

United States Senate
WASHINGTON, DC 20510

June 9, 2009

The Honorable Lisa Jackson
Administrator
Environmental Protection Agency
Ariel Rios Federal Building
1200 Pennsylvania Avenue, N.W.
Washington, D.C. 20460

Dear Administrator Jackson:

Addressing global climate change may prove to be one of the costliest undertakings in U.S. history. Some estimates place the total economic footprint of legislation in the trillions of dollars. Most of these costs will be passed on to families, farmers, drivers and workers in the form of higher prices for power, gasoline, diesel, food, and other consumer goods, as well as lost jobs. Furthermore, this extraordinary cost will not be borne equally throughout our country – with some regions (notably the Midwest and the Southeast) impacted two or three times as much as others. Particularly in light of the country’s currently depressed economic condition and the critical impact energy and manufacturing cost increases can have on recovery, it is essential that Congress have objective, well-grounded economic analysis of the impacts such legislation will have on American consumers and the economy.

We appreciate past efforts of the Environmental Protection Agency (EPA) in providing credible economic analyses of global warming legislation. However, we are concerned that in its analysis of H.R. 2454, “The American Clean Energy and Security Act” (ACESA), EPA is not considering realistic scenarios of our nation’s energy future, and as a result, paints an inaccurate picture of the potential economic consequences arising from mandatory greenhouse gas emission controls.

In EPA’s recent modeling, the agency identified a number of modeled and un-modeled uncertainties that could greatly affect the total cost and benefits of the program. But EPA’s assumptions around these uncertainties do not reflect current practical, policy, and political realities or the multiple mandates and requirements contained in the proposal, including:

OFFSET AVAILABILITY – EPA assumes the availability of over 1.5 billion international allowances every year through the offset program. Without these billions of additional offset allowances, EPA estimated that the price of carbon allowances would almost double. This doubling would lead to drastically higher energy prices for Americans. However, the record of current international programs comes nowhere near the number of international offset allowances EPA assumes. To date, the offset program of the Kyoto Protocol (the Clean Development Mechanism) has produced only roughly 200 million allowances per year. Projects in the pipeline, if approved, will yield 2.9 billion allowances through 2012, or an

average of just over 400 million per year. These are both far below the 1.5 billion or more EPA predicts per year. While new mandates will incentivize generation of additional offset allowances, the U.S. will face competition from other countries under a new international agreement that will limit the supply of available offsets and increase their costs. Furthermore, EPA assumes the ability to overcome a near impossible administrative burden necessitated by reviewing and approving 15,000 projects that average 100,000 tons each to reach a 1.5 billion ton annual total. We request that EPA replace its offset assumptions with those dictated by actual experience with offsets and the practical, real-world constraints that will limit their availability.

TECHNOLOGY AVAILABILITY – EPA assumes that carbon capture and storage (CCS) technology for coal-fired power plants comes online in 2015 and is deployed at both new and existing plants. At the moment, no technology vendor is willing to provide CCS technology performance guarantees as is standard in the industry and required for construction financing. In addition, DOE on April 21st recently confirmed that for larger scale (commercial scale) CCS projects, these projects take 10 or more years to complete, and may require more time because they are complex in terms of site selection, characterization, CO₂ injection and post-injection monitoring. The Acid Rain cap and trade program succeeded because there was a readily available alternative fuel source, low sulfur coal, and proven scrubber technology to remove SO₂. Currently, there is no proven CO₂ removal technology for large-scale coal-fired power plants. Without available and reliable technology to remove carbon from coal emissions, American consumers, especially in the Midwest and South will face dramatically higher power prices and job losses, as the Nation must convert half of its electricity generation from coal to limited or expensive sources such as natural gas, solar or wind. We request that EPA's assumptions of the availability of CCS technology account for the practical difficulties associated with large-scale deployment of CCS and conform to more modest projections of CCS availability established by current leading, non-partisan energy modeling analysis.

OVERLAPPING REQUIREMENTS – A cap-and-trade system to reduce greenhouse gas (GHG) emissions, combined with a renewable electricity standard (RES) requirement, an energy efficiency resource standard requirement (EERS), and new stationary source emissions requirements, creates a system of overlapping and redundant requirements that may inhibit cost-effective emissions reductions. While EPA assumed the savings produced from future energy efficiency and clean energy technology, it apparently overlooked the costs of developing and deploying those technologies and the impacts those costs will have on consumers. Moreover, EPA's analysis sidesteps the costs and time necessary to deploy new transmission capacity to send renewable power from where it is generated, such as in the Great Plains, to where it is needed, such as in the South. Also uncertain is the degree to which EPA factored the additive costs of regulation on both process emissions and carbon content on products from gasoline to cement. We request that EPA include in its analysis both the benefits and the costs of overlapping requirements in the legislation.

NUCLEAR POWER AVAILABILITY – EPA assumes in its analysis that only 6 gigawatts of new nuclear generation will be built in the U.S. over the next 10 years. Past modeling of Lieberman Warner by EPA had assumed a much greater role for nuclear-- 24 gigawatts by 2020 and 44 gigawatts by 2025-- as opposed to only 13 gigawatts that this model indicates through 2025. Please explain the discrepancy between this year's inputs as opposed to last year and the justifications for further restraints on new nuclear fired

generation.

LACK OF REGIONAL ANALYSIS – The model does not account for regional disparities that will result with implementation of any cap and trade program. Consumers in areas of the country that are more dependent on coal-fired electricity generation, such as the Midwest and the South, will be disproportionately affected compared to other geographic areas which contain more renewable or gas-fired generation. These impacts will be greatly exacerbated if the assumptions underlying the assumed cost savings resulting from offset utilization, technology availability, or nuclear power availability, as outlined above, do not materialize. We request that EPA include in its analysis how the legislation will impact regions of the U.S. such as the East Coast, Midwest, South, Great Plains, Mountain West and West Coast and present that information accordingly.

We believe updating and incorporating this information into EPA's model will provide a more realistic picture of the potential impacts the ACESA could have on American consumers. Moreover, we believe taking this step will fulfill your commitment as EPA Administrator to transparency and openness. In a memo to agency employees, you pledged that EPA would "consider the views and data presented carefully and objectively, and that we fully disclose the information that forms the bases for our decisions."

With this in mind, we request that your agency respond to each of the above points in your model by June 26th so that we may be confident that EPA is providing a reliable and realistic analysis. Once a feasible and realistic set of assumptions and analytical methods is achieved, we hope to engage you in further analysis of this legislation.

Sincerely,









