

# SRC Energy Update

**By Senator Jim Honeyford, Ranking Republican Member  
Senate Water, Energy & Telecommunications Committee**

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Dear Friends,

The once-robust economy is no longer bailing Washington out from the past four years of irresponsible, runaway state government spending. The state's jobless rate has hit a dismal 6 percent and more than 200,000 Washingtonians are now looking for work.

Given this economic picture, now is especially not the time for expensive, job-killing environmental plans that have never been proven to reduce energy costs or protect the environment. We Senate Republicans support environmental proposals aimed at promoting new technologies to increase energy efficiencies, reducing fuel and heating costs, creating jobs, boosting national security and -- most importantly -- respecting individual choice and personal freedom.

The governor, however, has taken our state's energy and environmental policy down a completely different path. Washington has joined with several other states to form the Western Climate Initiative, which is primarily dedicated to creating a regional "cap-and-trade" system.

This amazingly complex and costly scheme sets up an artificial market for carbon emissions through an approach that is already proving unsuccessful in Europe and has experienced major setbacks on the East Coast.

The state Department of Ecology admits that the WCI proposal, if enacted into law, would likely result in a "leakage" of jobs to other states. Amazingly, the plan even acknowledges, and experts agree, that the WCI will most likely also mean higher costs for Washington's electricity consumers.

In this edition of the Senate Republican Caucus' *Energy Update*, we examine the full recommendations that were recently released by the Western Climate Initiative. We also address Washington's green power mandates and the need for renewable resources to include more of Washington's hydropower.

Sincerely,





# Western Climate Initiative plan released

## *Cap-and-trade scheme likely to result in job loss and higher utility bills*

On September 23, the Western Climate Initiative (WCI), a coalition of seven states and four Canadian provinces working to introduce regional environmental policies, released its plan for a regional “cap-and-trade” program. Under the proposal, total emissions would be capped with the goal of reducing greenhouse gas emissions by 15 percent below 2005 levels by 2020. Amazingly, the plan itself acknowledges that the proposal will cause both higher utility costs and a “leakage” of industries and jobs out of Washington.

Under this staggeringly complex and expensive scheme, each WCI member state would set a cap on emissions and issue carbon allowances based on that limit. The plan would allow each member state to determine if these allowances are given away based on past emissions or distributed through an auction. If a company or utility can cheaply reduce its emissions, it could then sell its allowances to a company that can't.

The WCI partners have agreed to begin reporting emissions in 2011 for emissions that occur in 2010. The first phase of the cap-and-trade program will begin on January 1, 2012, with a three-year compliance period. The second phase will begin in 2015, when the program is expanded to include transportation fuels and residential, commercial and industrial fuels not covered in the first phase.

The program will cover nearly 90 percent of the region's emissions, including those from electricity, industry, transportation, and residential and commercial fuel use.

The cap-and-trade scheme has many problems, and many of the key questions have been left to the Legislature to address.

### **Auction or “Emission Allowance”?**

The WCI plan allows member states to either give carbon allowances to emitters based on their past emissions or auction the allowances to willing buyers. They can also do some combination of the two, and tweak that balance from time to time to manipulate the price. The plan calls for a minimum auction amount of 10 percent at the start of the program, increasing to at least 25 percent by 2020.

### **Each system presents unique problems.**

Under a system where allowances are given away based on past emissions, Washington, its energy producers, and its utility customers would actually be punished for already being environmentally responsible.

Washington energy is already among the cleanest in the country. We get 70 percent of our electricity from clean,

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## *The WCI Plan in a Glance*

### *What will it mean to you?*

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- *Higher electric bills and gasoline prices for Washingtonians*

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  - *Job “leakage” as manufacturers close plants or move to other states to avoid paying for expensive carbon credits*

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  - *Windfall profits for companies big enough to manipulate the “carbon market”*

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  - *A new unregulated market that will leave our economy vulnerable to the greed and corruption of speculators*

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carbon-free hydropower and 10 percent from carbon-free nuclear power. States that have higher emitters would receive more allowances... and also have more room to improve. They can then sell their extra allowances at higher rates.

