

The Industries' Concerns With Cap & Trade

by Duncan L. McArthur

The Grand Junction Area Chamber of Commerce hosted a symposium on the campus of Mesa State University on December 2nd to discuss the Cap and Trade legislation that has passed the U.S. House of Representatives and is currently being considered in the U.S. Senate. The meeting was not intended to discuss the validity of Climate Change or its causes but to review the economic impacts of the proposed legislation. The participants included:

Josh Penry, Colorado State Senator	Moderator
Bill Byers, Director of Community Relations	Grand Valley Power
Denise McCord	American Petroleum Institute
Stuart Sanderson, President	Colorado Mining Association
Rob Griffin, President	Housing & Building Assoc. of NW Colorado

Prior to reporting the speakers' comments, it may be helpful to provide an overview of the Cap & Trade legislation. In the U.S. House of Representatives, the bill is known as the Waxman/Markey Climate Bill. The bill has a number of parts to it but the main emphasis of the bill is to reduce the carbon emissions that are emitted each year in an effort to halt or reverse the effects of Climate Change. Since the U.S. Senate has yet to pass legislation, the discussion is limited to the bill passed in the U.S. House of Representatives.

Waxman/Markey establishes the carbon emissions emitted during 2005 as the base year. Future emissions are then to be reduced from the 2005 levels. This is the "cap" in Cap and Trade. The required levels of reduction are:

<u>Year</u>	<u>Amount of Reduction</u>
2005	Base Year
2012	3%
2020	17%
2030	42%
2050	83%

Businesses such as power companies will be required to reduce their carbon emissions to these levels. In the event they are unable to reach these reductions, they must then purchase carbon credits from other entities or countries that either surpassed the required reductions and have excess credits for sale or from other concerns that have purchased these carbon credits from various companies and then make them available on the open market. It is anticipated that a carbon credit

market will be established on Wall Street to facilitate the brokering of the credits. This is the “trade” in Cap and Trade.

Denise McCord of the American Petroleum Industry out of Washington, D.C., which represents all aspects of the oil and gas industry, described how the industry believes that climate change is a concern that should be addressed. The industry has established its Climate Policy Framework which are the standards that they feel should be considered when establishing climate change policies. They feel that when the government considers climate change policies, legislators should give the following standards a priority:

- Be environmentally effective.
- Be transparent and understandable.
- Identify the most cost effective methods to reduce carbon emissions.
- Avoid government picked “winners” and “losers”.
- Provide access to all domestic energy sources.
- Avoid outsourcing U.S. jobs and emissions overseas.
- Avoid severe damage to the U.S. economy.

The industry believes that Waxman/Markey, in its current form, unfairly treats the industry and the people of Colorado as the bill assigns 44% of the total carbon emissions being emitted to the oil and gas industry but assigns an allowance of 2% of the allowed carbon emissions. This will require the industry to acquire a substantial amount of the carbon credits on the open market and the cost of the credits will be passed on to the consumers and businesses through the price of fuels. In order to reduce its carbon emissions, the industry will also be forced to shut down refinery operations in the U.S. so refineries will be relocated to foreign countries resulting in an outsourcing of U.S. jobs. The industry estimates that the bill could raise prices as high as \$5.10/gallon for gasoline and \$5.60/gallon for diesel fuel. In addition, the industry estimates that the average household cost of energy could rise as much as \$1,870 per year. A group of other associations, including the National Manufacturers Association and the American Council of Governments, estimate that there will be two million fewer jobs in the U.S. even after the “green” jobs that are created as a result of climate change legislation.

Stuart Sanderson of the Colorado Mining Association described how the coal mining industry dates back to 1859 in Colorado and generates over \$3 billion in sales and \$8 billion in economic impact each year. Mining not only provides coal for the generating of cheap electricity but many other materials necessary for the production of many products including the materials necessary for production of sustainable energy products.

Mr. Sanderson reported that coal is the world's most abundant fuel and 27% of the world's coal reserves are in the U.S. Coal based states, including Colorado, pay lower electric rates and the evidence indicates that societies that have access to electricity live longer and better than those with limited electricity.

Colorado produced 33 million tons of coal in 2008 ranking 8th in the nation. The industry employs 2,246 employees earning wage and benefits exceeding \$96,000 each in 2008. Sixty-six percent of Colorado's electric needs are met by coal and coal represents 57% of Xcel Energy's portfolio. Elsewhere in the world, coal production is increasing with China building more coal generating plants in 2007 alone than Great Britain has built in its history.

Mr. Sanderson commented that Waxman/Markey will have substantial negative impacts on the economy. While energy companies will be given allowances, these allowances will not be enough to offset the CO2 being emitted. As the technology does not exist to meet the required reductions in carbon emissions, the energy industries will be required to purchase carbon credits from foreign entities. This will result in a transfer of wealth to these foreign countries. It is estimated that by 2012, the cost in Colorado will increase \$222.7 million and will cost 36,000 jobs by 2030. Disposable household income will decline while coal production will decrease by 94%. In addition to Waxman/Markey, in Colorado, Governor Ritter's climate plan calls for a 20% reduction in carbon emission by 2020 and 80% by 2050. The Colorado PUC has already ordered the closing of two coal fired power plants.

While Mr. Sanderson is in favor of nuclear power as an alternative to coal as it will require an increase in mining, there is a concern that nuclear will lead to increased imports from Russia. He also cautions depending on natural gas as a replacement for coal as the supplies will decline more quickly and it is not clear that there are sufficient supplies to actually replace coal.

Bill Byers of Grand Valley Power commented that the U.S. became an energy based economy in the late 1800's and that energy is the driving force in our economy. He discussed how climate change legislation is designed to penalize consumption by increasing costs. The utility companies will have no choice but to purchase the carbon credits on the open market and pass the cost on to the consumers. While we have no way of knowing what the market price for these carbon credits will be at this time, the Congressional Budget Office has estimated the increased cost of energy to be anywhere from \$150 to \$5,000 per year.

Rob Griffin, owner of Griffin Concepts and President of the Housing and Building Association of Northwestern Colorado, described how the Waxman/Markey bill consists of over 1,200 pages including a 300 page amendment that was introduced the night the bill was passed so he is concerned that no member of Congress was able to read the bill prior to its passage. He went on to discuss how the legislation will result in a federally mandated national energy building code. New residential and commercial buildings will immediately be required to be 30% more energy efficient. By January 1, 2014, all new buildings will be required to be 50% more energy efficient, 55% more efficient by 2017 with the requirement increasing 5% or more every three years thereafter.

Mr. Griffin stated his concern about the impact on the affordability of housing citing the estimate that the cost of increasing energy efficiency by 25% for a typical 2,000 square foot home is estimated at \$4,000 to \$5,000. To improve efficiency beyond that point will require the use of alternative energy sources which have not proven to be economically feasible at this point. Use of geothermal energy adds approximately \$15,000 to \$20,000 per house. Solar panels add approximately \$20,000 per unit. Xcel Energy has been offering rebates but the cost of these rebates are being funded by their other consumers. The cost to enact this legislation by the building industry is estimated at \$1 trillion over the next 10 years.

Again, the symposium was intended to discuss the concerns these industries have with the Cap & Trade or Waxman/Markey Climate Bill and not the issues surrounding Climate Change but no matter your outlook on Climate Change, it certainly appears that the proposed solutions will be costly.