



November 20, 2008

The Honorable Barack Obama
<http://www.change.gov/page/s/contact>

Dear President-elect Obama,

Electricity plays a key role in several of the policy areas you have placed at the top of your to-do list – providing relief for middle class households, restoring economic growth, promoting energy security, and addressing the problem of climate change

- The typical household in America spends about \$1400 per year on electricity, or more than 2 percent of median annual income and for lower income households it represents over 8 percent of income.
- A reliable, affordable supply of electricity is the lifeblood of a 21st century, high tech economy. Over the past 30 years, while our economy has become more energy efficient, electricity use per dollar of output has declined much less quickly than for other forms of energy. This reflects both the importance of electricity in our daily life and many missed opportunities to conserve electricity.
- The one million plug in hybrids that will play a key role in reducing our dependence on foreign oil in your energy policy will place new demands on the electricity sector.
- The electricity sector is the single largest source of global warming greenhouse gases by far, accounting for 40 percent of the U. S. total.

Achieving middle class relief, economic growth, energy security and environmental protection simultaneously will be a challenge, but it is a challenge that must be met. Ignoring these problems is no longer an option; failing to acknowledge the tight interconnection between them would be a mistake. As public interest advocates who work on energy and consumer policy we applaud the high priority that you have placed on these important issues. Concerns about the affordability of energy must be a focal point in energy and economic policy formulation, but they should not prevent us from moving forward as a nation to address these issues. Carefully chosen policies can reconcile these goals.

Affordability of energy has taken center stage in recent months for good reason: Over the past half-decade, household energy expenditures (electricity for lighting, cooling and heating, fuel oil and propane oil for heating; and natural gas for cooking and heating, and gasoline for transportation) have increased by about \$2,600 per year and now exceed household expenditures on groceries or medical expenses. While the recent expressions of concern have focused primarily on crude oil and gasoline, policymakers should recognize not only that price increases will inevitably spill over from oil into other forms of energy, but also that affordability is a problem that afflicts all

forms of energy. In fact, electricity prices have begun to rise, having increased by about forty percent since 2002. In the years ahead, this trend is likely to continue for a number of reasons.

- High oil prices tend to pull up prices for all fossil fuels, particularly natural gas, which has been the fuel of choice in the past decade for electric power generation and is likely to remain so, and the upward pressures on fossil fuel prices are not likely to disappear.
- The utility industry has worked through a period of surplus generation capacity and is now entering a build phase, with current reserve margins becoming dangerously thin, which will raise prices.
- The next great energy policy challenges – global warming and reduction of our dependence on oil – will place additional pressures on the electricity sector.

The challenge that reduction of greenhouse gas emissions poses should not blind policymakers to the substantial mid-term and long-term cost of inaction. Failing to reduce emissions will impose costs of different types (climate, and health related) on the public. The report of the U.S. Climate Change Science Program recently concluded that

Even under the most optimistic CO₂ emissions scenarios, important changes in sea level, regional and super-regional temperatures, and precipitation patterns will have profound effects. Management of water resources will become more challenging. Increased incidence of disturbances such as forest fires, insect outbreaks, severe storms, and drought will command public attention and place increasing demand on management resources (The Effects of Climate Change on Agriculture, Land Resources, Water Resources, and Biodiversity in the United States, p. vii).

Prompt and effective action to reduce greenhouse gas emission is necessary to protect the public interest. Thus, a call to make reliability and affordability of electricity one of the central considerations in climate change and energy policy is not an excuse to do nothing. It is a call to do the right things, to choose significant, long-term greenhouse gas reduction and oil substitution policies that impose the smallest increases in energy bills and implement in advance other policies to mitigate the impact of rising electricity prices on consumers.

In reality, there is only one great challenge facing energy policymakers: How to achieve required greenhouse gas emission and oil import reductions while at the same time ensuring an affordable and reliable supply of energy to meet the needs of a growing economy. In fact, we believe that care and attention to ensuring reliable and affordable electricity is indispensable to an effective long-term reduction of greenhouse gas emissions and oil consumption because policy that fails to keep the lights on or drives prices to unacceptably high levels will not enjoy public support. From the consumer and national economic points of view, ensuring an adequate, affordable supply of electricity must be a primary constraint on energy policy moving forward.

As consumer groups who have been deeply involved with the issue of electricity costs at the federal and state levels, we urge you to devote as much attention to the affordability of electricity as has been devoted to gasoline. Unnecessary conflict between affordable electricity and significant greenhouse gas reductions can and should be avoided by careful adherence to critical public policy principles.

- Rigorous adherence to least cost principles should govern the selection of options. A least cost approach requires all customer classes within the electricity sector and all sectors within the economy to be included and that ensures the most cost effective measures across all sectors are adopted first in pursuit of the lowest long term overall cost.
- In order to achieve this least cost approach, policymakers must recognize that there are numerous market imperfections in the energy sector, particularly the electricity sector, which means that simple reliance on higher prices will impose unnecessarily high costs on consumers. Complementary policies that reduce or eliminate market imperfections, such as performance standards and incentives, must be adopted alongside any policy that “sends a market signal” by raising energy prices.
- Priority should be given to policies that lower energy costs by improving energy efficiency, such as low-income weatherization and other efficiency programs. As a practical matter, policies that emphasize efficiency should come first, both because they are lower in cost and because they alleviate the burden on consumers. Indeed, a study of available options to reduce greenhouse gases by a leading management consulting firm (McKinsey and Company) for a major business group (the Conference Board) found that emissions could be lowered by over 25 percent at no net cost to society because fuel cost savings offset the cost of emission reductions. A study by Resources for the Future found that investing in efficiency in the electricity sector lowers the cost of reducing greenhouse gasses more than other policy options. While the exact extent of such options can be debated, there is no doubt that a substantial contribution to the overall solution can be made by efficiency.
- At the very beginning of the implementation of policy changes policy should commit funding for these programs at levels that reflect the major role they will play in the overall solution.
- Programs that mitigate the impact of rising prices on those least able to afford energy should be established at the outset. These programs should offset the burden of rising energy prices without undermining the incentive to conserve (e.g. low income energy assistance and weatherization).
- Utilities can be fairly compensated for investments in conservation and low-emission alternatives where verifiable energy savings and emission reductions can be attributed to new utility investment and actions.

There will inevitably be societal costs of meeting the complex challenges of economic, energy and environmental policy, some of which will have to be borne by the American electricity consumer. Carefully chosen policies can ensure the goals are accomplished, while preserving an affordable supply of reliable electricity, and allow the U.S. to lead the world toward a solution to the energy and global warming problem.

We look forward to working with you and the Congress when it turns to these difficult, but vitally important issues in the months ahead.

Sincerely.

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on behalf of our low-income clients.

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cc: Members of Congress