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3 HEARING ON ``ALLOWANCE ALLOCATION POLICIES IN CLIMATE

4 LEGISLATION: ASSISTING CONSUMERS, INVESTING IN A CLEAN

5 ENERGY FUTURE, AND ADAPTING TO CLIMATE CHANGE''

6 TUESDAY, JUNE 9, 2009

7 House of Representatives,

8 Subcommittee on Energy and Environment

9 Committee on Energy and Commerce

10 Washington, D.C.

11 The Subcommittee met, pursuant to call, at 10:45 a.m.,
12 in Room 2322 of the Rayburn House Office Building, Hon.
13 Edward Markey (chairman of the subcommittee) presiding.

14 Members present: Representatives Markey, Inslee,
15 Butterfield, Melancon, McNerney, Dingell, Boucher, Pallone,
16 Green, Baldwin, Ross, Matheson, Barrow, Waxman (ex officio),
17 Upton, Hall, Stearns, Whitfield, Shimkus, Shadegg, Blunt,
18 Pitts, Walden, Scalise, Terry and Barton (ex officio).

19 Staff present: Matt Weiner, Legislative Clerk; Lorie

20 Schmidt, Senior Counsel; Melissa Bez, Professional Staff;
21 Michael Goo, Counsel; Ben Hengst, Senior Policy Analyst,
22 Mitch Smiley, Special Assistant; Lindsay Vidal, Press
23 Assistant; Matt Eisenberg, Staff Assistant; Greg Dotson,
24 Chief Counsel, Energy and Environment; Andrea Spring,
25 Minority Professional Staff; Amanda Mertens Campbell,
26 Minority Counsel; Aaron Cutler, Minority Counsel; Mary
27 Neumayr, Minority Counsel; and Garrett Golding, Minority
28 Legislative Analyst.

|
29 Mr. {Markey.} Good morning to all of you, and this
30 hearing will come to order.

31 Today's hearing will examine the ways in which allowance
32 values from the Waxman-Markey clean energy bill can be used
33 to assist consumers invest in a new energy future and help
34 the United States and the world to adapt to climate change.
35 Although that is a tall order for any piece of legislation,
36 the Waxman-Markey bill, which was reported from the committee
37 on May 21, 2009, does just that. The bill contains
38 comprehensive energy legislation that will repower America
39 with new clean energy sources, provide for increased energy
40 independence, create new clean energy jobs, make investments
41 in renewable energy sources, enhance competitiveness,
42 strengthen our national security and fight global warming.
43 This bill achieves those goals but does so in a way that will
44 help, not hurt, consumers, and that actually reduces the
45 budget deficit.

46 In the more than 30 years that I have been in Congress,
47 one word has always come first in every piece of legislation
48 that I have worked on: consumers. From telecommunications
49 to the environment to fuel economy standards, I have found
50 that starting with the goal of saving families money is
51 always the best organizing principle for an effective public

52 policy. That is why the Waxman-Markey bill sends such a very
53 high percentage of its allowance value directly to consumers.
54 Under the legislation, more than 55 percent of the allowance
55 value goes directly to consumers. Between 2012 and 2025, 32
56 percent goes to regulated electricity local distribution
57 companies for the benefit of consumers. Six point five
58 percent goes to natural gas local distribution companies for
59 the benefit of consumers. One point six percent goes to
60 States for the benefit of home heating oil and propane
61 consumers. Fifteen percent goes to low- and moderate-income
62 consumers.

63 In addition, the bill allocates 19 percent of allowance
64 value to protect trade-exposed industries to help them
65 maintain international competitiveness and to keep
66 manufacturing jobs here in the United States. The bill also
67 provides 6 percent of allowance value to States for
68 investments in clean energy and energy efficiency. These
69 programs will also help save money for consumers, enhance our
70 energy independence and create good clean energy jobs in
71 renewable energy and energy efficiency that cannot be
72 outsourced.

73 And finally, the bill allocates 2.5 percent of allowance
74 value for domestic adaptation including for public health.
75 This allocation of allowance will assist consumers faced with

76 increasing costs from a multitude of effects due to global
77 warming. So if you add it all up between 2012 and 2025, more
78 than 80 percent of allowance values will go towards programs
79 that will, one, directly benefit consumers; two, lower costs
80 for consumers; three, mitigate the effects of climate change
81 for consumers; and four, keep or create jobs in the United
82 States.

83 The rest of the value will also go to important public
84 purposes. Between 2012 and 2025, 2 percent is dedicated to
85 investments in electric vehicles and other advanced
86 automobile technology that will strengthen our energy
87 independence. Three point three percent is dedicated to
88 carbon capture and sequestration technologies and 1.5 percent
89 will go to research and development in clean energy and
90 energy efficiency technologies. These investments also will
91 create new jobs and help keep America more competitive.
92 Other uses of allowance allocation in the legislation
93 includes allocating 5 percent for supplemental reductions to
94 be achieved by preventing tropical deforestation and
95 distributing 2.5 percent for international adaptation and
96 clean energy transfer. These allocations will ensure that
97 the United States will be well positioned to negotiate with
98 other nations in the global climate treaty process. That in
99 turn will also help protect our workers and consumers from

100 foreign competition and from runaway costs due to unchecked
101 global warming.

