Industrial Energy Consumers of America
The Voice of the Industrial Energy Consumers

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Coal Programmatic EIS Scoping
Bureau of Land Management
20 M Street, SE, Room 2134LM
Washington, DC 20003

Re: Notice of Intent to Prepare a Programmatic Environmental Impact Statement to Review the Federal Coal Program and to Conduct Public Scoping Meetings, Docket Number 16X.LLWO320000.L13200000.PP0000

We are pleased to submit comments on the Bureau of Land Management's (BLM) "Notice of Intent to Prepare a Programmatic Environmental Impact Statement to Review the Federal Coal Program and to Conduct Public Scoping Meetings." Our comments will address the importance of coal to the manufacturing sector and our objection to BLM's use of the social cost of carbon to calculate costs and benefits.

The Industrial Energy Consumers of America (IECA) is a nonpartisan association of leading manufacturing companies with $1.0 trillion in annual sales, over 2,900 facilities nationwide, and with more than 1.6 million employees worldwide. IECA membership represents a diverse set of industries including: chemical, plastics, steel, iron ore, aluminum, paper, food processing, fertilizer, insulation, glass, industrial gases, pharmaceutical, building products, automotive, brewing, independent oil refining, and cement.

The BLM is responsible for leasing of federal coal and regulation of the development of that coal on approximately 570 million acres of 700 million acres of mineral estate that is on federal lands. On average, over the last few years, about 41 percent of the nation's annual coal production came from federal land. Coal from federal lands was used to generate an estimated 14 percent of the nation's electricity in 2015. Coal is used in a wide variety of critical manufacturing processes, and is an important fuel in energy usage.

BLM'S CONCERNS ABOUT FAIR RETURN AND MARKET CONDITIONS

IECA companies are energy-intensive trade-exposed (EITE) industries, which means that relatively small changes to the price of energy can have significant negative impacts to competitiveness and jobs. EITE industries consumer 73 percent of the entire manufacturing sector's use of electricity (26 percent of U.S.) and 82 percent of all energy from the manufacturing sector. Also, the manufacturing sector consumes 7 percent of the country's coal, and is used as a fuel for our boilers and for the production of steel.[1] Coal plays an essential role of producing reliable and low-cost electricity.

[1] Energy Information Administration, Coal, http://www.eia.gov/coal/.

BLM states that one of the Notice of Intent's purposes is to determine whether or not the "American taxpayers are receiving a fair return from the development" of coal.[2] BLM is also considering the possibility of raising the royalty rate for coal. Existing rates paid on federal coal are excessive and further increases in taxes and royalties will reduce investment, lower government (federal and state) revenues, and result in a decreased return on investment for taxpayers. Given current market conditions of coal, and as a direct and indirect consumer of coal, we do not support increasing the royalty rate.

According to the Energy Information Administration (EIA), between 2008 and 2013, U.S. coal production fell by 16 percent. In 2015, U.S. coal production was 11 percent lower than 2014, the lowest level since 1986. However, U.S. electricity prices are rising. Since 2005, U.S. electricity prices have risen 28 percent.[3] And, industrial electricity prices have risen 20 percent and manufacturing jobs have decreased by 13 percent over the same ten-year time period.[4] With the decline of coal production, and more expensive energy forms introduced into the market, consumers of energy have suffered.

In their notice of intent, BLM states that worldwide demand for coal has decreased and will continue to do so. They continue, "declining natural gas prices and other factors made coal less competitive as a fuel for generating electricity."[5] Those "other factors" include the continued overregulation of an already struggling coal industry by the BLM and other agencies within this Administration.

Since 2009, over 100 environmental-related rules were published in the Federal Register. Many of these rules were directed towards the coal industry. These rules have economic impacts that measure in the billions of dollars in new compliance costs.[6] BLM correctly states that "a number of mines in the U.S. have idled production, companies have asked the BLM to hold off on processing certain lease tracts for sale, several major coal companies have entered Chapter 11 bankruptcy, many coal miners have been laid off, and coal-dependent communities have suffered."

There have indeed been significant market changes to coal. It is for this reason that BLM should not increase regulatory burdens on the coal industry. IECA supports an "all-of-the-above" approach to energy sources, which includes coal. As a low-cost fuel, coal has aided in keeping electricity prices low and manufacturing employment high.