On the other hand, hydropower has little capacity for growth and must be supplemented during droughts and other unpredictable times with energy purchased from carbon emitters. This means Washington energy producers would receive fewer credits to begin with and then be forced to buy credits or access power from high emitters.

The plan attempts to address this blatantly unfair scheme with a one-time adjustment in 2012, based on population and energy production. This, however, makes no environmental sense, as it is not tied to emissions in any way.

Under an auction-based system, even a small number of well-financed corporations can exert market power and conceivably price others out of the limited allowances market altogether. An entity that has the financial capacity to purchase large amounts of allowances through an auction, especially more than it needs to cover emissions, has the ability to “bid up” future allowance prices and manipulate the market.

This could mean windfall profits for entities able to sell allowances at an inflated cost. It would also mean that some companies and utilities would be forced to incur debt in order to buy allowances necessary to maintain their business, or in the case of a utility, to maintain service. Ultimately, this may force small and mid-sized utilities out of business, which could only mean higher costs for consumers.

### **Higher electricity cost for Washingtonians**

Utilities will incur a huge cost. They have a legal responsibility to serve their customers, and would be forced to pay for allowances no matter how expensive they became. This higher

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## *Did You Know?*

### ***Just how much would a carbon ration cost?***

*Minnesota-based Xcel Energy recently provided information to the voluntary Carbon Disclosure Project that, at \$9 per ton, its carbon emission would have cost the company \$603 million last year, according to TwinCities.com. By comparison, in 2007, Xcel reported just \$577 million in profit.*

### ***Should driving our cars really be even more expensive?***

*Earlier this year, House Democrats proposed House Bill 2420, which would assess coal, gasoline and natural gas importers a \$10-per-ton tax on carbon emissions. Washington drivers would also be charged a 10-cent tax on each gallon of fuel. **Both taxes would have increased tenfold by 2017.***

*Not to be outdone, their Senate colleagues introduced Senate Bill 6900, a measure that would impose new fees on vehicles based on engine size and CO2 emissions.*

*Neither proposal became law, but HB 2815, which did, calls for the Department of Transportation to adopt broad statewide goals to reduce vehicle miles traveled by 2050. So you can expect several new proposals during the 2009 session aimed at limiting how much you are allowed to drive.*

### ***Imagine swiping your smart card to register your carbon ration...***

*There is a plan to require you to use a personal carbon ration card when you pay to fill up your tank, take a flight, heat your home or use some other carbon-based services or goods. Your “allowance” would be granted annually and its value would decline every year.*

*Used up your carbon ration? Sorry...either you won't be able to take your kids to their soccer game, or you'll have to purchase more expensive credits - if they're even available.*

*This radical plan is being advocated by Climate Code Red: The Case for Emergency Action, which was published in July.*

*The United Kingdom's Daily Mail reported earlier this year that a similar idea had reached Britain's Environmental Audit Committee, where it was estimated to cost between £700million and £2billion to set up and as much as another £2billion a year to run.*

cost would ultimately be passed on to electricity customers. The WCI plan admits as much and recommends that: “WCI partner states may consider... reducing **consumer impacts**, especially for low-income consumers.”

*The Ithaca ( N.Y.) Journal’s* Heather Senison recently reported on how this same issue is playing out in the East Coast equivalent of the WCI, the Regional Greenhouse Gas Initiative (RGGI):

*A regulation designed to combat global warming could result in rate hikes of as much as 9 percent for consumers....*

*In addition, the RGGI establishes a cap-and-trade program, allowing companies to sell to other companies the quantities of carbon dioxide they purchased but did not emit.*

*In a radio interview in Albany, Gavin Donohue, president and CEO of the Independent Power Producers, said the program is going to "put New York at a competitive disadvantage."*

*He said investors might go to other states to do business with the power industry to avoid the cost added by the regulations. **This disadvantage, Donohue said, will raise costs for consumers.***

### **The Leakage of Jobs and Suppliers**

The cost of emissions allowances or credits will cause our manufacturing and other large companies to relocate to Idaho or other states without this cap-and-trade scheme. We’ll lose hundreds, possibly thousands, of jobs to states with tax incentives and lower energy and transportation costs.