102 And finally, the bill dedicates a portion to the
103 important goal of deficit reduction. On Friday, the
104 Congressional Budget Office announced in its cost impact
105 analysis that the Waxman-Markey bill would reduce budget
106 deficits or increase future surpluses by about \$24 billion
107 over the 2010-2019 period. Consequently, this bill is both
108 environmentally responsible and fiscally responsible.

109 Our current reality is that America's economy is in a
110 slump and consumers remain vulnerable to price spikes brought
111 about by the old energy economy and an addiction to expensive
112 foreign oil, but I have faith in our economy and that it will
113 mend itself and once again become fully dominant if we make
114 the right choices and unleash innovation now. The choice
115 that we opt for now is to invest in clean energy jobs to
116 improve our national security and provide a safe and healthy
117 future for our economy. We thank all of you for
118 participating in today's hearing.

119 [The information follows:]

120 ***** INSERTS A, B *****

|
121 Mr. {Markey.} Now let me turn and recognize the
122 gentleman from Michigan, the ranking member of the
123 subcommittee, Mr. Upton.

124 Mr. {Upton.} Well, thank you, Mr. Chairman. I have a
125 prepared statement that I am going to ask to put into the
126 record, and--

127 Mr. {Markey.} Without objection, it will be so ordered.

128 Mr. {Upton.} I came back from Michigan and was in the
129 office yesterday when I heard about the CBO report, which I
130 have not read yet but I am getting a copy and I look forward
131 to reading it in the next day or two.

132 John Dingell, in a subcommittee hearing that we had, I
133 believe it was last month or it might have been the end of
134 April, called cap and trade a great big tax, and man, was he
135 right. When you look at what different publications say, CBO
136 puts hefty price tag on emissions plan, this cap-and-trade
137 system is seen to cost \$846 billion. It goes on to say in
138 the story, American Petroleum Institute president Jack Girard
139 said the projected costs of the emission allowance will mean
140 increases as much as 70 cents a gallon for gasoline with
141 diesel fuel going up as much as 88 cents per gallon. The
142 Brookings Institute, not exactly a center right organization,
143 called cap and trade to reduce carbon dioxide emissions would

144 lower the Nation's gross domestic product in 2050 by 2-1/2
145 percent. It goes on to say that about 35 percent of crude
146 oil-related jobs and 40 percent of coal-related jobs will be
147 lost in 2025, according to the analysis, and it shows that
148 the personal consumption would fall by as much as .5 percent
149 or \$2 trillion by 2050. It goes on to conclude that they
150 think that the government would raise about \$1.5 trillion by
151 2020 if it sold all the carbon emissions, so almost double
152 what CBO said.

153 During the Memorial Day break, I visited one of my small
154 companies that have been around for 100-some years in Niles,
155 Michigan, Niles Steel Tank. Now, that is what they make,
156 custom-made steel tanks. These are 750-gallon tanks. They
157 know about cap and trade. In fact, they said that if cap and
158 trade was enacted, they were thinking about canceling the day
159 shift and moving all of their production into the nighttime
160 so that they could take advantage of lower energy costs
161 because they were worried about what those costs would do,
162 knowing that they today pay about \$11,000 a month in
163 electricity and about \$9,000 in natural gas. The testimony
164 that we are going to hear from Mr. Sokol as it relates to
165 refineries, he indicates on page 5 that India is building a
166 one-million-barrel-per-day refinery to make transportation
167 fuels that will be exported almost exclusively to the U.S.

168 and European markets. This refinery, larger than any
169 refinery in the United States, is equal to the total capacity
170 of about 15 of Lion Oils. Under this bill, the Indian
171 refinery, which already operates at a significant cost
172 advantage, will not be required to purchase allowances for
173 CO2 emitted from its plant.

174 Mr. Chairman, we are, particularly those of us in the
175 Midwest, we are going through some very hard times. The news
176 relating to the auto industry and other manufacturing
177 sectors, our unemployment rate has been double digits for
178 more than a year, and many of our counties, they are
179 predicting perhaps as high as 20 percent by the end of the
180 summer and even higher then. This cap-and-trade bill, as
181 John Engler said, could put us into a permanent recession,
182 those of us that are facing this in the Midwest, and I look
183 forward to the hearing and I yield back my time.

184 [The prepared statement of Mr. Upton follows:]

185 ***** COMMITTEE INSERT *****

|
186 Mr. {Markey.} Great. The gentleman's time has expired.
187 The Chair recognizes the chairman emeritus of the committee,
188 the gentleman from Michigan, Mr. Dingell.

189 Mr. {Dingell.} Mr. Chairman, thank you for holding this
190 hearing. It is important that our constituents understand
191 the steps the Energy and Commerce Committee has taken to
192 protect consumers, protect trade and vulnerable industries,
193 to invest in clean technologies and help vulnerable segments
194 of the population and our natural environment to adapt to
195 climate change. One day of trying to craft a sensible
196 approach to deal with climate change, a time several years
197 ago, I have been clear in my belief that it is not going to
198 be cheap and that most likely consumers will be seeing
199 substantially increased energy costs. Moreover, I have been
200 extremely concerned that enacting an economy-wide cap-and-
201 trade program could adversely affect our already struggling
202 manufacturing sector.

203 I have to say, I am impressed with the approach taken in
204 H.R. 2454 in terms of allocating and the allowance values to
205 address these concerns. H.R. 2454 establishes five programs
206 to protect consumers from potential energy price increases.
207 EPA has estimated that global warming provisions in the
208 discussion draft would cost the average household \$98 to \$140

209 per year, and they have concluded that the changes made in
210 the committee draft will further the costs of the
211 legislation.