BLM'S CONCERNS ABOUT CLIMATE CHANGE

IECA supports ***cost-effective*** action to reduce GHG emissions. Since 1973, the industrial sector has reduced emissions by 26 percent, while all of the other sectors increased emissions. Improvements in energy efficiency account for a significant portion of these industrial GHG

[2] Federal Register Notice, Volume 81, Number 61, Wednesday, March 30, 2016, p. 17721.
[3] Energy Information Administration, Electricity, http://www.eia.gov/electricity/.
[4] Bureau of Labor Statistics, Employment, http://www.bls.gov/ces/.
[5] Federal Register Notice, Volume 81, Number 61, Wednesday, March 30, 2016, p. 17724.
[6] Hearing on "A Review of EPA's Regulatory Activity During the Obama Administration: Energy and Industrial Sectors," U.S. House of Representatives Committee on Energy and Commerce, http://docs.house.gov/meetings/IF/IF03/20160706/105153/HHRG-114-IF03-20160706-SD002.pdf.

emission reductions. Many of the IECA companies also belong to the EPA ENERGY STAR® Program.

1. Use of the social cost of carbon unfairly imposes "global" climate costs on "domestic" producers of coal which will increase electricity prices for U.S. manufacturing.

The Obama Administration has directed agencies to monetize a regulation's direct or indirect effect of reducing emissions of carbon dioxide (CO_2). Federal agencies have estimated the potential benefits of rules using the social cost of carbon (SCC) and the social cost of methane (SCM). An important glaring problem with the SCC or the SCM is that it indirectly imposes *global* carbon costs on coal producers, which will increase electricity costs on *domestic* manufacturers, which damages the industry's ability to compete with foreign competitors. **No other country in the world imposes global carbon costs onto industry.**

2. The BLM has failed to include increased global GHG emissions because of industrial GHG leakage.

The BLM has not included the cost of industrial GHG leakage in its cost calculations. When coal and coal-fired electricity prices increase, energy-intensive trade-exposed (EITE) industries will shift production to other countries in order to be competitive.[7] When they do, their GHG emissions and jobs move with them and global GHG emissions will not have been achieved.

3. U.S. Government Accountability Office report highlights severe uncertainties in SCC values.

The U.S. Government Accountability Office's (GAO) report entitled, "Development of Social Cost of Carbon Estimates"[8] highlights that the SCC cost estimates have great economic and scientific uncertainty.

On page 12 it states, "The Technical Support Document (TSD) states that reported domestic effects should be calculated using a range of values from 7 to 23 percent of the global measure of the social cost of carbon, although it cautions that these values are approximate, provisional, and highly speculative due to limited evidence." The quote illustrates that when applying the SCC on domestic industry, 77-93 percent of the estimated climate benefits will flow to entities outside of the U.S.! In other words, the TSD guarantees that domestic application of the SCC will harm the U.S. economy, to the benefit of others around the world. Taking such action is clearly inconsistent with the purpose of the U.S. government and every federal agency. The TSD inappropriately ignores longstanding guidance from OMB to analyze only domestic cost-benefits. If BLM wishes to apply the SCC, it must revise downward the range of benefits by 77-93 percent.

On page 14 it states, "The TSD states that the working group decided to calculate estimates for several discount rates (2.5, 3, and 5 percent) because the academic literature shows that the social cost of carbon is highly sensitive to the discount rate chosen, and because no consensus

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[7] Climate Change Trade Measures: Consideration for U.S. Policymakers, GAO, http://www.gao.gov/products/GAO-09-724R
[8] U.S. Government Accountability Office, Development of the Social Cost of Carbon Estimates, July, 2014, http://www.gao.gov/products/GAO-14-663

exists on the appropriate rate." Clearly this means that the social cost of carbon is not based on reasonable economic analysis to accurately reflect the cost of capital. The TSD inappropriately ignores longstanding guidance from OMB under Circular A-4 to analyze cost benefits using a 7 percent discount rate.

