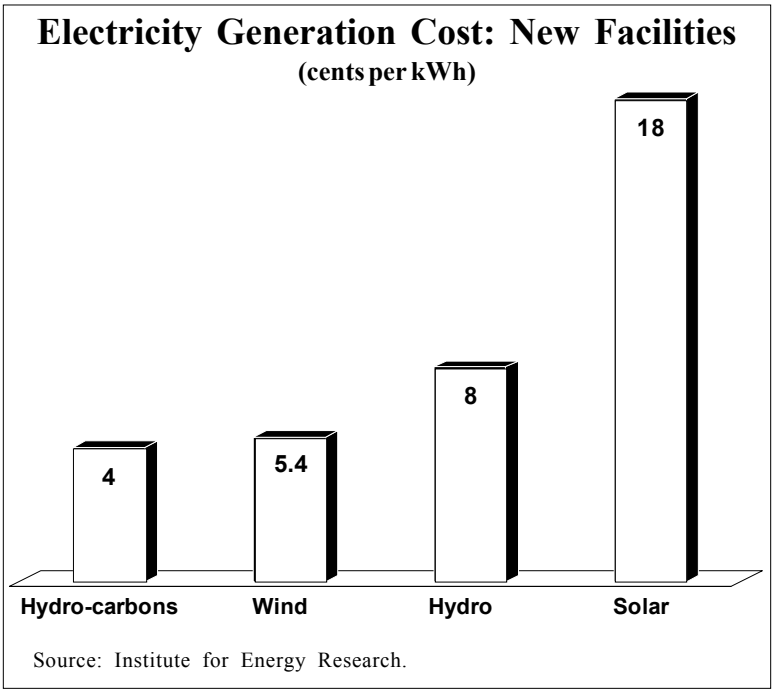
National Center for Policy Analysis

BRIEF ANALYSIS
No. 440
For immediate release:
Wednesday, May 28, 2003

Energy Bill Mistakes: Let's Call the Whole Thing Off

by H. Sterling Burnett, Ph.D.

The ultimate goals of a new "National Energy Policy" should be economic growth and consumer freedom of choice. Unfortunately, versions of the energy bill currently being debated in Congress include some economically harmful proposals designed to appease certain politically powerful constituencies. The most harmful provisions include greenhouse gas emissions limits, renewable energy mandates and increased fuel economy standards. If enacted, these regulations would retard economic growth and reduce consumer choice.



Slipping Kyoto through the Back Door. Proponents of the theory that human activities (primarily energy use) are causing global warming are attempting to use the energy bill as a vehicle to restrict greenhouse gas emissions. George W. Bush announced early in his presidency that the United States would not implement the Kyoto Protocol for the control of greenhouse gas emissions. Since then, a number of legislators have attempted to attach climate change provisions to energy legislation. They would set mandatory caps on carbon dioxide emissions from power plants or cut greenhouse gas emissions through a system of government credits to encourage early action by industry or both.

Cap and Trade. Although all mammals exhale CO_2, one proposal would treat CO_2 as an air pollutant like mercury, nitrogen oxide and sulfur dioxide — which are regulated by the Environmental Protection Agency (EPA). It would require that power plants reduce the emissions of these gases via a "cap and trade" mechanism. This means setting a cap on total emissions and auctioning CO_2 emissions allowances to energy producing firms that could use them or trade the allowances.

Whatever the merits of using a cap and trade approach to reduce pollution, there is no good argument for demanding drastic reductions in CO_2 emissions. CO_2 is not a pollutant and is not toxic at any foreseeable atmospheric level. Rather, CO_2 is essential to life on earth.

CO_2 is implicated in global warming as a heat-trapping greenhouse gas. But capping U.S. CO_2 emissions would not reduce the threat of global warming. According to the National Center for Atmospheric Research, even if the United States cut its greenhouse gas emissions to the level required by the Kyoto Protocol and all of the other nations met their greenhouse-gas reduction targets, the reduction in average global temperatures would be less than a half-degree Celsius. This negligible reduction would come at the steep cost of a 50 percent increase in energy prices, the Environmental Protection Agency (EPA) estimates, and a 1 percent drop in gross domestic product and a million jobs lost, according to Energy Information Administration projections.