212 Now, being from the Midwest, where we are extremely
213 dependent on coal for our electricity, I have to believe that
214 our people are particularly susceptible to electricity price
215 increases. I am pleased with the approach adopted by the
216 committee. Regulated utilities that distribute electricity
217 to consumers will receive allowances that must be used to
218 keep prices low. Giving the allowances to regulated
219 utilities should cut down on opportunities for rascality.
220 However, this is something on which we must be diligent in
221 watching when this or similar legislation is signed into law.

222 I am also pleased with the portion of allowance values
223 going to the auto industry for investment in green vehicles.
224 Specifically, the majority would go into the Department of
225 Energy section 136, advanced technology vehicles
226 manufacturing program, with a portion going to plug-in
227 electric vehicle manufacturing and deployment. We have seen
228 remarkable innovations from automakers as consumers have
229 begun to show interest in more-fuel-efficient vehicles and
230 the allowance values will spur more innovations and new green
231 job creation at job.

232 Finally, Mr. Chairman, I am pleased with the allowance

233 values allocated to natural resource adaptation. As I have
234 said on numerous occasions, I consider this to be a moral
235 imperative and I am pleased that the chairman agrees with my
236 perspective. I look forward to hearing from our witnesses
237 today for their perspectives on the allocation scheme as laid
238 out in H.R. 2454. Thank you, Mr. Chairman.

239 [The prepared statement of Mr. Dingell follows:]

240 ***** COMMITTEE INSERT *****

|
241 Mr. {Markey.} We thank the gentleman. The Chair
242 recognizes the ranking member of the full committee, Mr.
243 Barton.

244 Mr. {Barton.} Thank you, Mr. Chairman. First, let me
245 thank you and Chairman Waxman for agreeing to this hearing.
246 I had asked that we hold two hearings. You all have agreed
247 to at least this one and maybe another one. Even though the
248 markup has already occurred, I think it is important to try
249 to get into the mechanics and to understand the intricacies
250 of the allocation and the cap-and-trade allowances part of
251 this legislation, so I do appreciate you and Chairman Waxman
252 for agreeing to this hearing. I want to thank our witnesses.
253 I know many of you have spent many sleepless nights trying to
254 understand this system and hopefully you can help explain it
255 to the people who are actually trying to put it into place.

256 We have a fundamental disagreement on the basic premise
257 of this bill. The proponents of the bill are fervent and I
258 think sincere in their belief that manmade CO2 is a dominant
259 contributor to what is either called global warming or
260 climate change. Most of the opponents of the bill, and I
261 certainly put myself in that camp, think climate change is an
262 issue that we need to study and we need to address but we are
263 not convinced that mankind generically and CO2 specifically

264 is a dominant cause of the climate changing. So we start
265 with the fundamental disagreement on the basic premise of the
266 bill, but if you get beyond that and you get beyond the
267 science, you next come to a couple of inescapable facts.
268 Number one is, you can't have it both ways. If manmade CO2
269 in the United States really is a problem, then you don't give
270 the allowances away. You either have a carbon tax, which
271 would be the most efficient and straight-up transparent way
272 to deal with the problem, or you do 100 percent auction for
273 CO2 allowances. Well, we put 100 percent auction allowance
274 on the table in the markup. I think it got five votes of 50-
275 some-odd votes. So if you are really not going to charge for
276 that commodity, in this case, manmade CO2, you are going to
277 give a lot of it away, you are not going to reduce it. I
278 listened to Mr. Markey's opening statement downstairs in my
279 office on the television, and if I add it up correctly, in
280 the beginning he is giving away around 85 percent of these
281 allowances. So you are going to auction off 15 percent. You
282 are not going to make a dent in CO2 charging only 15 percent
283 of the population that you regulate trying to control it. So
284 that is a fundamental problem.

285 The second fundamental problem is, in spite of the best
286 efforts, you can't make an allocation system in an economy as
287 complex as the United States. You can't really make it fair.

288 I don't doubt the sincerity of the proponents of the bill
289 when they say they are trying to make sure that nobody pays
290 more than their fair share, but just this local distribution
291 company system where you get 50 percent of your allowances
292 and it all goes to the local distribution company but 50
293 percent is based on the generating capacity and then 50
294 percent is based on emissions. Well, if you are in an area
295 like the Northwest where you have huge generating capacity
296 but it is all hydro, you are getting a free gift. Now, if
297 you are in an area like the Southeast where they don't really
298 have a lot of wind power and they don't really have a lot of
299 hydropower, you are going to have a health transfer where you
300 pay for your allowances from the Southeast to the Northwest.
301 Now, that may be what the proponents want but it is not fair
302 and we need to address that. Then you start with these
303 allowances for various industry groups. Refineries get 2
304 percent and I heard Mr. Markey say there is kind of a general
305 set-aside of 1.6 percent for heating oil. When you start
306 trying to interact those types of allowances with the generic
307 electricity allowances, you are going to in some cases get
308 double counting and in other cases get undercounting, and I
309 don't see how you rectify that.

