

A Review of S. 2191 America's Climate Security Act

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What does it mean to you?

- ❑ The most overarching regulation in US history.
- ❑ Will weaken economic growth rates, increase cost of energy, inflation, manufacturing trade deficit and reduce quality of life.
- ❑ A tax and wealth transfer.
- ❑ More motivation to drive manufacturing from the US.

Why does it motivate manufacturers to move off-shore?

- ❑ Raises costs (energy/compliance/volatility)
- ❑ Increases uncertainties of costs and reliability of energy supply
- ❑ Unilateral US action places us at distinct competitive disadvantage globally.
- ❑ Because low cost options are not available in short term, only alternative is natural gas.
- ❑ Nothing is S. 2191 will prevent coal to natural gas fuel switching – higher natural gas and electricity prices.



Summary

- ❑ Regulates all major ghg emissions
- ❑ 75% of all ghg emissions
- ❑ Regulated entities (covered facility) include: oil refineries; natural gas processing; coal electric utility; industrial sector
- ❑ Threshold 10,000 tons of carbon equiv
- ❑ Creates new registry, mandates reporting

Summary

Establishes “Emission Allowance Account” for each year 2012 – 2050.

- In 2012: 5.2 billion allowances = 2005 level (the base year)
- Reduced annually by 96 million (1.8%)/yr
- In 2020: 4.43 billion = 1990 level
- In 2050: 1.56 billion = 65% below 1990
- 38 year program = 125 billion allowances



Industry

- Specified energy intensive manufacturers subject to int'l competition will receive free “transitional allowances” of 10% from 2012 to 2017 reduced thereafter.

Energy Intensive Industries

- Total for US = 5.2 billion allowances @ \$50/ton CO₂e equals \$260,000,000,000
- Industrial sector will receive 10% of all allowances in 2012 or 520,000,000, valued at \$50/CO₂e = \$26,000,000,000.
- Our direct CO₂ emissions in 2005 equaled 1,019,500,000 which means we are short 499,500,000!
- 499,500,000 allowances at \$50 = \$24,975,000,000



Options to make up difference

- Reduce ghg emissions internally
- Bank reductions for future use
- Borrow up to 15% of your annual allowances from future years. Pay 10 % annual interest. 5 year limit on loan.
- Use int'l credits up to 15%. Only from countries with caps in place.



Early Action Credits

- January 1994 start point
- Total of 760 million
- Use “early action” credits:
 - 2012 5%
 - 2013 4%
 - 2014 3%
 - 2015 2%
 - 2016 1%

EPA Allowance Auction Increases Annually

Year	Early Auction %	Annual Auction %
2012	5	21.5
2013	3	24.5
2014	1	27.5
2015	0	29.5
2016	0	30.5
2017	0	31.5



EPA Allowance Auction

- Any one can buy, sell or retire these allowances!

Key points:

- Unfair competition with electric utilities who can pass-through costs.
- Opens the door to Wall street banks, hedge funds and speculators. Very bad. Raises volatility and price.



Carbon Market Efficiency Board

- ❑ Seven members for fourteen year terms.
- ❑ Tasked with monitoring the market and taking action to keep costs down.
- ❑ CBO makes annual CO₂e price forecast.
- ❑ If the carbon market price exceeds the CBO price forecast...for first two years, CMEF is authorized to increase borrowing up to 15%.
- ❑ Other flexibilities include: lengthen pay back period; lower interest rate - must keep within 5% of carbon cap and tighten up in subsequent years.



Examples of allowances in 2012

- States 10%
- Mass transit 1%
- Electric consumers 9%
- Natural gas consumers 2%
- Carbon capture 4%
- Agriculture and forestry 5%
- Int'l forest protection 2.5%



International

- Presidential option to require energy intensive product importers to buy allowances.
- We start in 2012, importers start eight years later.



What we do not like about the bill

- ❑ The GAP: 2012 to at least 2022 – no low carbon energy source other than natural gas.
- ❑ Nothing to prevent coal to natural gas fuel switching by power industry.
- ❑ Drives up the price of natural gas and electricity.
- ❑ Ineffective at addressing international competitiveness and leakage issue.



What we do not like about the bill

- ❑ Auctions - Speculators add volatility; unpredictable price when we need certainty.
- ❑ Auctions - Unfair - Electric utilities can pass-through costs and we cannot.
- ❑ No state pre-emption
- ❑ Provides incentives to states to establish ghg reduction targets that are more stringent than Federal.
- ❑ No benefit to reduce electricity consumption.
- ❑ No benefit to doing co-generation.