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Four Big Problems with the Obama Administration's Climate Change Regulations

Nicolas D. Loris

A few years ago, cap-and-trade legislation to reduce greenhouse gas emissions failed to reach President Barack Obama's desk because constituents gave their Members an earful that cap and trade would amount to a massive energy tax. When the bill died in Congress, President Obama said that there was more than "one way of skinning a cat," and here it is.[1]

The Obama Administration has finalized its climate regulations known as the Clean Power Plan. There are plenty of details to uncover in the 1,560-page regulation,[2] the 755-page federal implementation plan,[3] and the 343-page regulatory impact analysis.[4] To summarize, unelected bureaucrats at the Environmental Protection Agency (EPA) are poised to do what America's elected representatives refused: impose higher energy costs on American families and businesses for meaningless climate benefits.

The following are four early observations that should cause Members of Congress, state politicians, and the general public concern.

1. Higher Energy Prices, Lost Jobs, Weaker Economy

When running for office in 2008, President Obama famously remarked, "Under my plan of a cap-and-trade system, electricity rates would necessarily skyrocket."[5] Although that plan ultimately failed to become law, the White House tasked the EPA with creating the regulatory equivalent, placing strict greenhouse gas emissions limits on new power plants and drastic cuts on existing plants. The plan includes greenhouse gas emission reduction targets for each state except for Vermont, Alaska, and Hawaii in hopes of reducing overall power plant emissions to 32 percent below 2005 levels by 2030.

The regulations will drastically shift the energy economy away from coal, which provides approximately 40 percent of America's electricity.[6] Restricting the use of that affordable, reliable energy supply will raise electricity rates, and those higher prices will reverberate through the economy. Businesses will pass higher costs onto consumers, but if a company must absorb the higher costs, it will invest less and expand less. The combination of reduced production and consumption will result in fewer jobs and a weaker economy.[7]

Despite candidate Barack Obama's admission that cap and trade will raise prices, the Administration is attempting to spin the regulations as a win for the economy. Proponents of the Clean Power Plan argue that as energy prices increase, families and businesses will invest in more energy-efficient products and innovative technologies that will save them money in the long run. Arguing that increasing energy prices with regulations will save money by forcing energy-efficient product purchases is equivalent to cutting employees' salaries and telling them that they will save money by shopping at Target. Just as the option to save money at Target existed before the pay cut, families and businesses already have an incentive to purchase energy-efficient products.

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214 Massachusetts Avenue, NE
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When the government mandates efficiency, it removes that choice and makes consumers worse off.

2. No Climate Benefit, Exaggerated Environmental Benefits

The climate impact of the Clean Power Plan will be meaningless. According to climatologist Paul Knappenberger, "Even if we implement the Clean Power Plan to perfection, the amount of climate change averted over the course of this century amounts to about 0.02 C. This is so small as to be scientifically undetectable and environmentally insignificant."[8] Climatologist James Hansen, who wants the Administration to do much more to combat climate change, has stated that "the actions are practically worthless."[9]

The monetized climate benefits the Administration is touting are equally worthless. The EPA says the rule will provide $34 billion to $54 billion in annual environmental benefits after 2030. Yet these numbers are misleading for two reasons.

Social Cost of Carbon. First, the Administration uses "the social cost of carbon" to calculate the climate benefit. The EPA is using three statistical models, known as integrated assessment models, to estimate the value of the social cost of carbon, which is defined as the economic damage that one ton of carbon dioxide emitted today will cause over the next 300 years. The EPA uses the average of the three models to estimate the social cost imposed by climate change—$40 in 2015 and $56 in 2030. However, the models arbitrarily derive a value for the social cost of carbon.[10] Subjecting the models to reasonable inputs for climate sensitivity and discount rates dramatically lowers the figure for the social cost of carbon.

