



January 10, 2003

The Honorable Spencer Abraham
Secretary
U.S. Department of Energy
1000 Independence Avenue, S.W.
Washington, D.C. 20585

Dear Mr. Secretary:

We appreciate this opportunity to update you on the progress competitive power suppliers have made in reducing greenhouse gas emissions from the electricity sector. The contributions the competitive power sector has made, and will continue to make in the years ahead, will assist in achieving the Administration's goal of significantly reducing greenhouse gas (GHG) intensity over the next decade.

The Electric Power Supply Association (EPSA) is the national trade association representing competitive power suppliers, including independent power producers, merchant generators and power marketers. These suppliers provide reliable, competitively priced electricity from environmentally responsible facilities in the U.S. and global power markets. Over the past two decades, competitive generators have led the nation in the efficient production of cleaner and lower cost electricity.

The competitive power industry accounts for over 36 percent of the nation's installed generating capacity, and the majority of new power projects coming online today. These existing and proposed facilities represent the most efficient generating units in operation.

The competitive power sector provides many benefits to the nation's economy and environment; these benefits will increase with the expansion and maturation of wholesale electric competition. The Department of Energy and the Environmental Protection Agency predicted that competition in the electricity sector would provide incentives to generators to improve efficiencies at existing facilities, develop efficient newer facilities, and create new markets for green power and end-use efficiency services, all of which reduce greenhouse gas emissions and costs.¹ To date, the introduction of competition into the wholesale electricity market has resulted in greater operating efficiency, widespread technological advances and improved

¹ Department of Energy and Environmental Protection Agency. *Carbon Emissions from the Generation of Electric Power in the United States, July 2000*. Internet site at: http://www.eia.doe.gov/cneaf/electricity/page/co2_report/co2report.html.

customer service, contributing to approximately \$13 billion in customer savings.² This also translates into significant environmental benefits by supplanting the use of more expensive, less efficient and higher emitting power plants. However, in order to fully realize the environmental benefits that the competitive power sector can provide, more needs to be done.

As competitive suppliers increase their share of total U.S. generation, CO₂ emission rates will continue to decline. That is because EPSC member companies' new plants currently operate at levels that are approximately half the national average fossil fuel CO₂ emissions rate.³ As competition expands within the wholesale power markets, utilization of highly efficient base load generating technology will increase and these new plants will contribute to a dramatic decrease in the overall greenhouse gas intensity of the electricity sector. Competitive markets also provide incentives to operate older facilities in a more efficient manner. Furthermore, from an energy diversity perspective, competitive wholesale generation includes a diverse mix of fuel sources and technologies.

Competitive power suppliers support President Bush's objective of reducing the greenhouse gas intensity of the U.S. economy by 2012 and believe that increasing the use of competitive power generation is key to meeting President Bush's goal. To this end, EPSC has set an industry goal of increasing the average capacity factor from clean energy sources by 10 percent beyond "business-as-usual" projections for 2012, as described below.

Under the Energy Information Administration's "business-as-usual" electricity forecast, which was used as supporting information for the President's Global Climate Change Initiatives announced in February 2002, clean energy sources are responsible for decreasing greenhouse gas intensity of fossil fuel generation by 10 percent over the next 10 years.⁴ To meet this forecast these energy sources will need to more than double the amount of power they generate today. This is a significant challenge, but one the competitive power sector is intent on meeting.

Opportunities exist for competitive power suppliers to further reduce greenhouse gas intensity beyond EIA's "business-as-usual" forecasts. For example, EIA currently projects these clean energy sources to operate at a 40 percent average capacity factor in the year 2012.⁵ By increasing the utilization of these facilities to a 44 percent average capacity factor in the year 2012, nearly an additional 100 million tons of CO₂ emissions could be avoided. This reduction alone would meet about 23 percent of the President's overall economy-wide goal.

² DOE's *National Transmission Grid Study* modeled the Nation's electricity industry and found that customers are already receiving \$13 billion per year in benefits from wholesale power competition.

³ Platts Research Consulting study.

⁴ Energy Information Agency, *Annual Energy Outlook 2002*, December 2001, Internet site at: <http://www.eia.doe.gov/oiaf/archive/aeo02/index.html>.

⁵ Ibid.

EPSA member companies are committed to utilizing this generation capacity to the fullest extent possible and will work diligently to develop and maximize electricity production from clean energy sources to levels that are necessary to achieving the greenhouse gas intensity goals outlined above. The ability of our members to realize these industry goals is tied to the advancement of policies for promoting competitive markets for electricity. Specifically, it depends on actions and policies to expand wholesale electric competition and rationalize regulations, such as the Federal Energy Regulatory Commission's standard electric market design and Regional Transmission Organization initiatives; advance market-based multi-emissions legislation; streamline current regulatory programs; and seek better disclosure and market transparency.

Finally, EPSA and its members are participating in the Electric Power Industry Initiative and the Power Partners Program. As part of our contribution to these industry efforts, individual EPSA members have made additional pledges to help reduce greenhouse gas emissions. Examples of such projects include reforestation projects in the U.S. and overseas, rural solar electrification, methane reduction, carbon sequestration research and development and support for other voluntary reduction initiatives such as the Chicago Climate Exchange.

EPSA is pleased to do our part in support of President Bush's goal of reducing greenhouse gas intensity. I look forward to joining you at the upcoming ceremony where industry initiatives on reducing emissions will be formally presented.

Sincerely,

A handwritten signature in cursive script that reads "Lynne H. Church".

Lynne H. Church
President

cc: The Honorable James Connaughton
Chairman, White House Council on Environmental Quality

The Honorable Robert G. Card
Undersecretary, U.S. Department of Energy

Mr. Phil Cooney
Chief of Staff, White House Council on Environmental Quality

Ms. Larisa Dobriansky
Deputy Assistant Secretary for Energy Policy
U.S. Department of Energy