310 So, you know, my time is about to expire. The SO₂, when
311 we did sulfur dioxide cap and trade in the 1990s, that is the

312 model that everybody points to that we can make CO2 work here
313 in the early part of the 21st century. There is a big
314 difference. SO2 was almost totally manmade. SO2 had discrete
315 point sources that we knew where it was. SO2, we had a
316 technology to control it that was cost-effective. We have
317 none of that. The bill says any point source in the United
318 States that generates more than 25,000 tons a year is subject
319 to regulation. Twenty-five thousand tons of CO2 is not a lot
320 of CO2.

321 So Mr. Chairman, I appreciate you holding this hearing.
322 We are really going to have a fine time, as Chairman Dingell
323 would say, trying to understand the system and hopefully at
324 the end of the hearing the American public will have a better
325 understanding of it. Thank you and Mr. Waxman for holding
326 this hearing.

327 [The prepared statement of Mr. Barton follows:]

328 ***** COMMITTEE INSERT *****

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329 Mr. {Markey.} We thank the gentleman very much. The
330 Chair recognizes the chairman of the full committee, the
331 gentleman from California, Mr. Waxman.

332 The {Chairman.} Thank you very much, Mr. Chairman. I
333 appreciate this hearing.

334 The bill, H.R. 2454, requires major U.S. sources of
335 emissions to obtain an allowance for each ton of global
336 warming pollution emitted into the atmosphere, and the
337 emission allowances provide a critically important tool in
338 transitioning the country to a clean energy future. In
339 deciding how to use the value of the allowances, the
340 committee was guided by four principles. First, we wanted to
341 assist consumers with the transition, and we use over 50
342 percent of the allowances for this purpose. We have five
343 programs to protect consumers from electricity price
344 increases, one for natural gas, one for heating oil, one to
345 protect low- and moderate-income families and one to provide
346 a tax dividend to consumers. In combination, these programs
347 ensure that American consumers are protected as the
348 legislation is implemented.

349 Secondly, the bill invests in developing and deploying
350 energy efficiency programs and clean energy technology. This
351 will be a driver of jobs and innovation and it will help us

352 break the connection between energy generation and carbon
353 emissions, allowing us to meet increasingly tighter emission
354 limits at lower costs than are predicted today. This will
355 also help the United States be a global leader in clean
356 energy technologies.

357 Third, we worked hard to assist industry in making the
358 transition to clean energy economy. We cannot afford to add
359 significant uncompensated costs that would disadvantage
360 manufacturing and production here compared to other countries
361 that do not have emission limitations like China and India,
362 and providing transition assistance to our industries helps
363 ensure that the reductions in emissions occur because our
364 industry is becoming more efficient, not because they are
365 moving production and emissions overseas.

366 Finally, H.R. 2454 provides allowances for a number of
367 other important purposes. It would provide assistance to
368 help us adapt to climate change both here and abroad. The
369 international adaptation piece rises to moral obligations and
370 will help the president negotiation a strong treaty in
371 Copenhagen. It will also help address some of the national
372 security issues that Senator John Warner and others have
373 warned us about, and the bill would also generate large
374 additional low-cost emission reductions by reducing tropical
375 deforestation, helping us to avoid dangerous climate change.

376 The committee has worked hard on this allocation plan to
377 ensure that it is fair. It does what a good energy bill
378 needs to do. It balances the interests of different parts of
379 the country and of different stakeholders and accomplishes
380 much of what it is important to everyone. It will go a long
381 way to moving the country into a clean energy future.

382 I do want to point out, there has been some
383 misunderstanding I have seen in some of the articles in the
384 press. They say that when we give out a free allowance, we
385 are not sending the right price signal to the consumers to
386 make the reductions in use of energy. Well, I think that
387 misunderstands the bill. We do have the limit, overall limit
388 on carbon emissions so we have the incentives to make those
389 reductions. We wanted to have those reductions made in the
390 least costly way and the signals are sent to the people who
391 are most able to make the reductions just as we have the
392 requirements on the major sources of the pollution that we
393 are trying to reduce. So I think that a lot of people think
394 that there is only one way and that is to have a harsh burden
395 on people to get the reductions. I think we can have a
396 transition, reduce the carbon emissions and benefit everyone
397 at the same time.

398 I yield back my time.

399 [The prepared statement of Mr. Waxman follows:]

400 ***** COMMITTEE INSERT *****

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401 Mr. {Markey.} Great. The gentleman's time has expired.
402 The Chair recognizes the gentleman from Kentucky, Mr.
403 Whitfield, for 2 minutes.

404 Mr. {Whitfield.} Thank you, Mr. Chairman.

405 When I heard you speaking of this bill, I was not sure
406 we were talking about the same bill. I was reading recently
407 an article signed by Peter Orszag, the current chairman of
408 OMB, entitled ``Tradeoffs in allocating allowances for CO2
409 emissions.'' In that study, he said very clearly a common
410 misconception is that freely distributing allowances to
411 purchasers would prevent consumer prices from rising as a
412 result of the cap, and then he goes on to say higher consumer
413 costs were borne out in the cap-and-trade programs for sulfur
414 dioxide in the United States and also for CO2 emissions in
415 Europe. Consumer prices increased even though producers were
416 given free allowances. He goes on to say in this report that
417 those price increases would be regressive and that poorer
418 households would bear a larger burden relative to their
419 incomes than wealthier households would. He goes on to say
420 that job losses in certain energy industries like coal, for
421 example, would be severe; job losses would be severe.