On page 17 it states, "Some of the participating agencies have incorporated discussions of these limitations into regulatory impact analyses using social cost of carbon estimates. For example, in a 2012 rule setting pollution standards for certain power plants, EPA noted that the social cost of carbon estimates are subject to limitations and uncertainties."[9]

4. The social cost of carbon value is unrealistically high.

The SCC for 2016 is $36 per metric ton (in $2007), while other carbon trading prices are far lower. Some of those include: RGGI's auction clearing price at $4.53 per metric ton (on June 1); California's cap and trade price at $12.71 per metric ton (on July 13); and the EU ETS price at $5.29 per metric ton (on July 14). And, throughout the overwhelming majority of the world, the price is even lower. These stated real-time carbon market prices raise serious questions about the validity and appropriateness of the SCC.

Due to the importance of the SCC estimate to BLM's policy choices, it is important to note that the application of the SCC does not correct for the numerous procedural and methodological flaws in the Interagency Working Group's (IWG) SCC approach.

5. Procedural and methodological flaws.

Before BLM applies any SCC estimate in its programmatic environmental impact statement, BLM must correct the methodological flaws that commenters have raised about the IWG's SCC estimate. SCC estimates fail to comply with guidance for developing influential policy-relevant information under the Information Quality Act (IQA).

Further, SCC estimates are the product of an opaque process and any pretensions to their supposed accuracy (and therefore usefulness in policymaking) are unsupportable. The models and all of their assumptions with inputs used for the SCC estimates and the subsequent analyses were not subject to peer review, as required under OMB Circular A-4. The SCC estimate from integrated assessment modeling is a highly uncertain academic exercise that does not offer a reasonably acceptable range of accuracy for use in policymaking.

According to the Financial Post, equations "that connect CO_2 emissions to temperature change depend on a parameter called equilibrium climate sensitivity (ECS), which is the amount of warming in degrees Celsius from doubling the amount of CO_2 in the air, after the atmosphere and oceans have fully adjusted. The equations that connect temperature change to economic impacts make up what is called the damage function. The IWG made updates to the damage functions that boosted the costs, but it did not change the ECS even though the ECS has dropped in recent years. The higher the ECS, the longer it takes the climate to adjust to higher

[9] National Emissions Standards for Hazardous Air Pollutants from Coal-and Oil-Fired Electric Utility Steam Generation Units and Standards of Performance for Fossil-Fuel-Fired Electric Utility, Industrial –Commercial –Institutional, and Small Industrial –Commercial-Institutional steam generating Units, 77 Fed. Reg. 9304 (Feb. 16, 2012)

greenhouse gas levels. Under a high-ECS case the damages occur much farther in the future and need to be discounted more heavily. But the IWG does not take this into account; instead it allows high-ECS and low-ECS scenarios to occur on the same time scales, biasing the SCC upwards."[10]

IECA Recommendations Include:

- Given current market conditions of coal, IECA does not support an increase in the royalty rate for coal. The coal industry is paying more than its fair share and existing Federal rates are too high given the market conditions.

- The SCC estimates must be made consistent with OMB Circular A-4. As noted by leading researchers, the IWG SCC value is calculated differently than other measures of social benefits and costs.[11] Among other issues, it uses a lower discount rate than recommended by OMB Circular A-4 and values global benefits rather than solely U.S. domestic benefits. By introducing an SCC value with a different denomination in both the social cost and social benefit calculation, it muddies the results even more and renders comparison among regulatory options and among regulations even more difficult.

- The addition of the unreasonably high SCC estimates as a cost often shifts the net benefits of a regulatory option from negative to positive. This use of the SCC by regulatory agencies to place a heavy thumb on the scale and tilt the balance of the outcome to a few winners while harming the overall economy, including domestic manufacturers who will pay the higher pipeline costs, is highly inappropriate and this approach must be rejected.

Thank you for considering these comments. If you have any questions, or I can be of further assistance on this matter, please feel free to contact me at (202) 223-1661.

Sincerely,

Paul N. Cicio
President

[10] "What's the right price for carbon? Take a guess (everyone else is)," Financial Post, http://business.financialpost.com/fp-comment/junk-science-week-whats-the-right-price-for-carbon-take-a-guess-everyone-else-is
[11] Gayer, T. and Viscose, K. Determining the Proper Scope of Climate Change Benefits, June 2014.