People generally prefer benefits earlier instead of later and costs later instead of earlier. Hence, it is necessary to normalize costs and benefits to a common time. For example, if a 7 percent discount rate makes people indifferent to a benefit now versus a benefit later (e.g., $100 today versus $107 a year from now), then 7 percent is the appropriate discount rate to use. The Administration's own analysis shows how sensitive the social cost of carbon is to the discount rate.[11] When changed from a 3 percent discount rate to a 5 percent discount rate, the EPA's $20 billion in projected climate benefits decreases to $6.4 billion—less than the EPA's egregiously low projection of $8.4 billion in compliance costs.

Co-benefits. The second problem is the EPA's use of co-benefits in inflating the benefits. The EPA exaggerates the environmental benefits by including the estimated benefits from reducing particulates

1. Barack Obama, "Press Conference by the President," The White House, November 3, 2010, https://www.whitehouse.gov/the-press-office/2010/11/03/press-conference-president (accessed August 10, 2015).
2. 40 Code of Federal Regulations § 60 (2015), http://www.epa.gov/airquality/cpp/cpp-final-rule.pdf (accessed August 11, 2015).
3. U.S. Environmental Protection Agency, "Federal Plan Requirements for Greenhouse Gas Emissions from Electric Utility Generating Units Constructed on or Before January 8, 2014; Model Trading Rules; Amendments to Framework Regulations," August 3, 2015, http://www.epa.gov/airquality/cpp/cpp-proposed-federal-plan.pdf (accessed August 11, 2015).
4. U.S. Environmental Protection Agency, *Regulatory Impact Analysis for the Clean Power Plan Final Rule,* August 2015, http://www.epa.gov/airquality/cpp/cpp-final-rule-ria.pdf (accessed August 10, 2015).
5. Barack Obama, interview with *San Francisco Chronicle*, YouTube, January 17, 2008, https://www.youtube.com/watch?v=HlTxGHn4sH4 (accessed August 10, 2015).
6. U.S. Energy Information Administration, "What Is U.S. Electricity Generation by Energy Source?" March 31, 2015, http://www.eia.gov/tools/faqs/faq.cfm?id=427&t=3 (accessed August 10, 2015).
7. Nicolas D. Loris, "The Many Problems of the EPA's Clean Power Plan and Climate Regulations: A Primer," Heritage Foundation *Backgrounder* No. 3025, July 7, 2015, http://www.heritage.org/research/reports/2015/07/the-many-problems-of-the-epas-clean-power-plan-and-climate-regulations-a-primer.
8. Paul Knappenberger, "A Solution Worse Than the Problem," Cato Institute, August 5, 2015, http://www.cato.org/publications/commentary/solution-worse-problem (accessed August 10, 2015).
9. Tony Dokoupil, "Obama's Climate Policy Is 'Practically Worthless,' Says Expert," MSNBC, August 4, 2015, http://www.msnbc.com/msnbc/obamas-climate-policy-practically-worthless-says-expert (accessed August 10, 2015).
10. Kevin D. Dayaratna and David W. Kreutzer, "Unfounded FUND: Yet Another EPA Model Not Ready for the Big Game," Heritage Foundation *Backgrounder* No. 2897, April 29, 2014, http://www.heritage.org/research/reports/2014/04/unfounded-fund-yet-another-epa-model-not-ready-for-the-big-game.
11. U.S. Environmental Protection Agency, *Regulatory Impact Analysis*, pp. ES-22, Table ES-9.

(co-benefits) that are already covered by existing regulations and federal health requirements. Of those benefits, $20 billion come from direct climate benefits, and $14 billion to $34 billion are air quality co-benefits. Co-benefits sound positive. Who would not want additional health and environmental benefits from regulations?

The problem is that these benefits are double-counted over and over again with each regulation the federal government imposes. In some instances the co-benefits have accounted for more than 99 percent of the EPA's estimated environmental benefits. The agency even overestimates the co-benefits by using questionable assumptions about causality and simplistic methods to calculate the benefits.[12]

3. Overly Prescriptive EPA Picks Winners and Losers

The EPA has been arguing that the plan will provide the states with plenty of flexibility and options in meeting its goal. It proposed that states use a combination of "building blocks" to achieve emissions reductions, including improving the efficiency of existing coal-fired power plants, switching from coal-fired power plants to natural gas–fired power plants, and using less carbon-intensive generating power, such as renewable energy or nuclear power. The proposed plan contained a fourth building block, demand-side energy-efficiency measures, but the EPA excluded that building block in calculating the state emission reduction targets. However, states can still implement energy-efficiency measures as a compliance option. The EPA would also allow states to impose a carbon tax or participate in regional cap-and-trade programs.[13]

