



March 27, 2009

The Honorable Barbara Boxer
Chair
Senate Environment and Public Works Committee
410 Senate Dirksen Office Building
Washington, DC 20510

The Honorable Henry Waxman
Chair
House Energy and Commerce Committee
2125 Rayburn House Office Building
Washington, DC 20515

The Honorable Jeff Bingaman
Chair
Senate Energy and Natural Resource Committee
304 Senate Dirksen Building
Washington, DC 20510

The Honorable Ed Markey
Chair
House Energy and Environment Sub-Committee
2125 Rayburn House Office Building
Washington, DC 20515

The Honorable Max Baucus
Chair
Senate Finance Committee
219 Dirksen Senate Office Building
Washington, DC 20515

The Honorable Charles Rangel
Chair
House Ways and Means Committee
1102 Longworth House Office Building
Washington, DC 20515

Dear Senators and Congressmen:

Last November we wrote you on behalf of our respective labor unions to express support for balanced, comprehensive legislation to reduce greenhouse gas emissions. We also expressed our strong opinion that emission allowances be allocated, not auctioned, under a cap-and-trade program. Our concern that workers in impacted industries not be adversely affected has become even greater as the economic down-turn has deepened.

We're aware that some economists claim that auctioning allowances would be more efficient than administrative allocations to affected industries. Others who support a large or total auction are attracted by the financial proceeds such an auction would yield. We strongly disagree that auctioning off allowances, particularly in the early phases of a cap-and-trade program, would be best for our nation's energy supply or consumers. We believe an allocation scheme much like that in the successful Clean Air Act acid rain program would greatly mitigate impact on consumers and minimize disruption of our economy and workers. This allocation method has been extremely successful in achieving emission reduction goals at the lowest cost to consumers.

Much has changed since November. The economic slump is severe and appears to be long-lived. Also, two organizations – Edison Electric Institute (EEI) and the United States Climate Action Partnership (USCAP) – each issued principles on cap-and-trade legislation after considerable deliberation. We note with interest that each recommends allocating allowances for the electricity sector to distribution utilities *and* to merchant coal generators who are unregulated, competitive power producers from which utilities in some states purchase electricity for their customers.

In our letter, we recommended allocating all allowances for the electricity sector to distribution companies rather than generators. For regulated electric power markets, where fully integrated utilities own both generation and distribution under state regulation, this approach is sound. However, both the EEI and USCAP proposals recognize the importance of merchant coal generators to consumers in unregulated markets and advocate allocations to cover only their "net compliance costs" over some reasonable transition period until replacement or retrofit technology develops.

We realize the importance of merchant coal generators to our electricity supply as we transition to low-or-zero carbon alternatives. About half of our nation's electricity is produced from coal and about one fourth of that is provided by competitive or merchant generators who sell their output to regulated utilities and their customers. Without allowances, those generators would be forced to retire prematurely early in the transition, which costs all consumers and jeopardizes the system's reliability. Any potential of "windfall profits" for such generators can be addressed by restricting the quantity of allocated allowances to only the amount necessary to cover net compliance costs (defined as incurred allowance cost minus increased wholesale electricity prices).

We urge you to recognize the significant differences in market structures that exist for coal-fired generators in the United States as you deliberate the most effective and efficient way to address greenhouse gas emission allowance allocations. Market-specific allocation schemes will be required to ensure equitable protection to all union members and consumers.

Sincerely,



Edwin D. Hill
International President
IBEW



D. Michael Langford
President
UWUA

/ceb

Copy to President Barack Obama
All Members of United States Congress