EPA's Climate Rules:

Central Planning for a More Expensive and Less Secure Future

BACKGROUND: EPA's climate rules require states to reduce carbon dioxide emissions from the electricity sector by an average of 30 percent nationally. Each state is prescribed an "electricity budget" based upon a complex web of assumptions that include future electricity demand, dramatic shifts in electricity supply sources, adding intermittent sources and reducing energy use.

1) EPA's plan is another step in the administration's policies designed to eliminate low cost and reliable electricity and replace it with more expensive and less reliable sources

- Reducing the diversity and reliability of nation's electricity supply will make our nation's energy supply more expensive by forcing out low cost coal electricity that supplies 40 percent of the nation's electricity and replacing it with higher cost and less reliable sources.
    - This will hurt U.S. economic recovery by making manufacturers less competitive.
    - Manufacturing will be hit with the one-two punch of higher electricity and natural gas costs.
    - Job losses will be significant as manufacturing moves overseas.
    - Families will be saddled with higher utility bills (electricity and natural gas) leaving them with less disposable income.

- States with the highest concentration of manufacturing are states that rely predominantly on low cost coal electricity.
    - Low cost coal electricity is the principal source in 30 states.
    - In the 17 states that receive more than half of their electricity from coal generation, electricity rates are on average 30 percent lower.
    - Low cost electricity keeps manufacturers globally competitive and generates high-wage jobs that pay well-above the national average.

- Middle income and lower income families and retirees will be hit hardest by substantially higher electricity and natural gas bills.
    - U.S. government data show that families with the average or lower than median income (approximately one-half of all households) spend 20 percent of their disposable income on energy—two to three times more than those families above the national median income.

- Electricity and natural gas prices will increase substantially across the nation and some regions will be at risk of brown outs. A recent study found that regulations EPA issued two years ago will have the following effects even before EPA's climate rules take hold:
    - Wholesale power prices will increase between 27-55 percent across the nation with the additional closure of power plants over the next two years. Higher natural gas prices could cost businesses and households another $35 billion above the high costs experienced this past winter.
    - The combination of another cold winter and an unusually warm summer would cost consumers $100 billion in higher electricity and natural gas prices.

- Preliminary studies of EPA's carbon reduction targets — using realistic estimates of efficiency improvements and renewable energy growth — conclude costs will be in the $50 billion a year range (U.S. Chamber study). Annual job losses could total 225,000 from the implementation date to 2030.

2) The Costs are real, the benefits are not

- EPA does not claim—because it cannot—that the rule will make any material difference in global temperatures. Theoretically, the rule might at best result in a reduction in global concentrations of carbon dioxide of less than one percent and theoretically reduce global temperatures by less than a hundredth of a degree.

- In the absence of any "climate benefits" EPA resorts to claiming indirect health benefits by engaging in a text book example of double counting benefits that are the product of other rules EPA has already issued.
    - The health benefits EPA claims are from the reduction of other emissions already regulated under the Clean Air Act.
    - These regulations set specific limits at a level to protect public health with an adequate margin of safety.

- EPA also pads its benefits calculation by counting theoretical benefits from a controversial formula called the "social cost of carbon"—and, a recent Brookings study found most of those speculative benefits occur in foreign countries, not the United States.

- There will be health effects from these rules—poorer health from lost jobs and lower standards of living caused by rising energy costs.
    - Studies find that a one percent hike in unemployment correlates with a two percent increase in premature deaths.
    - Policies that make energy more expensive and less accessible are not healthy.

3) EPA is attempting to completely overhaul and control States' electricity systems

- EPA says it doesn't tell states how to do it - but it tells them *what* to do: re-engineer their entire electricity systems based upon EPA-picked electricity sources that fit EPA's energy budget for each state.
    - EPA's state energy budgets are based upon complex and unproven assumptions about the future energy needs of each state; switching electricity generation to more expensive and less reliable sources; and, forced electricity rationing for businesses and households.
    - EPA's plan will result in increased electricity and natural gas prices as both the agency and the President now admit.
    - EPA lacks the competence—and legal authority—to regulate states' power supplies. But if a state is unable to meet EPA's budget and electricity formula, EPA can impose a federal plan that will control the state's electricity system.
- The same agency that grossly underestimated the severity of power plant closures from its 2012 rules now tells states not to worry about the impact of its far more vast carbon dioxide rule. EPA said its MATS rule would remove 5,000 megawatts of low cost coal electricity; in fact, the Department of Energy says it will be 12 times more: 60,000 megawatts—enough low cost power for 35 million homes.

- EPA is backing states into a cap-and-trade and carbon tax programs—two approaches EPA says are acceptable, but ones Congress has rejected. Other nations and some states are moving away from these schemes because they are creating energy poverty and destroying their domestic industries.
    - In California and New England, where cap and trade schemes are used, citizens and businesses have the highest electricity costs in the country.
    - In Europe, the combination of taxes, carbon trading and renewable mandates with subsidies have destroyed the competitiveness of major industries and pushed a larger portion of the population into fuel poverty.

4) Pushing the nation's electric grid over the edge

- EPA promises states "flexibility" but actually deprives them of the most meaningful flexibility by reducing their use of the lowest cost and most reliable sources of electricity generation and forcing reliance on more expensive, volatile and intermittent sources.

- Grid operators, utilities and state regulators are worried about the economic and financial ramifications of an electricity system becoming increasingly dependent on more volatile and less reliable sources of electricity supply.
    - *"The experience of this winter strongly suggests that our nation's bulk power system is at its limits"*—Phillip D. Moeller, commissioner, Federal Energy Regulatory Commission, April 10, 2014
    - *"Because less expensive coal generation is being replaced by high energy cost resources, excess generation will narrow and energy prices could become more volatile due to increasing reliance on natural gas for electricity generation"*—Michael Kormos, PJM Interconnection, April 1, 2014
    - *"EPA rules will lead to higher prices and less reliable service over time"*—Anthony Alexander, CEO, First Energy, April 8, 2014
    - *"The unreliability of gas, wind and solar provided the lesson that fuel diversity is needed for reliability as well as for other policy reasons"*—John Sturm, Alliance for Cooperative Energy Services, April 1, 2014
    - *"It became clear that we are having to make a choice in the winter between committing natural gas resources to generating electricity or to heating homes"—we face a very real possibility that we will have to make that choice more often in the future*—Nick Akins, CEO, American Electric Power, April 10, 2014
    - *"The flexibility of having a diverse source of electricity generation with coal fueled plants saved Southern Company customers more than $100 million in the first three months of 2014 alone"*—Tom Fanning, CEO, Southern Company, April 30, 2014

5) Emissions can be reduced without damaging the economy or the electric grid

- A more balanced approach would continue the trend of emissions reduction and preserve electricity supply diversity with policies that allow the use of advanced coal technologies.
    - New higher efficiency coal plants will reduce emissions up to 30 percent as compared with the older plants they will replace.
    - This approach would be entirely consistent with EPA's emphasis on increasing the efficiency of power generation—but is precluded by EPA's earlier proposal that bans new coal power plants unless they use unproven technology.
- Greenhouse gas emissions from power plants have already been reduced below levels from a decade ago. Committing the U.S. to unilateral reductions would be a symbolic, but expensive, gesture.