422 So I am glad we are having this hearing because none of
423 us really understand the way this is going to work and we

424 certainly do not understand the way that consumers are going
425 to be protected. The final comment that I would make, the
426 Energy Information Agency came out with a report based on
427 this bill and it very clearly shows that we are moving lower
428 electricity costs from one area of the country to other areas
429 of the country. The States that really get hurt by this bill
430 are Alabama, Florida, Georgia, Illinois, Indiana, Kentucky,
431 Michigan, Missouri, Ohio, Oklahoma, Pennsylvania, Tennessee,
432 Texas, West Virginia and Wyoming, and there are some States
433 on the East Coast and West Coast that will benefit from this
434 bill.

435 I yield back. My time has expired.

436 [The prepared statement of Mr. Whitfield follows:]

437 ***** COMMITTEE INSERT *****

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438 Mr. {Markey.} The gentleman's time has expired. The
439 Chair recognizes the gentleman from Virginia, Mr. Boucher.

440 Mr. {Boucher.} I thank the chairman. I will waive
441 opening statement and reserve time for questions.

442 [The prepared statement of Mr. Boucher follows:]

443 ***** COMMITTEE INSERT *****

|
444 Mr. {Markey.} The Chair recognizes the gentleman from
445 California, Mr. McNerney.

446 Mr. {McNerney.} Thank you, Mr. Chairman. First of all,
447 I want to thank the witnesses today for coming today. It is
448 a broad spectrum of philosophies, and that is important for
449 this discussion.

450 I am proud to support the Act. I think it is a good
451 Act. It leads to environmental goals by capping carbon
452 emissions and in the long run it will create jobs, a lot of
453 jobs. You know, the allowance allocation is essential. It
454 has been devised to protect both businesses and families and
455 to increase America's efficiency, which is absolutely
456 essential for us to meet our long-term goals of getting ahead
457 of the price increases by being more and more efficient so
458 that consumers pay less out of their pockets for the same
459 result, or in fact for better results, so I think it is
460 essential and I support it, and I am looking forward to the
461 discussion. I think there will be some good ideas that come
462 out here today.

463 So with that, I would yield back.

464 [The prepared statement of Mr. McNerney follows:]

465 ***** COMMITTEE INSERT *****

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466 Mr. {Markey.} The gentleman's time has expired. The
467 Chair recognizes the gentleman from Illinois, Mr. Shimkus.

468 Mr. {Shimkus.} I am down here, Mr. Chairman. Thank you
469 very much. I want to thank Joe Barton and Chairman Waxman
470 for agreeing to this hearing. You know, I wish it would have
471 been done prior to the markup but that is water under the
472 bridge. We move on, and I am ready to move with you.

473 I was waiting for the great proclamation from the
474 Chinese trip that they had China agree to an international
475 standard to cap carbon trade. The chairman has been
476 curiously silent on that issue. I am not shocked. What I
477 have heard is that the Chinese want \$140 billion a year from
478 the United States to help them in their transition to cap
479 carbon from the taxpayers. They won't sign a treaty claiming
480 to be doing it on themselves and their claims actually result
481 in a 30 percent for their carbon output. Does that sound
482 like they are playing ball? I would say not.

483 I also want to make sure that if we have another hearing
484 that we address this issue called compulsory licenses. For
485 those of you who think that we are going to be making all
486 this profit from green jobs and the green economy, guess
487 what? We are going to sign an international agreement that
488 forces the holder or the patent or a copyright to give away

489 their exclusive rights to grant use to the States and to
490 others. So all those companies that think they are going to
491 sell and make a profit by having a patent, we are going to
492 give it to China without compensation or for minimal
493 compensation. That is a great plan and that is in this bill
494 and it ought to be stripped out.

495 And I will just end on this article from Business Week,
496 banks gearing up for carbon trading. Here is another wealth
497 transfer to large, big banks, but while U.S. policymakers
498 continue to squabble over the details of the cap-and-trade
499 proposal, big banks--haven't we bailed them out enough--are
500 gearing up for what they see as a new profit center. U.S.
501 carbon trading is coming.

502 So if you want to help out the big banks and bail them
503 out, move on this legislation. I yield back my time.

504 [The prepared statement of Mr. Shimkus follows:]

505 ***** COMMITTEE INSERT *****

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506 Mr. {Markey.} Great. The gentleman's time has expired.
507 The Chair recognizes the gentleman from North Carolina, Mr.
508 Butterfield.

509 Mr. {Butterfield.} Thank you very much, Mr. Chairman,
510 for convening this hearing today and I certainly thank the
511 witnesses for their participation. I look forward to this
512 hearing because there is still a lot of questions that we
513 need to have answered and perhaps some of your wisdom may be
514 very helpful to us.

515 We have certainly had tremendous difficulty in devising
516 an equitable way of making the allowance allocations. We
517 spent a lot of time doing that. We finally reached a
518 compromise and now we have it on paper. The allowance
519 allocation in this Act accomplishes the difficult and
520 necessary balance of assuring environmental integrity while
521 easing the transition costs for the covered entities and thus
522 easing the cost for consumers. And so yes, there will be
523 free allocations. Criticism that the free allocation of
524 credits in the early years of this program allows polluting
525 companies off the hook could not be further from the truth.
526 The overall cap ensures greenhouse gas emitters will reduce
527 their emissions. This law forces electric utilities and
528 petroleum refineries and steel companies and paper and

529 chemical manufacturers to make investments, substantial
530 investments in energy efficiency and cleaner fuels whether or
531 not the credits or auctioned.

