



INDIANA MUNICIPAL POWER AGENCY

Climate Change and Climate Change Legislation

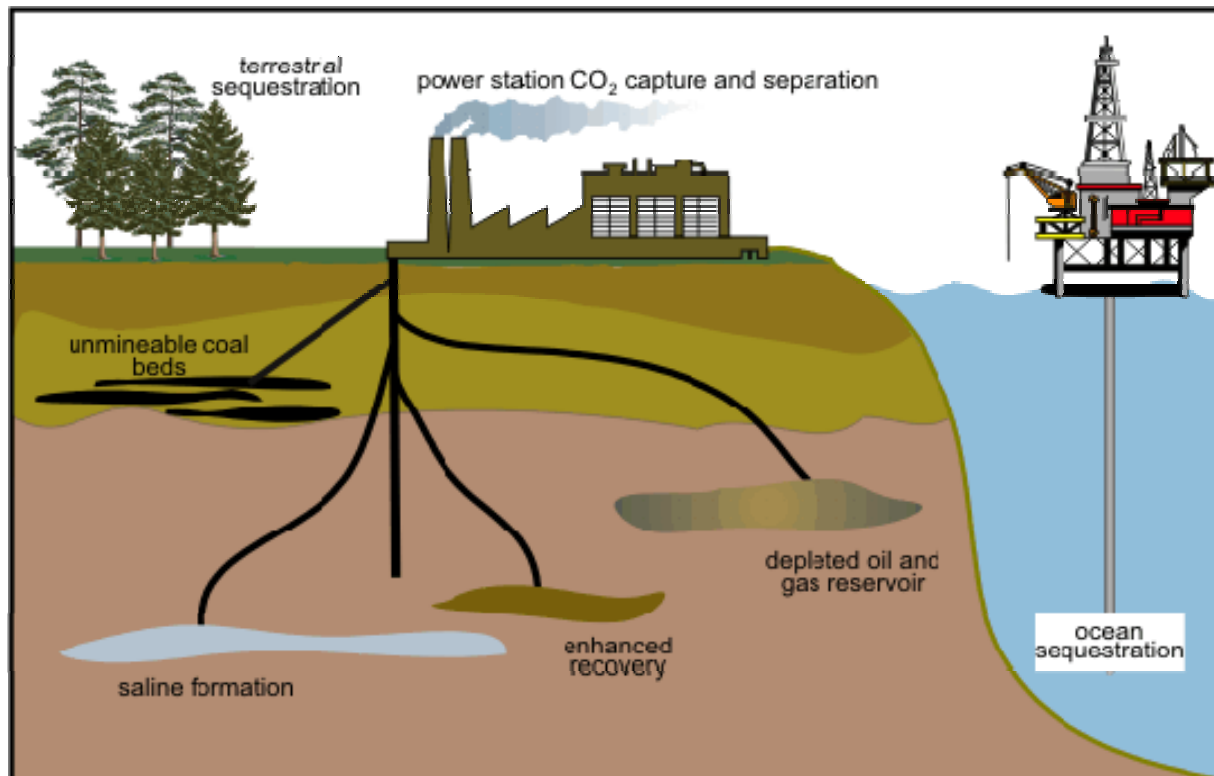
Global Climate Change

- Greenhouse Effect
- Historical Changes in Greenhouse Gas
- Causes of Climate Change



How Do You Control CO₂?

- Reduce the Amount of CO₂ Emitted
- or
- Carbon Sequestration



Climate Change - Science vs. Reality

Science

- 90% of scientists worldwide believe that greenhouse gas is causing global warming.
- Unprecedented and irreversible.

Reality

- Political reality in the western world!



Current State of Legislation

President Obama – Included revenues in his proposed budget, beginning in 2012

Rep. Waxman – Bill out of committee by Memorial Day

Rep. Hoyer – Bill on the floor by the 4th of July

House Speaker Pelosi – Legislation prior to Copenhagen in December 2009 (cap and trade as government revenue source)

Sen. Bingaman – Cap and trade bill should start with 100% auction

Group of 16 Senators – expressed concern with the direction of legislation and impact on their states

More to come...