Many manufacturers will simply shut down operations or whole facilities to either fit under the cap or turn a profit from selling their extra allowances. This would once again mean losing thousands of jobs.

The state Department of Ecology refers to this as “leakage,” and admits there is no real answer for the loss of jobs, barring other states instituting a similar scheme. In other words, unless we all suffer equally, Washington’s workers will suffer alone.

Utilities won’t have the option of shutting down operations or relocating. As was demonstrated in California during the 2000-2001 energy crisis, being forced to exceed their emission limits compelled several investor-owned utilities into bankruptcy and resulted in the permanent closure of industrial facilities. It also spawned costly litigation. We can expect to see much of the same under this latest cap-and-trade scheme.

Some say these jobs will be replaced with “green collar” jobs, and spur a “new, green economy.” What are green jobs, and will they really replace the job you could lose? Green jobs are generally ones created in response to all the new regulation – things like putting insulation in homes and operating solar panels. If you live in Longview or Aberdeen and your “traditional” job goes away, how many green jobs will there really be? Will they pay the same? Unless you’re willing to move and retrain to do something different, you may be out of luck – and out of work.

### **No authority to regulate or enforce this interstate, international pact**

Most alarming for Washington is the fact that the WCI is not an official interstate compact, approved by Congress. That means that there is no way to regulate or even enforce this agreement between states. No state or provincial government will have the authority to maintain a cap on the price of allowances or regulate speculators who hope to make windfall profits on the backs of taxpayers, energy consumers and local jobs.

In light of the recent financial crisis, does it really make sense for the WCI partners to create another large, unregulated market with the potential for greed and corruption to cause havoc for our economy?

### **More revenue for the state?**

The WCI plan leaves another gaping hole to be filled in by the Legislature. What happens to all that money generated by auctioning off carbon allowances? The plan states that “a portion of the value represented by each state’s allowance budget will be dedicated” for energy-efficiency and renewable-energy incentives, research and development of carbon-capture technology, promotion of emission reductions or other similar goals. The plan does not spell out exactly how big a portion – it could even be zero.

The plan also gives examples of potential uses for the remaining portion (including mitigating the loss of jobs and helping pay for higher utility bills for the poor), but those suggestions are not mandated.

In the end, this could really be more about increasing revenue to the state coffers than about helping the environment.

### **This is a non-solution in search of a problem.**

Gov. Gregoire released a statement saying she is “not waiting for the federal government to take the lead on climate change. Waiting keeps us tied to a future of high oil prices and certain damage to our environment.”

What this statement fails to recognize is that Washington is not a “bad actor” when it comes to carbon emissions. Less than 20 percent of the electricity consumed in our state is generated by fossil fuels, and we are only responsible for less than 1/3 of 1 percent of the world’s greenhouse gases.

Rushing into this risky scheme only ties us to high electricity prices and certain damage to our economy.

Why should our citizens and industries be subjected to a loss of jobs, higher gas prices, and higher electricity costs when they are already doing so much to be part of the solution? Why should we further put our state’s economy in the hands of speculators just to experiment with a system that puts us at an economic disadvantage?

Since most of Washington’s emissions come from cars, we should focus on implementing solutions where the real problem lies. For example, giving people more incentives to move to electric vehicles would be a double win: fewer emissions from cars and more use of clean hydro electricity. These are the kinds of solutions that Washington should pursue, rather than tying us to an expensive, one-size-fits all scheme that will cost us all – and dearly.

A responsible environmental policy does not treat Washington like a grade-A carbon-offender when we are really at the head of the class. This is not the time for expensive, job-killing environmental plans that have never been proven to reduce energy costs or protect the environment. We can do better.