532 Throughout consideration of this issue, I have spoken
533 repeatedly about the necessity to protect consumers from
534 price hikes resulting from this legislation. The allocation
535 accomplishes this by devoting resources to regulated LDCs
536 whose bylaws require that they pass the value along to the
537 consumers. Most importantly, the poorest Americans who
538 contributed least to this problem and are least able to
539 ensure any increases in cost are held harmless. I am
540 satisfied of that. The 15 percent allowance value devoted to
541 these struggling households guarantees recoupment of any lost
542 purchasing power and does not phase out over the life of the
543 program. This critical component is essential to a fair and
544 balanced policy that achieves the long-term goal of reducing
545 greenhouse gas emissions while keeping struggling consumers
546 free from irreparable economic harm.

547 Again, Mr. Chairman, I support this legislation and
548 thank the witnesses for coming. I yield back.

549 [The prepared statement of Mr. Butterfield follows:]

550 ***** COMMITTEE INSERT *****

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551 Mr. {Markey.} Great. The gentleman's time has expired.
552 The Chair recognizes the gentleman from Pennsylvania, Mr.
553 Pitts.

554 Mr. {Pitts.} Thank you, Mr. Chairman, and thank you for
555 holding this important hearing on the allocation policies
556 under the American Clean Energy and Security Act.

557 Mr. Chairman, like all of us, I believe we should work
558 to decrease the amount of greenhouse gas emissions in our
559 atmosphere and we should be good stewards of this earth and
560 its resources. However, I do not believe this bill, which
561 passed out of this committee last month, will do anything to
562 accomplish its goal of reducing global temperatures.
563 Instead, I believe it will have a crippling effect on our
564 economy for years to come without much environmental benefit.
565 It will still irreparably damage our economy despite the
566 allocation policies that are supposed to protect the
567 consumer. No matter how it is doctored or tailored, it is a
568 tax. It is a national energy tax that will hurt each and
569 every household. It will destroy sectors of our economy and
570 cause job losses at a unprecedented rate.

571 We should be protecting our environment through
572 innovation, through entrepreneurship and cooperation and
573 encouragement. This bill tries to cut carbon emissions

574 through taxation and punishment, the heavy hand of big
575 government and litigation. We should be creating jobs by
576 encouraging entrepreneurship, competition, new technologies.
577 Instead, this bill is going to cost countless working men and
578 women their jobs. This bill as previously drafted in the
579 original draft which had 50 pages on light bulbs and two
580 sentences on nuclear power. Now, that has changed somewhat,
581 but as analyzed a couple of weeks ago by the Public Utility
582 Commission in Pennsylvania, it would have cost 66,000 jobs in
583 Pennsylvania alone by 2020. Much of it is still applicable.

584 I urge my colleagues to consider just how irresponsible
585 it is to continue to support legislation that will cost so
586 many jobs and do so much damage to our economy just as we are
587 struggling to come out of one of the worst recessions in
588 recent history. The American people can see this and they
589 will be angry. It punishes everyone in America who uses
590 energy, that is, everyone in America. Instead, we should be
591 crafting policies that create incentives to bring online new
592 nuclear power plants, hydrogen storage technology, more cost-
593 effective wind and solar technology, smart grid technology,
594 more efficient electricity transmission and other
595 innovations. We don't need to wash trillions of dollars of
596 American taxpayer money through the federal bureaucracy in
597 order to get a clean energy economy. The alternative to job

598 killing and big government cap-and-trade plans is to create
599 incentives and let the market pick the winners.

600 I want to thank the witnesses for coming today. I look
601 forward to hearing their testimony. I yield back.

602 [The prepared statement of Mr. Pitts follows:]

603 ***** COMMITTEE INSERT *****

|
604 Mr. {Markey.} Great. The gentleman's time has expired.
605 The Chair recognizes the gentleman from Texas, Mr. Green.

606 Mr. {Green.} Thank you, Mr. Chairman, for holding the
607 hearing. I thank you and the Chair of the full committee for
608 your leadership on the American Clean Energy and Security
609 Act. The success is a testament to your ability to find
610 consensus among our diverse membership. I applaud your
611 efforts and look forward to continuing to work on refinements
612 in that bill.

613 Today's hearing is yet another opportunity to learn more
614 about how allowances are distributed under H.R. 2454. The
615 top criticisms of any cap and trade are the projected impacts
616 on the American consumer and our domestic industries. With
617 our economy sluggish and family incomes already stretched,
618 any policy must ensure that hardworking Americans do not see
619 their energy costs skyrocket or U.S. jobs moved overseas. I
620 believe that additional transitional assistance may be
621 needed. H.R. 2454 struck a careful balance in allocating
622 carbon allowances. The legislation devotes significant
623 allocation to protect consumer energy price increases,
624 electric, natural gas. LDCs receive 40 percent of the
625 allowances, a value that must be passed on to the benefit of
626 the consumers through lower electric and natural gas bills.

627 Second, the legislation provides allowances to keep U.S.
628 industry competitive with foreign nations that do not have
629 carbon reductions. I want to thank my friends Inslee and
630 Doyle for their work on the 15 percent allocation. The 2
631 percent allocation for refiners is intended to keep them
632 competitive and encourage energy efficiency improvement.
633 Ultimately, I believe more assistance is needed and I know we
634 will hear that today from our witness from the refineries.

