2034 | | | |
| 2035 | | | |
| | | Number of Units Added | |
| | | CT | |
| | | CC | |
| | | Port CC | |
| | | Hempstead PC | |
| | | Capacity Added (MW) | |
| <u>SWEPCO Total Cost CPW (\$000)</u> | | | |
| | | Planning Period | |
| | | End-Effects | |
| | | Study Period | |
| | | Planning Period Rank | |
| | | Increased Planning Period (2007-2035) Cost over Optimal Plan | |
| | | Increased Study Period (2007-2051) Cost over Optimal Plan | |
| | | Percent Increase Study Period Cost over Optimal Plan | |

Table 3
 Synapse Mid CO₂ Price, DSM with AEP High CO₂ Gas Price Forecast

| Study Period Plan Rank | Optimal Plan ¹ | Best Port CC Plan | Best Hempstead PC Plan |
|------------------------|---------------------------|-------------------|------------------------|
| 2009 | | | |
| 2010 | | | |
| 2011 | | | |
| 2012 | | | |
| 2013 | | | |
| 2014 | | | |
| 2015 | | | |
| 2016 | | | |
| 2017 | | | |
| 2018 | | | |
| 2019 | | | |
| 2020 | | | |
| 2021 | | | |
| 2022 | | | |
| 2023 | | | |
| 2024 | | | |
| 2025 | | | |
| 2026 | | | |
| 2027 | | | |
| 2028 | | | |
| 2029 | | | |
| 2030 | | | |
| 2031 | | | |
| 2032 | | | |
| 2033 | | | |
| 2034 | | | |
| 2035 | | | |

Number of Units Added

CT
 CC
 Port CC
Hempstead PC
 Capacity Added (MW)

SWEPCO Total Cost CPW (\$000)

Planning Period
 End-Effects
 Study Period
 Planning Period Rank

Increased Planning Period (2007-2035) Cost
 over Optimal Plan
 Increased Study Period (2007-2051) Cost
 over Optimal Plan
 Percent Increase Study Period Cost over
 Optimal Plan

Table 4
Synapse High CO₂ Price, DSM with AEP High CO₂ Gas Price Forecast Increased by 4%

| Study Period Plan Rank | Optimal Plan ¹ | Best Port CC Plan | Best Hempstead PC Plan |
|------------------------|------------------------------|----------------------|---------------------------|
| 2009 | | | |
| 2010 | | | |
| 2011 | | | |
| 2012 | | | |
| 2013 | | | |
| 2014 | | | |
| 2015 | | | |
| 2016 | | | |
| 2017 | | | |
| 2018 | | | |
| 2019 | | | |
| 2020 | | | |
| 2021 | | | |
| 2022 | | | |
| 2023 | | | |
| 2024 | | | |
| 2025 | | | |
| 2026 | | | |
| 2027 | | | |
| 2028 | | | |
| 2029 | | | |
| 2030 | | | |
| 2031 | | | |
| 2032 | | | |
| 2033 | | | |
| 2034 | | | |
| 2035 | | | |

Number of Units Added

CT
CC
Port CC
Hempstead PC
Capacity Added (MW)

SWEPCO Total Cost CPW (\$000)

Planning Period
End-Effects
Study Period
Planning Period Rank

Increased Planning Period (2007-2035) Cost
over Optimal Plan
Increased Study Period (2007-2051) Cost over
Optimal Plan
Percent Increase Study Period Cost over
Optimal Plan

Table 5
 SWEPCO Base CO₂ Price, with SWEPCO Base Commodities

| Study Period (2007-2051) Plan Rank | Best 2011 Hempstead PC Plan | Best 2011 CT Plan | Best 2011 Port CC Plan |
|---|---|-----------------------|---------------------------|
| 2011 | | | |
| 2012 | | | |
| 2013 | | | |
| 2014 | | | |
| 2015 | | | |
| 2016 | | | |
| 2017 | | | |
| 2018 | | | |
| 2019 | | | |
| 2020 | | | |
| 2021 | | | |
| 2022 | | | |
| 2023 | | | |
| 2024 | | | |
| 2025 | | | |
| 2026 | | | |
| 2027 | | | |
| 2028 | | | |
| 2029 | | | |
| 2030 | | | |
| 2031 | | | |
| 2032 | | | |
| 2033 | | | |
| 2034 | | | |
| 2035 | | | |
| | | Number of Units Added | |
| | CT | | |
| | CC | | |
| | PC | | |
| | Port CC | | |
| | <u>Hempstead PC</u> | | |
| | Capacity Added (MW) | | |
| | | | |
| <u>SWEPCO Total Cost CPW (\$000)</u> | | | |
| | Planning Period | | |
| | End-Effects | | |
| | Study Period | | |
| | | | |
| | Increased Planning Period Cost over Hempstead Plan | | |
| | Increased Study Period Cost over Hempstead Plan | | |
| | Percent Increase Study Period Cost over Hempstead Plan | | |

