

## Testimony before the Senate Natural Resources Committee regarding SB 184 and SB 608

*SB 184: "No Regrets" Greenhouse Gas (ghg) Emission Reduction Strategies & SB 608: Relating to Creation of the Texas Center for Sustainable Business*

by Kathleen Hartnett White

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### Introduction and Summary

I appreciate the opportunity to submit testimony to Chairman Kip Averitt, the bills' author Senator Kirk Watson, and members of the Senate Natural Resources Committee. I commend Senator Watson for the concern reflected in SB 184 and SB 608 to prepare Texas with cost-efficient strategies should federal ghg reduction mandates be imposed. Although TPPF responds neutral to SB 184, my testimony raises questions which I believe are critical to developing reliable economic information on ghg emission reduction.

On SB 608, to create a Center for Sustainable Business, TPPF respectfully responds in opposition. TPPF believes the creation of, and roles assigned to, this Center within the State Office of Energy Conservation (SECO) are now unnecessary, duplicative of appropriate federal purview, and economically counterproductive.

### SB 184: The 'No Regrets' bill

SB 184 offers the prudent objective of identifying the least costly strategies for ghg reduction. As stated in the bill, TCEQ or SECO would determine strategies "without financial cost" or resulting in "net savings." The bill stipulates that financial cost must be assessed in terms of "total net cost that may occur over the lifetime of the strategy" and not short-term capital cost. The vagueness of this methodology and limited scope of 'net' costs are troubling. The exclusion of initial capital costs from net costs over time would not yield an accurate assessment of real or total cost incurred. Initial capital costs are typically carried over extended periods of time, with the costs being incurred both by producer and consumer.

Assessment of only a net cost over the lifetime of an emission reduction strategy can lead to underestimation of real costs incurred by an overestimation of avoided costs. This is a major flaw in two noted economic analyses of the cost of ghg reduction: The Stern Review on The Economics of Climate Change (2006) in Great Britain<sup>1</sup> and the California Air Resources Board (CARB) economic impact study of California's Global Warming Solutions Act of 2006.<sup>2</sup> Both studies misleadingly conclude there is a 'net' economic benefit from the ghg reductions.

The Stern Review reaches this conclusion, in large part, by subtracting what are estimated to be huge present and future "warming" costs, i.e., costs avoided by preventing catastrophic near-term impacts of warming temperatures. The many critics of the Stern Review maintain that the study's highly pessimistic view is outside mainstream science, but skews the economic analysis.<sup>3</sup> The CARB study's conclusion of net economic benefit was criticized by most of the peer reviewers for many reasons, particularly the low cost associated with CO<sub>2</sub> reduction at \$10 per ton, a figure up to five times lower than even the IPCC.<sup>4</sup>

These two studies' analytical shortcomings underline the difficulty in measuring the actual cost of ghg reduction. Reliable cost assessments must be driven by carefully selected analytical methodology, economic metrics, and modeling programs. Over the last 18 months, highly sophisticated cost-benefit analyses of ghg reduction strategies have been developed by numerous parties including CBO, GAO, EPA, universities, and many private entities.<sup>5</sup> SB 184's requirements for the daunting task of identifying least cost ghg reduction strategies for Texas

is far too attenuated to give meaningful guidance to TCEQ or SECO.

Another troubling ambiguity in SB 184 concerns the endgame. What is the “lifetime” of the emission reduction strategy? What is the emission reduction benefit sought? Is the lifetime of the strategy the life of an energy-efficient appliance or the date at which global warming is no longer a risk? Do relevant strategies include any ghg reducing measures, e.g., energy efficient appliances or 80% CO<sub>2</sub> reduction from carbon capture and storage on a coal fired power plant? Strategies which reduce minimal amounts of ghg seem an irrelevant response to proposed mandates for reduction by as much 85% below 2005 level. This is the magnitude of reductions required by the major bills in the U.S. Congress and proposed in President Obama’s budget. The scale of required reductions is critical to identifying appropriate strategies and their cost.

Cost-benefit analyses are complicated endeavors. From my experience as Commissioner and Chairman of TCEQ for six years, I would confidently maintain that TCEQ is ill-equipped to conduct the economic analysis required by this bill. In issuing and enforcing permits, promulgating rules, and developing highly technical state implementation plans with cutting-edge science, TCEQ skill is unparalleled in the country. Economic impact analyses, however, is not the agency’s bailiwick with or without the help of one or two economists assigned from other agencies. TCEQ has no experience in cost-benefit analyses of this kind. The Administrative Procedures Act requires assessment of the fiscal implications of rules on state and local government but not on regulated entities or consumers.

The task identified in SB 184 is so important to Texas that it warrants specialized expertise of the highest order. Rather than assigning this task, without stipulated guidance, to an agency without experience in this arena, why not establish a Blue Ribbon Commission created by the Governor, Lieutenant Governor, Speaker, and Comptroller with members selected across the nation and state for optimum skill and experience.

Consider the magnitude of the impact on Texas from current federal proposals for mandatory carbon reduction. Advocating the most expensive approach to date, President Obama’s budget assumes 100% auction of initial carbon allowances. By auctioning—rather than granting—initial allowances means that Texas pays a steep tax just to keep operating tomorrow as we are today. At around 670 million metric tons of CO<sub>2</sub> annually, Texas is the largest U.S. source of CO<sub>2</sub>. Given the amount of energy, chemicals, and goods

produced in Texas, as well as the size of our population and economy, this top CO<sub>2</sub> ranking for Texas is not surprising.

