

# Energy Development and Transmission Committee

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# **MN Externality Proceedings**

- ★ 2007 Next Generation Act required:**
- ★ MN Public Utilities Commission (PUC)**
  - Established an Estimate of Costs of Future Carbon Dioxide Regulation on Electricity Generation**
- ★ LEC and NDIC filed comments in fall of 2007**
- ★ NDIC presented oral testimony at hearing in Dec. 2007**

# **MN Externality Proceedings**

- ★ Order issued establishing range at \$ 4 - \$ 30/ton**
- ★ NDIC filed petition for rehearing**
  - LEC and Big Stone Partners filed comments supporting petition**
- ★ Order denying the request issued in Feb. 20, 2008**

# **MN Externality Proceedings**

## **★ What is an externality value?**

- Paper value – used in the MN PUC integrated resource planning (IRP) process**
- Requires utilities to estimate the cost of CO<sub>2</sub> regulation**
- Add that value to the cost of lignite – this value is called an “externality value”**

# **MN Externality Proceedings**

**★ For Example ...**

- Lignite sells for \$10/ton**
- Natural Gas sells for \$17/ton**
- Nuclear sells for \$10.50/ton**

# **MN Externality Proceedings**

## **★ For Example ...**

- **Under the MN resource planning process ...**
  - **Company A must add a value for the estimated “cost of CO<sub>2</sub> regulation” to the price of lignite**
  - **Value must be between \$ 4 and \$30 per ton**
  - **Let’s say the value agreed to is \$20/ton**
  - **In the planning document ... lignite would be valued at \$30 (\$10 cost + \$20 CO<sub>2</sub> value)**

# **MN Externality Proceedings**

**★ After Externality Value is added ...**

- Lignite value = \$30/ton**
- Natural Gas value = \$17/ton**
- Nuclear value \$10.50/ton**

# **MN Externality Proceedings**

## **★ How does an externality value impact lignite?**

- \$30/ton paper value – lignite is no longer the lowest cost resource**
- Under IRP process, lowest cost is a key element in determining which fuel to include in the resource plan**
- Utilities less likely to include lignite as future resource**



# **MN Externality Proceedings**

## **★ How does an externality value impact consumers?**

- **One factor utilities must consider is price of fuel**
- **The Externality Value makes lignite less attractive than natural gas or nuclear**
- **In reality, consumers pay for higher cost fuel**

# **Elements of Cap and Trade Programs**

## **★ Determine quantity of emission**

- Create allowances based on emission goals ... this becomes the CAP for each year**
- Allowances are used to meet emission reduction goals**

# Elements of Cap and Trade Programs

**★ To meet annual emission reduction goal, a covered facility must:**

- **Reduce emissions**
- **Remit allowances sufficient to cover emissions**
- **Borrow from future allowances**
- **Purchase from trading exchange (TRADE)**

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# Elements of Cap and Trade Programs – Lieberman-Warner

<b>Calendar Year</b>	<b># of Allowances</b>
<b>2012</b>	<b>5.775 B</b>
<b>2013</b>	<b>5.669 B</b>
<b>2014</b>	<b>5.562 B</b>
<b>2015</b>	<b>5.456 B</b>
<b>2016</b>	<b>5.349 B</b>
<b>2017</b>	<b>5.243 B</b>

# **LEC Policy on Cap & Trade**

- \* Oppose cap and trade programs that do not provide adequate revenues to fund an aggressive research, development and demonstration program**

# **LEC Policy on Cap & Trade**

## **★ Why?**

- **Avoid Rate Shock to Consumer**
  - **Technology Development**
  - **Increased Natural Gas and Electricity Rates**
  - **Increased Cost of Living**
- **Hidden/Delayed Costs**
- **No Available, Deployable and Affordable Technology**

# **Key Elements for Allowance Allocations**

- ★ **Until technology is available - existing facilities must receive:**
  - **Allowances = 100%**
  - **Average emissions - 2003-2005**
- ★ **Alternative - allowances - 1.4 to 1 ratio**
- ★ **All auction proceeds - distributed between three coal types for research, development and demonstration projects**
- ★ **Must include a safety valve**

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# **Other Considerations for Cap and Trade Legislation**

- ★ Emissions from all sectors of the economy must be regulated at federal level**
- ★ Federal preemption of all state and local laws and regional compacts**
- ★ Future growth must be accommodated**
- ★ Credit given for early actions**
- ★ Private and public partnerships encouraged for funding R&D**



# **Other Considerations for Cap and Trade Legislation**

- ★ Sequestered CO<sub>2</sub> must not be classified as a hazardous waste**
- ★ For purposes of capture, transport and enhanced oil recovery, CO<sub>2</sub> must be treated as a commodity and regulated by DOE**

# **Other Considerations for Cap and Trade Legislation**

- ★ Congress must address the legal and regulatory challenges associated with the capture, transport and storage of CO<sub>2</sub>**
- ★ Measures must be included to ensure that the United States does not undertake a disproportionate share of responsibility**

# Questions???

## Thanks for listening!!!