Credits for Early Action. Even establishing a system that awards credits to companies for voluntarily reducing emissions creates problems. A system of early action credits would measure emissions reductions under voluntary plans. Companies would then be able to count their voluntary reductions against emissions if reductions later become mandatory. Accordingly, voluntary credits likely would encourage industry to lobby for a mandatory cap since the emissions credits would have no appreciable market value unless the cap were mandatory.

Mandating Renewable Energy Use. Various legislators have also attempted to embed a renewable

Dallas Headquarters: 12655 N. Central Expy., Suite 720 • Dallas, TX 75243-1739 • 972/386-6272 • Fax 972/386-0924
Washington Office: 655 15th St. N.W., Suite 375 • Washington, DC 20005 • 202/628-6671 • Fax 202/628-6474
For more information, contact the NCPA Communcations Department at 972/386-6272 or 800/859-1154.

energy portfolio in the proposed national energy policy. This mandate would require each energy provider to ensure that a set percentage (usually 10 or 20 percent) of its delivered energy comes from a renewable energy source within the next 10 to 15 years. Proponents argue that this will improve air quality, reduce the threat of global warming and reduce U.S. dependence on foreign energy supplies. However, due to high cost and environmental problems, the best research indicates that renewable sources — excluding hydroelectric dams — will continue to provide less than 10 percent of our energy needs during the next 50 years.

After more than 30 years and billions of dollars of government subsidies, neither wind nor solar power is economically competitive with fossil fuel. The costs for both solar power and wind power have fallen considerably during the past 20 years, but even with generous subsidies [see the Figure]:

- New solar-power capacity is *triple* the cost of new natural gas-generated electricity and *quadruple* the cost of power bought on the open (spot) market.
- New wind power capacity costs 50 to 100 percent more than new gas-generated electricity and spot-market power.

Also, both wind and solar power suffer from intermittency problems. Wind turbines only work when the wind blows above certain speeds and solar arrays only work when the sun shines. This requires that both types of plants be backed up by fossil fuel power plants — an expensive redundancy.

In addition, these renewable energy technologies have their own negative environmental impacts. For instance, both types of plants take up enormous amounts of space. They are often sited in undeveloped or pristine areas, where they detract from the sites' environmental and recreational values. When sited near developed areas, they cause visual blight, and in the case of wind power, noise pollution. Wind turbines have the added environmental drawback that they kill thousands of migratory songbirds, waterfowl and raptors each year.

If the United States experiences even modest economic growth during the next 20 years, electricity demand could increase by more than 45 percent. Thus, requiring each utility's generating portfolio to include a significant portion of intermittent, high-cost wind and solar energy would condemn the nation to energy shortages and stagnant economic growth.

CAFE Rides Again. Some lawmakers have argued that increasing the Corporate Average Fuel Economy (CAFE) standard would improve America's energy security while reducing the threat of global warming.

CAFE was enacted during the 1975 "energy crisis." It required auto manufacturers to meet certain mileage standards or pay a tax on high-fuel-consumption vehicles. The goal of CAFE was to reduce America's reliance on foreign oil. While today's automobiles and trucks get substantially more miles per gallon than those in the 1970s, oil imports have risen from 35 percent of U.S. consumption in 1974 to more than 52 percent today.

Improved fuel economy and declining oil prices have made driving significantly less expensive. When driving is cheap, people drive more — on the average, twice as many miles as they did when CAFE was enacted.

Concerning global warming, the EPA has estimated that, at most, 1.5 percent of all human-caused greenhouse gas emissions come from cars and light trucks. As a result, raising CAFE standards to 40 mpg would reduce greenhouse gas emissions by less than half of 1 percent — a negligible amount.

Furthermore, the National Academy of Sciences reported that increasing CAFE standards could be counterproductive. It might reduce greenhouse gas emissions from automobile tailpipes, but greenhouse gas emissions from the production of substitute materials used to make the cars more efficient — such as aluminum, carbon fibers or plastics — could substantially offset gains achieved through improved fuel economy.

Conclusion. Few policy issues have as direct a bearing on our well-being as a national energy policy. A bad energy policy can hamper economic growth. Thus, when shaping an energy policy, legislators should focus on economic growth and consumer choice. The policy provisions discussed above would restrict our sources of energy, burden the economy and limit consumer choice. They do not merit inclusion in a national energy policy.

H. Sterling Burnett, Ph.D., is a senior fellow with the National Center for Policy Analysis.