All of these options present a Sophie's choice of economic pain, reduced choice, and regulatory engineering of America's energy economy. Although the EPA does not explicitly direct the states which path to take, the federal government is clearly nudging them to choose expanded renewables and energy efficiency. If a state chooses to produce more renewable power or implement more stringent energy-efficient mandates for homes and businesses, it will receive extra credits toward meeting its emissions targets.

Coal is an obvious loser, but the final regulation also changed language that would have been beneficial for nuclear and natural gas. In the draft proposal, states would have received credit for prolonging the life of an existing nuclear reactor that was at risk of closing. In the final regulation, that is no longer the case. The White House also ignored the importance and increased use of natural gas, a reversal from highlighting the importance of natural gas in shifting away from coal.[14]

Rather than simply setting reduction targets, the Administration continues to favor its preferred energy sources while driving other sources out of production.

4. Federally Imposed Cap-and-Trade

States will have one year to develop and submit their compliance plans or to develop regional plans with other states, although the EPA will grant extension waivers as long as two years. If states choose not to submit a plan, as several state legislators, attorneys general, and governors have suggested, the EPA would impose its federal implementation plan. The 755-page proposed plan is cap and trade, and the EPA is considering two options.[15]

The EPA could set a cap on power plant emissions in a state and allow utilities to trade emissions permits with one another.[16] Alternatively, the EPA could implement a cap-and-trade plan that requires an average emissions rate for the state's power sector. Environment & Energy Publishing explains,

12. Anne E. Smith, "The American Energy Initiative—A Focus on What EPA's Utility MACT Rule Will Cost U.S. Consumers," testimony before the Subcommittee on Energy and Power, Committee on Energy and Commerce, U.S. House of Representatives, February 8, 2012, p. 16, http://www.nera.com/content/dam/nera/publications/archive2/PUB_Smith_Testimony_ECC_0212.pdf (accessed August 10, 2015).
13. Ben Geman, "Obama Climate Plan Revives Talk of a Carbon Tax," *National Journal*, August 3, 2015, http://www.nationaljournal.com/energy/obama-climate-carbon-tax-EPA-cap-and-trade-20150803 (accessed August 10, 2015).
14. Scott Detrow and Elizabeth Harball, "Final Clean Power Plan Shifts Toward Renewables and Away from Natural Gas," *ClimateWire*, August 4, 2015, http://www.eenews.net/stories/1060022944 (accessed August 10, 2015).
15. 40 Code of Federal Regulations § 60 (2015).
16. Bran Plumer, "How Obama's Clean Power Plan Actually Works—A Step-by-Step Guide," Vox, August 5, 2015, http://www.vox.com/2015/8/4/9096903/clean-power-plan-explained (accessed August 10, 2015).

> A rate-based standard with trading could technically allow emissions to grow, as long as generators only emit a certain amount of carbon per megawatt-hour of power produced. A state with a rate around the same level as a natural gas plant could theoretically keep building more and more natural gas plants and stay in compliance.[17]

The EPA will decide on a final plan in the summer of 2016.

Congress and States Need to Take the Power Back

The threat of a federally imposed cap-and-trade plan should not scare states into concocting their own plans. Instead, Members of Congress and state governments should fight the regulation, rather than settling for a slightly more palatable version that will cause significant economic harm while producing no discernable climate or environmental benefits.

*—**Nicolas D. Loris** is Herbert and Joyce Morgan Fellow in the Thomas A. Roe Institute for Economic Policy Studies, of the Institute for Economic Freedom and Opportunity, at The Heritage Foundation.*

17. Emily Holden and Evan Lehmann, "EPA Proposes Carbon Trading to Deal with Reluctant States," *ClimateWire*, August 4, 2015, http://www.eenews.net/stories/1060022940 (accessed August 10, 2015).