635 I know Congressman Barton is here and he has questioned
636 many times whether carbon human activity and knowing our
637 ranking member's love for Texas A & M, I just saw a recent
638 study, Mr. Chairman, that was released from Reuters from
639 Texas A & M showing the Texas coast, particularly Corpus
640 Christi, faces widespread flooding and the most powerful
641 hurricanes flooding and, quote, from the author of the study,
642 ``hurricanes will be more severe.'' Jennifer Irish,
643 assistant professor of coastal and ocean engineering at Texas
644 A & M, states, ``The worse global warming gets, the more
645 severe the consequences for the Texas coast.''

646 Mr. Chairman, I have run out of my time but we surely
647 don't want to see Padre and Mustang Islands, much less
648 Galveston, Texas, have too high of tides. So I will be glad
649 to forward this to you, Ranking Member.

650 Mr. {Barton.} Not everything at Texas is as it seems on

651 the surface.

652 Mr. {Green.} Thank you. I yield back my remaining

653 time.

654 [The prepared statement of Mr. Green follows:]

655 ***** COMMITTEE INSERT *****

|
656 Mr. {Markey.} The gentleman's time has expired. The
657 Chair recognizes the gentleman from Oregon, Mr. Walsh.

658 Mr. {Walsh.} Thank you very much, Mr. Chairman. I just
659 want to make a couple of points. First of all, it has been
660 said that there is enormous transfer to the Northwest as a
661 result of cap and trade in this bill, and while there is a
662 certain truth to that in some sectors, we are going to find
663 out today that the 553,000 customers of Pacific Corps face a
664 17.9 percent increase in their power costs in the first year
665 of this legislation in 2012. That is \$163 million hit to
666 customers in Oregon, according to the data that we are going
667 to hear, and so I think we have seen what happens when you
668 have the government take over the auto sector. That is
669 playing out in every rural town in America right now as
670 dealers are getting shot in the head. This bill amounts to a
671 government takeover of the energy sector and we are going to
672 see how that plays out.

673 Meanwhile, the Chinese, you know--there is a story in
674 the Washington Post today that quotes from a May 20th
675 position paper regarding the Copenhagen meeting where the
676 Chinese are expecting the developed countries to reduce their
677 emissions by at least 40 percent from the 1990 level by 2020.
678 This legislation reduces it by 4. So you see the level of

679 expectation that the Chinese have for us. If that is the
680 case and it is a 10-fold increase, then does that mean my
681 ratepayers are going to see 179 percent increase in their
682 energy costs?

683 Meanwhile, I know you would all be disappointed if I
684 didn't point out that this legislation fails miserably in the
685 area of woody biomass and in fact, two-thirds of the federal
686 land would be off limits as a result. That has still not has
687 been fixed in this legislation. I desperately hope it does
688 because, as we know from the example in Sweden, you could
689 actually create 30,000 jobs as they did using biomass and
690 produce 18 percent of their electricity with woody biomass.

691 Finally, I would say this does amount, according to CBO,
692 an \$846 billion increase in federal revenues, an \$821 billion
693 increase in direct spending, and while they initially say
694 that is a surplus of \$24 billion, they go on to point out
695 that it would increase discretionary spending by about \$50
696 billion over the 2010 to 2019 period. So it does cost money,
697 it raises taxes, it will hurt jobs and it raises rates to
698 consumers.

699 [The prepared statement of Mr. Walden follows:]

700 ***** COMMITTEE INSERT *****

|
701 Mr. {Markey.} The gentleman's time has expired. The
702 Chair recognizes the gentleman from Arkansas, Mr. Ross.

703 Mr. {Ross.} Thank you, Chairman Markey, for holding
704 today's hearing on allowance allocation policies in climate
705 change legislation. This is an important topic and I am
706 pleased to see the subcommittee discussing this issue.

707 I would like to also thank all the witnesses that have
708 come before the subcommittee to testify today. I want to
709 particularly use my time to recognize one of the witnesses,
710 Mr. Steve Cousins, with Lion Oil Company. Steve is the vice
711 president of refining for Lion Oil Company, which is located
712 in my Congressional district in El Dorado, Arkansas. Lion
713 Oil has been a leading employer in El Dorado for over 85
714 years and their refinery in Ed Dorado produces approximately
715 70,000 barrels of gasoline and diesel fuel per day. Lion Oil
716 employs about 1,200 direct employees in El Dorado, one of
717 many towns across my district that has been hit hard by the
718 recession, and they employ another 3,600 individuals that
719 depend indirectly on the plant in El Dorado. As such, I am
720 concerned about how the cap-and-trade legislation that the
721 committee recently passed will affect Lion Oil and other
722 small refineries across America, and I am eager to hear Mr.
723 Cousins' testimony today on their behalf. I am particularly

724 concerned that perhaps as a committee we picked winners and
725 losers in the allocation process, and certainly I feel that
726 the small refineries came out on the short end of the stick.
727 As the leader of the free world, I believe that America must
728 lead by example on climate change. However, we must embrace
729 a commonsense approach to imposing regulations that will help
730 to improve our environment while still maintaining jobs and
731 strengthening our Nation's economy, and I am hopeful that
732 Steve's testimony and others today will help us do that.

