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POSITION ON FEDERAL CLIMATE CHANGE LEGISLATION

The scientific evidence continues to mount that climate change is occurring, and that an increase in greenhouse gases (GHG) from burning fossil fuels and other sources is contributing to the problem. Although the exact effects are uncertain, the risk of severe environmental consequences is almost certainly growing. In response, a political consensus is developing that federal legislation to regulate or otherwise reduce GHG should be enacted soon. We expect Congress to answer this call within the next 2-4 years.

As we move forward, electric utilities such as Avista face uncertainty as they seek to secure reliable electricity resources to serve the growing needs of their customers. Without a clear regulatory framework, it is difficult for utilities to determine the best path forward regarding investment in new generation facilities, particularly in light of the obligation to serve customers at the lowest cost.

The continued absence of a federal regulatory GHG framework could also make it more difficult for the United States and the world as a whole to come up with satisfactory solutions to the climate change problem over the coming decades. Relatively modest steps taken in the near-term could yield dividends that make it easier to come up with permanent solutions in the future.

Therefore, in light of the uncertainty created by the lack of a federal GHG regulatory framework and the risks associated with continued inaction, Avista supports enactment of federal legislation to reduce GHG emissions, consistent with the following principles:

- **Workable and Cost Effective**

GHG policies and regulations must be carefully crafted to actually reduce GHG emissions in a workable and cost-effective manner. For example, if a cap and trade system is adopted there must be a single national system, not a series of state and/or regional systems that duplicate and perhaps conflict with the national system.

- **Fair**

The costs and burdens associated with reducing GHG emissions should be fairly distributed across the utility industry and all other GHG-generating sectors of the economy, consistent with their relative contribution to the GHG problem.

- **Protect the Economy**

It is essential that any GHG regulatory framework be crafted to assure that the health and continued growth of the U.S. economy is protected. Proposals such as that made by the bi-partisan National Commission on Energy Policy to cap the cost of required GHG reductions should be given serious consideration.

- **Support Technological Innovation**

The development and deployment of innovative technology is likely to be the key to achieving reductions in GHG emissions at a reasonable cost. This will require substantial investment by both the public and private sectors, along with stable tax incentives.

- **Address Developing Nation Emissions**

The United States is currently the largest source of GHG emissions on the planet. However, due to rapid economic growth, developing nations such as China and India are expected to emit more emissions than the U.S. in the mid-term. Consequently, a system to reduce GHG emissions in the United States will ultimately only provide benefits if emissions from developing countries are also controlled. At a minimum, the legislation should be integrated into a larger U.S. strategy for controlling emissions from developing nations through an international treaty and other means, such as technology transfer.

The Northwest Electricity System and Federal GHG Legislation

The Northwest is uniquely situated as a region on the climate change issue due to its emission-free hydroelectric generation base, which means that we generate the least GHG from electricity production of any part of the country. For example, Avista's generation portfolio is 59% hydro, 25% natural gas, 13% coal and 3% biomass. In fact, Avista's GHG emissions are lower today than they were in 1990 due, primarily, to the sale of its portion of the Centralia coal-fired plant and its investments in demand side management since the mid-1990s. Avista replaced the Centralia facility with relatively low emission electricity from a new gas-fired combined cycle turbine, and it was the first utility in the nation to impose a system benefits charge in order to fund conservation efforts.

The Northwest region's investment in a low-emission electricity sector should be rewarded, or at least not penalized, in any federal GHG legislation. Achieving this result will require careful attention to the regulatory model adopted by Congress, and the way that that model is constructed. The two models currently receiving the most attention are a "carbon tax" on the emission of GHG, and a cap and trade program, much like Congress used under the Clean Air Act to address the acid rain problem. Under the cap and trade approach, a cap or ceiling on total emissions would decline over time.

Within that overall cap, each utility would initially be given a certain amount of emission allowances. Those utilities that could reduce their emissions would then be able to sell their excess allowances to those utilities that either could not reduce their emissions or incurred additional emissions in order to produce the power necessary to serve load growth.

If Congress chooses the cap and trade model, Avista is concerned that allowances to emit GHG not be allocated on the basis of current and/or historic levels of GHG emissions. Under such a regulatory scheme, low-emission regions such as the Northwest would receive correspondingly small allowances to emit, while high-emission regions would receive a large amount of allowances. This could lead to highly inequitable results.

For example, let's take a Midwestern utility with extensive, inefficient coal-fired generation. Having received a large amount of allowances, this utility could free up allowances for sale by increasing the efficiency of its facilities, or by replacing these units with more efficient lower emission generation. A low-emission Northwest utility, on the other hand, would have few allowances and limited or even no opportunities to free up those allowances because it has very little opportunity to reduce emissions.

Consequently, the low-emission Northwest utility might have to purchase, at considerable cost, allowances from the high-emission Midwestern utility. This could lead to a perverse outcome where compliance with GHG regulation for the low-emission Northwest region would be far more costly than it would be for a high-emission region. In other words, regions that emit massive amounts of GHG into the atmosphere from power production would be rewarded, while regions that contribute few emissions would be penalized.

Avista looks forward to working together with other Northwest utilities, as well as other low-emission utilities across the U.S., to assure the enactment of a successful, equitable GHG reduction program. In order to be successful, the legislation must be part of a global strategy, and in order to be equitable it must reward, rather than punish, utilities that are already part of the solution.