BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO

DOCKET NO. 07M-230E

IN THE MATTER OF THE COMMISSION ADOPTING POLICIES AS REQUIRED BY HOUSE BILL 07-1228.

7/20/2007

REPLY COMMENTS BY THE COLORADO CARBON REDUCTION INITIATIVE

The Colorado Carbon Reduction Initiative (CCRI) appreciates the opportunity to reply to comments on policy development as called for by House Bill 07-1228 (HB 1228). CCRI is a citizen's advocacy group devoted to applying market-based approaches for reducing Colorado's greenhouse gas (GHG) emissions. The group is exploring various instruments such as a carbon tax to put a price signal on GHG emissions. CCRI currently has approximately 150 members.

CCRI requests that copies of comments, other filings, decisions and orders be provided to the following individuals:

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Background

An objective of House Bill 07-1228 is to provide incentives for the development of distributed generation (DG) such as small wind turbines, thermal biomass, electric biomass, and solar thermal energy. As part of the bill, the Colorado Public Utilities Commission has been tasked to "consider whether a credit program similar to the Renewable Energy Credit (REC) program of § 40-2-124, et seq. C.R.S., would work for consumers who produce DG." In other words, the PUC must explore methods of providing financial incentives to Colorado entities to produce distributed electrical power – and, presumably, find a way to fund the program. Several of the respondents to the July 7 docket public comment deadline also made similar statements related to funding the program. For example:

Andrew Kruse of Southwest Windpower, Inc. wrote on July 6, 2007

> "We recognize that offering financial incentives, specifically rebates, will require increased funding levels for the expansion of existing programs or creation of new programs where none currently exist. Southwest Windpower, Inc. looks forward to working with the Commission and interested parties to help identify funding instruments that need to be defined in conjunction with creating incentives for DG in the Renewable Energy Standard."

Similarly, Craig Cox of Interwest Energy Alliance suggested a possible method of funding the program in his July 5, 2007 comments:

> "If the state intends to encourage DG technologies, it can require a small revenue collection of perhaps 2% on current electric bills throughout the state to establish a fund for such buy-down programs. Two percent would be sufficient for a very robust statewide program, and is the current retail rate impact cap embodied in House Bill 07-1281. Such a program could be done utility by utility, or statewide."

CCRI Proposal

The Colorado Carbon Reduction Initiative would like to request that the PUC consider a statewide <u>carbon tax</u> as a method of funding the DG program. In the current REC program as created by § 40-2-124, the entire burden of funding the renewable energy standard is on the ratepayers of Colorado's investor owned electrical utilities. While the electrical generating sector is the greatest source of GHG emissions in Colorado, CCRI feels that the tax burden should be distributed across all the major GHG sources.

Specifically, CCRI is proposing two possible implementations of a state-level carbon tax which could be passed separately or both together: (1) a new, modest tax (working title: Funding Carbon Reduction) and (2) a larger, revenue-neutral tax (working title: Carbon Reduction Incentive).

<u>Funding Carbon Reduction:</u> This plan would be a small tax of approximately $1 to $2 per ton of carbon dioxide emissions. We advocate taxing transportation fuel, electricity, natural gas, propane, and heating oil based on the carbon dioxide emitted by burning

these fuels. These sectors are responsible for approximately 77% of the GHG emissions in the state. The remainder of the GHG emissions is primarily in areas that would be difficult to quantify for tax collection, such as natural gas production, coal methane, landfill methane, and agriculture. The table below shows the tax in familiar consumer units, the Colorado emissions for that sector (based on 2005 data), and the total tax which would be collected. The table assumes $2/tonCO2.

Energy source	**Tax**	**Colorado emissions**[1] (million tonCO2/yr)	**Tax collected**[2] ($ million/yr)
Gasoline, diesel, aviation fuel	$0.02/gal	28.0	$56.0
Electricity	$0.0018/kWh[3]	42.9	$85.8
RCI natural gas and oil	Nat gas: $0.15/MCF Oil: $0.02/gal	20.0	$40.0
Total		**90.9**	**$181.8**

[1]2005 data. Source: "Colorado Greenhouse Gas Inventory and Reference Case Projections 1990-2020", Center for Climate Strategies, January 2007
[2]Assuming $2/tonCO2 for illustrative purposes.
[3]Using the Denver grid average carbon intensity of 1.75 lbCO2/kWh.

CCRI advocates that the monies generated with the Funding Carbon Reduction Initiative be used to finance the Clean Energy Fund of the Governor's Energy Office. Approximately 50% ($90 million) of the funds could be used to support the goals of HB 1228 by funding the rebate programs for distributed renewables. The balance would be used for:

- energy efficiency measures such as home and business energy audits,
- public education demonstrating the financial benefits of energy efficient practices,
- establishment of a $4 million per year Energy Storage and Management Collaborative to research and develop products for the utility scale electricity

storage, seasonal storage of low-grade heat on a small-scale, and advanced smart-grid technologies, with the purpose of allowing greater penetration of intermittent and seasonal renewable energy technologies.

Carbon Incentive Plan: This plan would levy a much larger tax; however it would be revenue-neutral. That is, the total amount collected into Colorado's general fund would remain unchanged by shifting tax burden from existing taxes to carbon dioxide emissions. The exact point or points of tax reduction is currently under study but likely candidates are the state sales tax, the business personal property tax, and the income tax. Nominally we would set this tax initially at $10/tonCO2 with an increase of $2/tonCO2/yr for thirty years until the tax ultimately reaches $70/tonCO2 .

The carbon shift policy would help meet the requirements of HB 1228 by making all forms of distributed renewable energy more cost-effective than fossil fuels. In addition to promoting distributed renewables, this shifting of taxes would incentivize renewable transportation fuels, and any other form of renewable.

CCRI advocates collecting the tax at the point of sale; that is, at the fuel pump and in the utility bill. Because Colorado already collects taxes at this point in the supply chain the additional infrastructure required will be minimized.

Although the first proposal is a new tax, CCRI believes that the overall effect will be a net savings to the residents of Colorado because investments in energy efficiency and renewables reduce energy costs. Beyond the cost savings and environmental benefits, the carbon tax will result in greater energy security in Colorado by enabling the distributed generation program which will reduce our reliance on unstable imported energy sources. The first proposal would almost certainly require referral to the voters as a referred measure.

The second proposal may not require voter approval under TABOR since the objective would be no "net tax revenue gain" (Article X, Section 20)

> (4) Required elections. Starting November 4, 1992, districts must have voter approval in advance for:
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> (a) Unless (1) or (6) applies, any new tax, tax rate increase, mill levy above that for the prior year, valuation for assessment ratio increase for a property class, or extension of an expiring tax, or a tax policy change directly causing a net tax revenue gain to any district.

The Colorado Carbon Reduction Initiative looks forward to working with the Colorado PUC in investigating methods of implementing this strategy,

Respectfully submitted this 20th day of July, 2007,

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