Table 6
 SWEPCO Base CO₂ Price, with SWEPCO Mid-High Commodities

| Study Period (2007-2051) Plan Rank | Best 2011 Hempstead PC Plan | Best 2011 CT Plan | Best 2011 Port CC Plan |
|------------------------------------|--------------------------------|----------------------|---------------------------|
| 2011 | | | |
| 2012 | | | |
| 2013 | | | |
| 2014 | | | |
| 2015 | | | |
| 2016 | | | |
| 2017 | | | |
| 2018 | | | |
| 2019 | | | |
| 2020 | | | |
| 2021 | | | |
| 2022 | | | |
| 2023 | | | |
| 2024 | | | |
| 2025 | | | |
| 2026 | | | |
| 2027 | | | |
| 2028 | | | |
| 2029 | | | |
| 2030 | | | |
| 2031 | | | |
| 2032 | | | |
| 2033 | | | |
| 2034 | | | |
| 2035 | | | |

Number of Units Added

CT
 CC
 PC
 Port CC
Hempstead PC

Capacity Added (MW)

SWEPCO Total Cost CPW (\$000)

Planning Period
 End-Effects
 Study Period

Increased Planning Period Cost over
 Hempstead Plan
 Increased Study Period Cost over
 Hempstead Plan
 Percent Increase Study Period Cost
 over Hempstead Plan

Table 7
 SWEPCO Base CO₂ Price, with SWEPCO High Commodities

| Study Period (2007-2051) Plan Rank | Best 2011 Hempstead PC Plan | Best All Gas Plan | Best 2011 Port CC Plan |
|---|--------------------------------|----------------------|---------------------------|
| 2011 | | | |
| 2012 | | | |
| 2013 | | | |
| 2014 | | | |
| 2015 | | | |
| 2016 | | | |
| 2017 | | | |
| 2018 | | | |
| 2019 | | | |
| 2020 | | | |
| 2021 | | | |
| 2022 | | | |
| 2023 | | | |
| 2024 | | | |
| 2025 | | | |
| 2026 | | | |
| 2027 | | | |
| 2028 | | | |
| 2029 | | | |
| 2030 | | | |
| 2031 | | | |
| 2032 | | | |
| 2033 | | | |
| 2034 | | | |
| 2035 | | | |
| | Number of Units Added | | |
| CT | | | |
| CC | | | |
| PC | | | |
| Port CC | | | |
| <u>Hempstead PC</u> | | | |
| Capacity Added (MW) | | | |
| | | | |
| <u>SWEPCO Total Cost CPW (\$000)</u> | | | |
| Planning Period | | | |
| End-Effects | | | |
| Study Period | | | |
| | | | |
| Increased Planning Period Cost over Hempstead Plan | | | |
| Increased Study Period Cost over Hempstead Plan | | | |
| Percent Increase Study Period Cost over Hempstead Plan | | | |

Table 8
 SWEPCO High CO₂ Price, with SWEPCO Base Commodities

| Study Period (2007-2051) Plan Rank | Best 2011 Hempstead PC Plan | Best All Gas Plan | Best 2011 Port CC Plan |
|---|--------------------------------|----------------------|---------------------------|
| 2011 | | | |
| 2012 | | | |
| 2013 | | | |
| 2014 | | | |
| 2015 | | | |
| 2016 | | | |
| 2017 | | | |
| 2018 | | | |
| 2019 | | | |
| 2020 | | | |
| 2021 | | | |
| 2022 | | | |
| 2023 | | | |
| 2024 | | | |
| 2025 | | | |
| 2026 | | | |
| 2027 | | | |
| 2028 | | | |
| 2029 | | | |
| 2030 | | | |
| 2031 | | | |
| 2032 | | | |
| 2033 | | | |
| 2034 | | | |
| 2035 | | | |
| | Number of Units Added | | |
| CT | | | |
| CC | | | |
| PC | | | |
| Port CC | | | |
| <u>Hempstead PC</u> | | | |
| Capacity Added (MW) | | | |
| | | | |
| <u>SWEPCO Total Cost CPW (\$000)</u> | | | |
| Planning Period | | | |
| End-Effects | | | |
| Study Period | | | |
| Increased Planning Period Cost over Hempstead Plan | | | |
| Increased Study Period Cost over Hempstead Plan | | | |
| Percent Increase Study Period Cost over Hempstead Plan | | | |