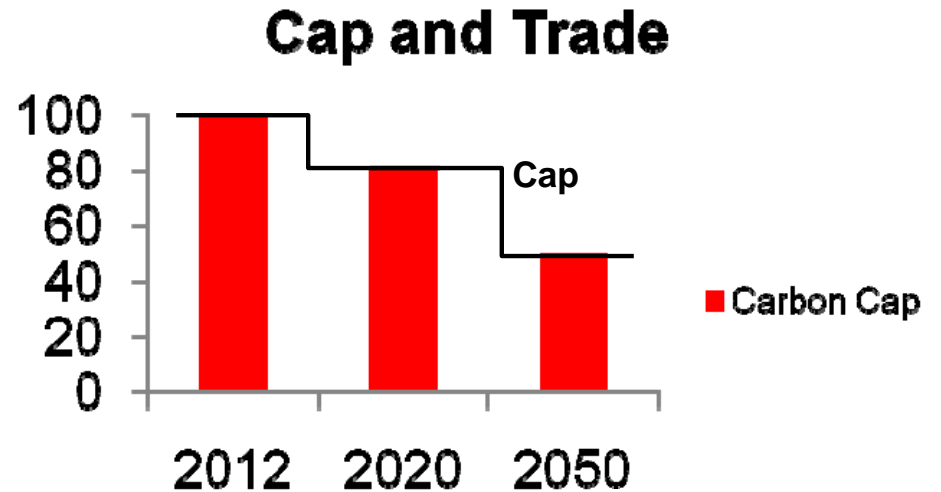
Cap and Trade vs. Carbon Tax

Cap and Trade:

- Limits the level of CO₂ emissions
- CO₂ emitters trade allowances

Carbon Tax:

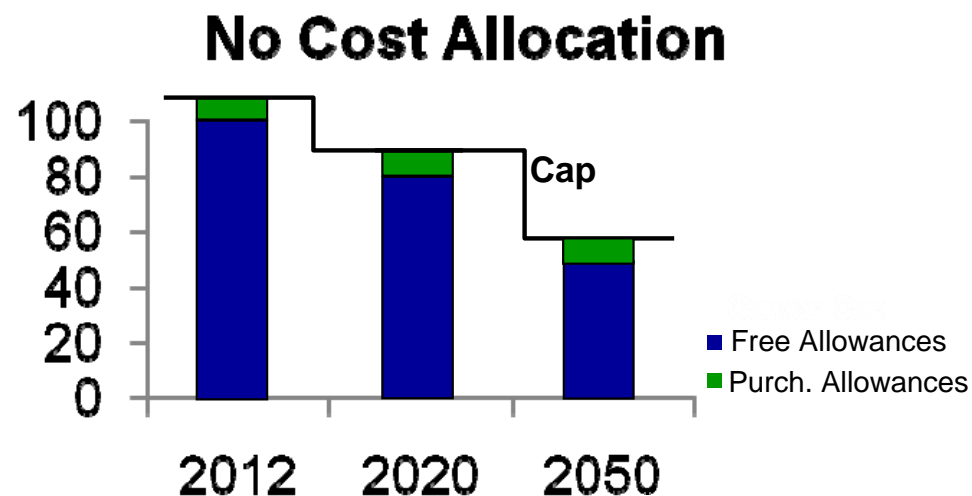
- Taxes CO₂ emissions



Cap and Trade Alternatives

No Cost Allocation:

- Emitters or their customers are allocated their share of allowances at no cost
- If Emitter needs more, must purchase from someone who does not need all of their allowances



Auction Only:

- Emitters must purchase all allowances

The more allowances purchased, the greater the cost of electricity

President Obama's Budget Outline

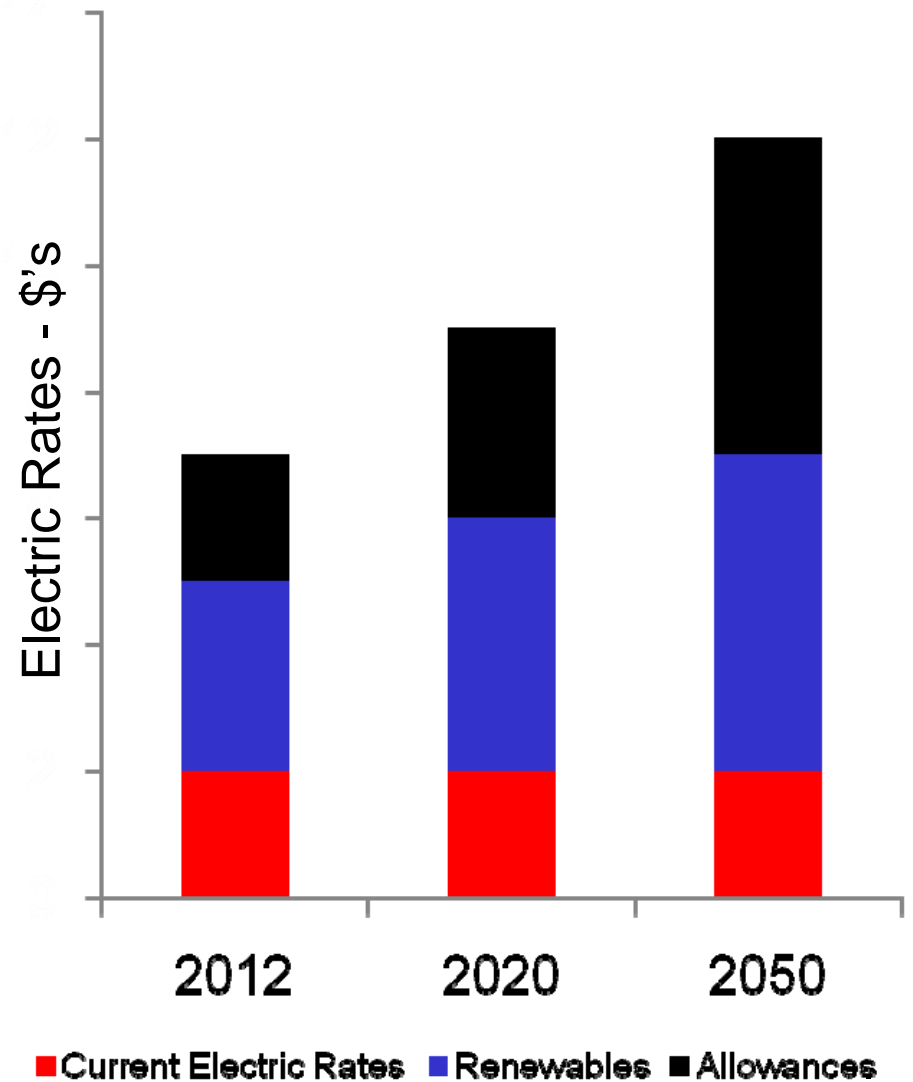
- \$80 billion in revenue a year from the auction of carbon allowances beginning in 2012
- Since 90% of Midwest electricity come from coal, we will contribute a large portion of these revenues
- Only a small percentage of these revenues would be returned to Midwest taxpayers
- Estimated 30%-40% increase in residential rates

The Midwest electric rate-payer will subsidize a nationwide tax credit



Impact of Climate Change Legislation

- Higher Midwest electric costs
- Loss of manufacturing and commercial businesses
- Loss of employment
- The federal government will collect trillions of dollars



Cap and Trade Alternatives

No Cost Allocation OR 100% Revenues to Customers

- Places declining limit on emissions over several years (cap)
 - Government issues allowances at no cost to electric producers equal to cap
 - Electric producers develop compliance strategy to lower emissions
 - Incentivizes innovation and early reductions
 - Regulatory certainty
 - Compliance flexibility
- Electric producer pays for allowances
 - Customer receives subsidy equal to allowance costs
 - Smaller net increase in customers' electric rates
 - Carbon revenues go to customers using carbon based electricity



The Midwest does not subsidize the East or West coasts

Our Position on Climate Change Legislation

- Climate change is a political reality
 - The electric industry must work to invent a method to sequester carbon or move to non-carbon electric generation
 - MINIMUM cost impact to the electric customer:
 - Provide allowances at no cost to coal-fired generators with a declining cap on total emissions;
- OR
- Auction allowances to coal-fired electric generators where 100% of the revenues generated from the auction are allocated back to electric customers who paid the additional charges
- Legislation should be long-term in scope with a clear time frame to allow the economy and the industry the necessary time to transition to the changes that lie ahead



What Can Electric Customers Do?

Call, email or visit your Indiana Congress members and ask them to:

- Vote for climate change legislation that protects Hoosier ratepayers
- Support cap and trade legislation that allocates allowances at no cost
- Support incentives for research and development of technologies for sequestration of carbon or non-carbon generation