Now consider what is the gross fiscal impact for Texas from a 100% initial auction of status quo carbon allowances? The Obama Administration used a figure of \$20 per ton of CO<sub>2</sub>, acknowledged as extremely low. The Congressional Budget Office (CBO) uses a \$30 per ton and predicts a leveling out at \$50 per ton. The cost of buying 670 million tons of CO<sub>2</sub> allowances at \$20 per ton is \$13.3 billion. This is money that would leave Texas and become federal revenue. At the more realistic \$30 per ton, the Texas loss is \$20 billion. At \$50 per ton, the loss is \$33 billion.

The prospect of federally imposed ghg-reduction will not come without a huge price for Texas. Measuring the economic impact of carbon mandates on Texas and identifying the least expensive means to reduce ghg are critically important but should be addressed by the most pre-eminent of experts in a manner that realistically estimates full cost and benefits.

### **SB 608: To Create a Center for Sustainable Business**

Although support of Texas business in the face of daunting federal ghg dictates is a worthy intention, state law creating an entity within SECO to help Texas “transition to a carbon-constrained economy” is unnecessary and ill-advised. Select or interim committees are often more appropriate vehicle for addressing such issues. Particularly during this economic downturn, enlarging state government by the creation of a Center for Sustainable Business with a complex mission merits the highest scrutiny and caution.

Texas should not develop a state ghg inventory by a registry. The U.S. Department of Energy has ghg emission data by state going back to 1990. Most importantly, EPA last week proposed a comprehensive rule for mandatory ghg reporting covering all sectors. Such a national inventory with a consistent ghg metric is necessary to any viable market-based regulatory program. Under any cap and trade scheme, a uniform carbon currency, i.e., a metric, is essential. In addition, Texas does not need to join any regional initiatives to influence EPA decisions on federal ghg policies. Through the second largest congressional delegation and with the largest environmental agency in the world after EPA, Texas can communicate effectively with federal decision makers.

I question the value of a new entity within SECO to develop a sustainable business action plan for the state. Private business operating within a free market is more capable of effective business plans responsive to federal and state poli-

cies. Texas business is already well underway with innovation and investment in cleaner technology and operation. SECO's current focus on energy efficiency offers endless opportunities to reduce ghg.

Similarly, Texas should not develop the rudiments of a state carbon credit bank as implied in SB 608 provisions for a registry of already achieved carbon reductions, i.e., credits. Until the federal government makes decisions about a specific carbon reduction program, such Texas action is premature and likely futile. Until baseline emissions, timelines, cap levels—and all the legal rudiments of any carbon cap and tax, trade, offset policies—are established, Texas should not enact into law carbon reduction policy of its own. Remember that by 2020, the United Nations predicts that China and India will be the source of 75% of all ghg emissions.

Since the first major ghg cap and trade bill (Lieberman-Warner) reached the floor of the U.S. Senate last summer, many federal decision makers have become keenly aware of the exorbitant cost of ambitious carbon mandates without commercially available carbon reduction technology. A growing bipartisan group of U.S. Senators and Congressmen are questioning the economic viability of mandated ghg reduction—especially during a serious recession. Many scientists,

who earlier supported the plausibility of the IPCC Fourth Assessment Report, now oppose the use of this highly uncertain science to justify carbon mandates that would rupture the energy system which made industrial civilization and modern prosperity possible.<sup>6</sup> Once the precedent for a U.S. carbon cap and trade scheme, the European Union's ghg Emission Trading System has failed to reduce ghg and has imposed major cost.

I do not believe that near-term ghg reduction is politically inevitable, dictated by science, or now practicably possible as SB 184 and SB 608 apparently assume. No genuine science is ever completely settled beyond dispute. Such incontrovertibility is a feature of dogma, not science. New empirical science from NASA satellites measuring, for the first time, the atmospheric function of CO<sub>2</sub> in the troposphere is a major addition to the prevailing climate change science built on correlation, laboratory chemistry, and sophisticated models.

Now is the time for the nation and Texas to further refine the ever-evolving science of climate change, to accelerate development of multi-purpose emission control technology, and to allow the free market to restore economic productivity. ★

## Endnotes

<sup>1</sup> Stern Review on the Economics of Climate Change. 2006. Her Majesty's Treasury, United Kingdom.

<sup>2</sup> California Air Resources Board Greenhouse Gas Reduction Scoping Plan Required by California Global Warming Solutions Act of 2006 (AB 32).

<sup>3</sup> Lomborg, Bjorn, *Cool It*, Alfred A. Knopf, New York, 2007. See also The Herald Group's Review of Economists' Assessment of the Stern Review, January 2008, Washington, D.C.

<sup>4</sup> California Air Resources Board, Peer Review of Economic Modeling Analysis, Impact of Scoping Plan on the Economy.

<sup>5</sup> Thorning, Margo, Ph. D., "Reality Check on Initiatives to Reduce Greenhouse Gas Emissions in California, Oregon, the Northeast and Europe," August 2007, American Council for Capital Formation.

<sup>6</sup> U.S. Senate Minority Report, "More than 650 International Scientists Dissent Over Man-Made Global Warming Claims," Environment and Public Works Committee, December 11, 2008.

## About the Author

**Kathleen Hartnett White** joined the Texas Public Policy Foundation in January 2008 as a Distinguished Senior Fellow and Director of the Center for Natural Resources.

Prior to joining the Foundation, White served a six-year term as Chairman and Commissioner of the Texas Commission on Environmental Quality (TCEQ). With regulatory jurisdiction over air quality, water quality, water rights and utilities, and storage and disposal of waste. TCEQ's staff of 3,000, annual budget of over \$600 million, and 16 regional offices make it the second largest environmental regulatory agency in the world after the U.S. Environmental Protection Agency.

Prior to Governor Rick Perry's appointment of White to the TCEQ in 2001, she served as then-Governor George Bush's appointee to the Texas Water Development Board, where she sat until appointed to TCEQ. She also served on the Texas Economic Development Commission and the Environmental Flows Study Commission.

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