

Industry Modeling Casts Warped View of Lieberman-Warner Climate Bill

Modeling performed for the American Council for Capital Formation (ACCF) and the National Association of Manufacturers (NAM)¹ shows a decline in GDP growth and jobs and an increase in consumer energy bills due to the Lieberman-Warner Climate Security Act (S. 2191).² But, their conclusions are based on incomplete or faulty input. While presented as a full economic analysis of S.2191, the NAM/ACCF study considers only costs, and disregards benefits. Also, the analysis:

- Assumes severe limits on American technological innovation and entrepreneurship with little to no affordable solutions emerging to reduce emissions.
- Fails to take into account the positive impacts of H.R.6, the Energy Independence and Security Act of 2007, passed into law last year.
- Neglects to include major aspects of the legislation that are structured to offset economic impacts and benefit consumers.

Questionable Industry Modeling Assumptions Include:

Severely Limiting American Innovation and Entrepreneurism

◆ Major Restrictions on Low-Carbon Energy Capacity

The ACCF/NAM modeling artificially constrains future employment of low-carbon energy options such as nuclear, wind, and solar power. In reality, higher prices for carbon-based energy would lead to increased demand for these options. For example, the Department of Energy's business as usual scenario assumes greater new nuclear capacity than ACCF/NAM does with the legislation. By limiting technological innovation and the use of low-carbon energy, the modeling leaves only one way to meet the carbon cap: a dramatic cut in energy use in response to unrealistically high energy prices, which then slashes economic productivity.

◆ Unrealistic Limitations on Coal Generation

Coal is treated in a manner different than the bill prescribes, leading to double-counting of increased coal costs. Combined with restrictions on integrated gasification combined cycle (IGCC) power development (an advanced method that turns coal into a cleaner-burning gas), this leads to very little use of coal in the model.

◆ Hampering or Cutting Key Cost-Saving Tools

Under the Lieberman-Warner bill, companies can cut compliance costs by saving – or banking – relatively cheap pollution permits for later use when the price of buying new permits is higher. S. 2191 allows unlimited banking, but the ACCF/NAM analysis allows none.

Also, companies are allowed by the bill to meet some of their emissions requirements by financing pollution reductions in sectors not covered by the bill, or internationally. But, the modeling limits credits from some alternative projects to levels below those in the bill. These two changes have significant impacts on the bill's cost-effectiveness for industry.

Ignoring 2007 Energy Bill Benefits, Creating Vague Baseline

In December, Congress passed and the President signed into law H.R.6, the Energy Independence and Security Act of 2007. This bill contained measures that will save consumers money at the gas pump, give a significant boost to energy efficiency and renewable energy, and promote alternative fuels. All measures will work to lower U.S. global warming pollution and make cleaner energy more available and affordable. In other words, the energy bill should make cutting emissions under S. 2191 easier and cheaper. However, ACCF/NAM modeling excludes key elements of the Energy Independence and Security Act. In fact, any features that are included are not identified.

In addition, the ACCF/NAM model's "business as usual" scenario uses an unexplained and unconventional hybrid of two different Department of Energy forecasts, even though they differ greatly on economic growth projections. And, as criticized by the Energy Information Administration, the model incorrectly assigns costs from increasing world oil prices to S.2191, when they should be part of the baseline scenario.³ Such a muddled baseline alone should call any results of their policy analysis into question.

Omitting Key Economic Protections of Lieberman-Warner Bill

In addition to problematic modeling assumptions, the ACCF/NAM analysis omits key features of the Lieberman-Warner bill, including the significant funds derived from direct allocation or auctioning of pollution permits. These funds will drive cleaner technology development, compensate for higher energy prices, and spur energy efficiency. Specifically, omissions include:

- ◆ Significant incentives in S. 2191 for:
 - energy efficiency – up to \$242 billion for residential programs by 2030
 - renewable energy – \$126 billion for the deployment of renewable energy by 2030
 - carbon capture and sequestration – \$214 billion by 2030
 - zero and low carbon technology – \$161 billion by 2030

- ◆ Safety net provisions for low- and middle-income consumers
 - \$242 billion in rebates and energy efficiency programs by 2030
 - \$178 billion in energy assistance programs by 2030

- ◆ Economic relief from the Carbon Market Efficiency Board.
 - While it is very difficult to model the results of the Board's future actions, the Board is being established to protect the economy from the kind of high allowance prices assumed by ACCF/NAM.

Disclaimer by the Modeler:

The ACCF/NAM study contains a telling footnote by the Science Applications International Corp. (SAIC), the respected government contractor who was commissioned to conduct the study. In the footnote, SAIC writes:

“Analysis provided in this report is based on the output from the . . . model as a result of the ACCF/NAM input assumptions. The input assumptions, opinions and recommendations in this report are those of ACCF and NAM, and do not necessarily represent the views of SAIC.”

SAIC goes on to point out that NAM provided “alternative input assumptions—different from those [the Department of Energy’s Energy Information Administration] will likely use in its analysis of S.2191.”

¹ ACCF and NAM, 2008, *Analysis of the Lieberman-Warner Climate Security Act (S. 2191) Using the National Energy Modeling System (NEMS)*. Modeling conducted by SAIC. Available at: <http://www.accf.org/nam.html>.

Additional sources: Energy Information Administration, *Annual Energy Outlooks 2007 and 2008* (preliminary). And, Clean Air Task Force, February 2008, “The Lieberman-Warner Climate Security Act—S.2191: A Summary of Modeling Results from the National Energy Modeling System.”

² The ACCF/NAM analysis and this fact sheet refer to the Senate Environment and Public Works Committee-passed version of the Lieberman-Warner Climate Security Act, prior to introduction of a substitute amendment (S. 3036) prepared by Sen. Barbara Boxer for Senate floor consideration.

³ *Carbon Control News*, May 20, 2008, “Correcting the Record.”

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