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EDISON ELECTRIC INSTITUTE

OFFICE OF GENERAL COUNSEL

DATE Jan. 3, 2003

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January 13, 2003

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

Delivered by Messenger

Dear Mr. Secretary:

The Edison Electric Institute (EEI) continues to support voluntary actions to reduce greenhouse gases (GHGs) and specifically supports the President's goal of reducing U.S. GHG intensity by 18 percent by 2012. EEI and the electric utility industry[1] are world leaders in voluntary actions to reduce, avoid or sequester GHGs. Under the Climate Challenge program initiated by the electric utility industry and the government in 1994, the power sector reported more than 237 million metric tons of carbon dioxide (CO_2)-equivalent emission reductions, avoidances and sequestrations in the year 2000 alone – the equivalent of taking 44 million cars and trucks off the road for that year.

How does this equate to the 90 to 120 #?

EEI has been working with our EPICI industry allies and our member companies to develop a joint response from the entire power sector that reflects our fair contribution to the President's goal. Accordingly, EPICI plans to enter into a cooperative umbrella agreement or memorandum of understanding (MOU) with DOE by May 1, 2003. From 1990 to 2000, electric power carbon emissions per KWH of generation decreased 1.2 percent. In the next decade, EEI will work with our EPICI industry allies and the government to further reduce the power sector's carbon intensity and to achieve the

[1] In response to President Bush's call for action, EEI joined with six other power sector groups – Nuclear Energy Institute (NEI), American Public Power Association, Large Public Power Council, National Rural Electric Cooperative Association, Electric Power Supply Association and Tennessee Valley Authority (TVA) – to form the Electric Power Industry Climate Initiative (EPICI). EPICI's primary purpose is to coordinate the power sector's voluntary climate activities in cooperation with, and with assistance from, the Department of Energy (DOE) and other government agencies. The partnership between EPICI and DOE has been designated "Power Partners℠." Power Partners℠, along with other industry partnerships with DOE, constitute the "President's Energy Partners for Climate Action" (also referred to as "Business Challenges"). Several EEI member companies are also participating in other voluntary climate programs, such as the Climate Leaders (with the Environmental Protection Agency (EPA)), the Chicago Climate Exchange, Business Round Table and Partnerships for Climate Action.

equivalent of four-to-five times the results of the last decade. Accomplishing this goal will be very difficult, and achievable only if all EPICI trade groups and their members -- with government support and appropriate policies[2] -- work together to implement robust supply- and demand-side actions as well as offset projects. A combination of power sector and government efforts will be necessary, including: individual company actions reflecting companies' particular circumstances (financial, operating and fuel mix); government laws, regulations and policies favoring the full realization or maintenance of nuclear and hydroelectric plant generating capacity; and the full benefits of offset projects.

Individual Company Activities as the Cornerstone. . .

In order to reach the President's goal, EEI has strongly recommended that member companies focus on quantitative, concrete and specific activities to reduce, avoid or sequester GHGs.

Once the umbrella MOU is completed, individual member companies can enter into company agreements with DOE. Activities pledged in these documents will include individual company actions – whether undertaken as a member of EEI, NEI or any other group – and joint, industry-wide initiatives (see discussion below).

Supporting individual company actions will be the Power Partners Resource Guide, which will set forth a panoply of supply- and demand-side options for companies to consider in order to reduce, avoid and sequester GHGs. Among these activities will likely be: additional natural gas and clean coal technology generation; additional nuclear generation (through increased capacity, upratings and plant restarts)[3]; additional renewables, energy efficiency and demand-side management; and additional offset projects (*e.g.*, tree planting and forest management, methane projects and international projects).

. . .Supplemented by Industry Initiatives

In addition to individual company actions, which are the cornerstone of Power Partners[SM] voluntary programs, EEI member companies will also participate in industry initiatives. Our industry currently has eight initiatives underway, with six headed by EEI and two led by EPRI. The current forecast for these initiatives is contained in Enclosure 2 to this letter.

Other Actions

In conjunction with our EPICI industry allies, EEI also plans to issue an interim report that examines the progress of Power Partners[SM] activities and will seek to identify

[2] The critical area of government policies is addressed in Enclosure 1 to this letter.

[3] See NEI letter of December 23, 2002, to you. ~~The~~

additional actions that could be undertaken by member companies, individually and collectively, to help meet the President's goal.

Furthermore, EEI will strive to obtain full company participation in Power Partners[SM]. Companies currently participating comprise more than 84 percent of EEI member company generation.

We appreciate the opportunity to work with DOE and other agencies as part of the President's Energy Partners for Climate Action, and look forward to participating in the January 23, 2003, kickoff event in Washington, D.C.

Sincerely,

Thomas R. Kuhn

TRK:lsf
Enclosures (2)
cc (w/ encs):

Spencer Abraham

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bcc (w/ encs):

Enclosure 1

Government Policies

One key to the success of voluntary climate programs for the power sector is the implementation of appropriate government policies. Overall, increased support for emissions-free or less fossil fuel-intensive technologies or practices – such as renewables, clean coal technologies, and energy efficiency and demand-side management – can help drive down greenhouse gases (GHGs). We are heartened by the announcement last fall that the Department of Energy's nearly $50 million of annual support for geological carbon sequestration will be increased up to $90 million. Funding for international power projects would also be helpful.

With regard to changes in policies and regulations, Administration support of hydroelectric relicensing reform, nuclear power plant licensing extensions, and reform of the new source review regulations under the Clean Air Act would directly or indirectly decrease GHGs.

Other incentives to industry participation in voluntary programs include reporting reforms under Energy Policy Act (EPAct) section 1605(b), which the February 14 presidential statement articulated as the award of transferable credit and not penalizing those taking voluntary measures for their actions under future climate policy (which some have characterized as "baseline protection"). In addition, the July 8, 2002, four-agency letter to the President recommended a placeholder for activities previously reported under the EPAct section 1605(b) guidelines.

Government tax policies that could assist in reducing GHGs include accelerated depreciation and amortization of pollution control equipment. Other important financial incentives include production tax credits for renewables and tax incentives for hybrid and fuel cell vehicles.

Enclosure 2

Contributions from EEI and EPRI Industry-wide Initiatives

The current forecast for EEI's industry initiatives is as follows:

- ForestTree Carbon Company: As much as 2 million metric tons of carbon dioxide (CO_2) are expected to be sequestered over the lifetime of the projects.[1]

- Coal Combustion Products Partnership: This partnership with the Environmental Protection Agency will increase the use of coal combustion products, and therefore is projected to increase CO_2 avoidances from the current 16 million metric tons of CO_2 to as much as 30 million metric tons of CO_2 annually.

- International Power Partnerships: This partnership with the Department of Energy (DOE) could reduce, avoid or sequester 1.8-18 million metric tons of CO_2-equivalent greenhouse gases (GHGs) annually from 2002-2010, depending on government (DOE) funding of, and member company investments in, projects.

- Three initiatives on wind, biomass, and restoration of abandoned mine lands: Tons of GHGs reduced, avoided or sequestered as result of these renewables and restoration initiatives are uncertain until projects are developed, but are potentially high.

EPRI's carbon capture and storage and climate technology roadmap initiatives: These long-term, research, development and deployment programs are unlikely to yield significant tons of GHGs reduced, avoided or sequestered in the short to medium term, but their potential for addressing GHGs in the long term is high.

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1 The Department of Agriculture this month is holding two workshops on revision of the Energy Policy Act section 1605(b) guidelines that may address unresolved carbon sequestration accounting issues, such as reporting a larger number of sequestered tons during the early years of projects.

Can this be clarified