Nobody knows which way the wind blows.

The conventional wisdom has been that one of the biggest drawbacks with new sources of energy is that you can't generate electricity from solar panels and wind farms if the sun's not out or the wind isn't blowing. But this summer, the headlines told a different story.

"The wind huffed, and it puffed, and it nearly caused major problems in the Northwest's electrical grid," read one Associated Press story. A surge of wind jumped far beyond levels forecast by operators of Oregon's wind-farm industry, sending more power into the regional grid than it could handle.

The Bonneville Power Administration is responsible for adjusting hydropower generation to accommodate such surges, but for the first time, this summer the BPA power managers were forced to have wind-farm operators stop producing and sending power into the grid to avoid an overload.

Wind power is an environmentally and politically popular idea, and it has great potential to meet growing energy needs in our state and nation. Its unreliability, however, limits its short-term usefulness as a primary energy source. The reliability of the electric grid has to be the top priority. For any energy source to be practical, it must be able to produce power when needed or be stored. Wind power falls short on both these notes.

The region currently gets less than 4 percent of its electricity from wind. It is not only an intermittent source of power, but is also very expensive, requiring heavy subsidies at both the state and federal level in order to be economically feasible.

Wind power also requires large degrees of management, as it requires supplemental fossil fuel or hydroelectric plants as a backup to be powered up or down as needed to compensate for wind power supply shortfalls or offset power surges to the grid.

Many of the problems associated with wind power may someday be solved. In fact, researchers are already learning how to vary wind farm locations in order to level out power fluctuations. It is important for energy producers to continue to invest in research into wind power's potential.

The problem is not keeping wind as part of an overall energy portfolio; the problem is overhyping its current potential and overpromising its results. It is not the answer to our energy needs, but can definitely remain a part of the mix.

## QUOTABLE

*“Washington State’s environmental policy is Idaho’s job creation plan!”*

*~unknown*

## Time to fix Washington’s green power mandates

### *Renewable resources should include hydropower*

The Pacific Northwest has a growing problem. As we continue to draw more people from across the country and around the world, the demand for more power has never been stronger.

Hydroelectric power is an abundant resource that balances the needs of the environment with the need for clean, nonpolluting, and reliable electricity. It accounts for 70 percent of Washington’s power consumption. It is also a carbon-free resource that can provide the flexible power needed to firm up and back up the growing development of more unreliable renewable power in our region.

So why is Washington one of the only states not to recognize hydroelectric power for the clean, renewable source it is?

Initiative 937, passed in 2006, requires large utilities to obtain 3 percent of their electricity load from new (and more expensive) renewable resources, such as solar and wind, by 2012, and ratchets the renewable requirement to 9 percent of load by 2015, and 15 percent by 2020.

Some utilities, such as rural Chelan County PUD, are independently renewable-based. Chelan gets almost 100 percent of its power from dams it owns. Utilities in this rare situation would comply with I-937 in part by making upgrades to their hydropower facilities.

Unfortunately, the initiative's definition of renewable energy does not include most existing hydroelectric facilities. For instance, hydropower purchased from the Bonneville Power Administration does not count. Though some incremental improvements to existing hydro facilities can qualify, even dams certified as “green” by the Low Impact Hydro Institute don’t qualify as renewable.

That's simply not reasonable. Bonneville Power Administration manages federally-owned dams in the region, providing most of the state's current renewable energy to utilities. Washington utilities actually end up selling our reasonably priced hydropower to other states to help them meet their renewable mandates, while at the same time buying more expensive forms of renewable energy to meet Washington's mandates. That extra cost is then passed on to families in the form of higher electric bills.

We will undoubtedly be revisiting I-937 during the upcoming 2009 legislative session. It is possible that some in the majority party will actually be looking for ways to raise the mandate to 25 percent by 2025. This would be a colossal mistake and a missed opportunity. Further raising the mandated rate of renewable energy without recognizing the majority of our hydropower as renewable would only increase costs for families and further deteriorate our already difficult business environment.



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