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SENATE MULTI-EMISSIONS PROPOSAL WOULD UNDERMINE ECONOMIC AND ENERGY SECURITY

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The Senate Environment and Public Works Committee is holding hearings on the appealingly titled Clean Power Act of 2001 (S. 556), introduced by Senator James Jeffords (I-VT), which supporters say will reduce emissions of air pollutants from the nation's power plants. To do this, however, the bill requires power plants to drastically reduce emissions of three pollutants as well as a naturally occurring gas within an unreasonably short period of time. But this approach will drive up electricity prices, compromise the reliability of the nation's electricity supply, and undermine America's economic strength.

The Senate committee should instead craft legislation that will not have these broad and negative effects. The President and many Members of Congress believe there is a better way to improve air quality while ensuring that Americans have dependable and affordable electricity in the future. They seek a flexible, market-based approach to reducing emissions that also streamlines the current regulatory process and balances the nation's energy and environmental policies.

Restricting Fuel Diversity. Electricity is a secondary energy source generated from a variety of natural resources. Such a diverse fuel mix protects consumers and electric companies from depleted fuel supplies and price fluctuations and enhances the reliability of electricity supply. Major or sudden changes in this generation mix would adversely affect the nation's energy supply and economic strength.

Currently, over half of the nation's electricity supply is generated from coal, America's most abundant, reliable, inexpensive, and safely transportable energy resource. Of the remainder, 20 percent is generated from nuclear power, 16 percent from natural gas, 11 percent from hydropower and other renewable resources, and about 3 percent from fuel oil. An October 2001 Energy Information Administration (EIA) analysis projects that by 2020, if S. 556 were enacted, coal-based electricity generation would decline by 55 percent and natural gas-based electricity generation would increase by 24 percent, leading to a 16 percent increase in the cost of tapping the gas at the well.

However, rapidly switching from coal to natural gas as a fuel source could cause supply disruptions. Jeff Holmstead, Assistant Administrator for Air and Radiation at the Environmental Protection Agency, noted at a recent Senate hearing that such a dramatic shift would "cost consumers too much and endanger our energy security."

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Jeopardizing Electricity Reliability. Holmstead also points out that the stringent emissions reductions in S. 556 would force power plants to install expensive emissions control technologies “too quickly” over a short time period. To meet a 2007 deadline, existing facilities might have to be taken offline while the new emissions control equipment was put in place, severely affecting the availability, cost, and reliability of electric power and compromising the capacity of the electric power grid to meet consumers’ needs.

Threatening the Economy. The EIA analysis predicts that the emissions limits in S. 556 will lead to higher electricity prices—as much as 31 percent higher in 2010 and 33 percent higher in 2020—even as consumers reduce their consumption. Annual utility expenditures per household would increase by \$158 in 2010 and, again, by \$154 in 2020. The rise in energy prices would also increase the costs of production, causing goods and services to increase in cost as well. According to the EIA, if this proposal were enacted, the gross domestic product (GDP) would be \$100 billion lower—a reduction of 0.8 percent—in 2007.

Compliance with the emissions reductions in S. 556 would substantially increase the cumulative costs to generate electricity (the total cost of fuel plus operations and maintenance expenditures, investments in plant and equipment, and cost of any purchased power). The EIA estimates that the cumulative expenditure attributable to the emissions limits would run \$177 billion (a 9 percent increase) through 2020. Annualized resource costs in 2007 (when the limits were in full force), including financing and capital recovery costs, would be \$19.9 billion higher with these restrictions. Many of these increased costs would be passed on to consumers.

Imposing a Domestic-Style “Kyoto Protocol.” Carbon dioxide (CO₂) is a clear, odorless gas and a fundamental nutrient of the planetary food chain. It does not pose a threat to human health or to the environment and is not subject to regulation under the Clean Air Act. Yet S. 556 calls for drastically

reducing CO₂ emissions to 1990 levels by 2007.

Currently, there are no economical technologies to sequester CO₂ emissions from generation plants. The only way to reduce CO₂ emissions is to reduce overall energy use or dramatically reduce the amount of domestic coal used to generate electricity. This could force premature closure of many of the coal-fired steam electric generation plants that produce over half of the nation’s electricity. It could lead to a new reliance on natural gas-fired power plants at a time when the industry is already expecting rising demand. The EIA predicts that, by 2020, the emissions limits would increase electricity generators’ demand for natural gas by 24 percent. Higher demand will drive up prices. Mandating such stringent reductions in CO₂ emissions essentially would implement a domestic version of the flawed Kyoto Protocol limits, which analysts predict will jeopardize the nation’s economic and energy security.

Conclusion. The current regulatory structure to improve air quality is complex, duplicative, and costly. To achieve the nation’s environmental, energy, and economic objectives, carefully crafted multi-emissions legislation should streamline the existing regulatory process and provide greater certainty that the industry can reliably supply electricity well into the future while improving air quality.

Such legislation should be based on a flexible, market-based approach that seeks reasonable emissions reductions within a reasonable period. Energy producers should be encouraged to choose cost-effective ways to reduce their emissions through market-oriented programs like emissions “trading” to enhance the nation’s overall air quality rather than forced to meet government-mandated standards for technology.

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