733 Once again, thank you for holding this hearing and I
734 look forward to the testimony in order to work on a solution
735 to climate change that is consistent with commonsense
736 Arkansas values, ones that does right by the environment and
737 the economy. And with that, Mr. Chairman, I yield back.

738 [The prepared statement of Mr. Ross follows:]

739 ***** COMMITTEE INSERT *****

|
740 Mr. {Markey.} Great. The gentleman's time has expired.
741 The Chair recognizes the gentleman from Louisiana, Mr.
742 Scalise.

743 Mr. {Scalise.} Thank you, Mr. Chairman. This hearing
744 on allowance allocation policies is long overdue and should
745 have been held months ago.

746 The allocation section of the cap-and-trade energy tax
747 bill that this committee marked up last month remained
748 essentially empty until just hours before our committee met.
749 This ill-advised cap-and-trade energy tax, which was the
750 product of secretive backroom deals and special-interest
751 trading will hijack our entire American economy and will
752 raise costs on all American families and businesses at a time
753 when they can least afford it. The American people expect
754 and deserve more, especially at a time when they were
755 promised transparency. No one denies that the cap-and-trade
756 energy tax will cause millions of American jobs to be shipped
757 to foreign countries like China and India while American
758 families will pay thousands more in increased utility costs.
759 Even President Obama has acknowledged that his cap-and-trade
760 energy tax will lead to higher electricity prices by stating,
761 ``Under my plan of a cap-and-trade system, electricity rates
762 would necessarily skyrocket.'' And just last month the

763 current CBO director, Douglas Elmendorf, testified before the
764 Senate that a cap-and-trade program would lead to higher
765 prices for energy-intensive goods.

766 This bill creates big winners and big losers. The big
767 losers are American families and small businesses, and make
768 no mistake about it, the big winners are countries like China
769 and India who are chomping at the bit to take our jobs and
770 the same Wall Street speculators who brought our country's
771 financial markets to near collapse and who stand to gain
772 billions in new profits by creating a trading scheme for
773 these carbon credits. Instead of shipping millions of good
774 jobs overseas and killing our energy economy, Congress should
775 support an all-of-the-above national energy policy that will
776 create American jobs by utilizing our Nation's natural
777 resources to reduce our dependence on Middle Eastern oil and
778 promote alternative sources of energy like wind, solar and
779 nuclear.

780 Along with many of my colleagues, I am proud to be a
781 cosponsor of H.R. 2300, the American Energy Innovation Act,
782 legislation that takes this all-of-the-above approach, and
783 the net effect of our comprehensive energy plan will result
784 in lower carbon emissions because American jobs and
785 manufacturing will not be shipped to foreign countries like
786 China that have lower environmental standards than we have

787 today here in America. Thank you, and I yield back.

788 [The prepared statement of Mr. Scalise follows:]

789 ***** COMMITTEE INSERT *****

|
790 Mr. {Markey.} Great. The gentleman's time has expired.

791 The Chair recognizes the gentleman from Utah, Ms. Matheson.

792 Mr. {Matheson.} Thank you, Mr. Chairman. I think the
793 issue of how you structure an allowance program is extremely
794 complicated and it is very important that we hold this
795 hearing to create better understanding for all the
796 ramifications the way that this has been structured now and
797 see if there are suggested improvements. I hope as we move
798 forward with this hearing--I have not had a chance to read
799 all the pre-filed testimony but I would hope as we move
800 forward in this hearing that the panel can shed some light on
801 the impacts of the allocation structure that is included in
802 the bill as it is written now which shows that half the
803 allocations are based on total generation capacity and half
804 on the fuel mix, if you will. I may be oversimplifying with
805 that. It seems to me this draws into question the issue of
806 different impacts on different regions of the country. Some
807 regions are heavily based on nuclear, some heavily based on
808 hydro. I come from a State where over 90 percent of the
809 electricity is generated from coal, and I have been raising
810 from the outset of these climate change hearings the question
811 of impacts in terms of regional income transfers and this
812 specific topic today of the allocation structure of this bill

813 is one of the key elements of regional impacts, in my
814 opinion.

815 So I welcome the witnesses. I hope as we move through
816 this hearing we can learn more about the impacts on different
817 regions of the country, and if there are problems with the
818 current allocation structure written in the bill, I look
819 forward to suggestions that people think might be a better
820 way to address that concern. With that, I yield back, Mr.
821 Chairman.

822 [The prepared statement of Mr. Matheson follows:]

823 ***** COMMITTEE INSERT *****

|
824 Mr. {Markey.} The gentleman's time has expired. The
825 Chair recognizes the gentleman from Florida, Mr. Stearns.

826 Mr. {Stearns.} Thank you, Mr. Chairman, and as Ranking
827 Member Barton has indicated, we are hoping there will be more
828 than one of these hearings. I know that Mr. Waxman and
829 yourself have indicated that we would have at least one, and
830 I think is it to your credit to have this hearing as well as
831 ours because I think judging from the participation of our
832 witnesses, this will be a great opportunity for us to ask
833 questions.

834 We have the estimate from CBO, we have the Heritage
835 Foundation. I am going to mention this briefly. So there is
836 quite a diverse opinion here on the impact of this cap and
837 trade. As mentioned by others, the CBO has indicated that
838 this would hurt families by imposing an \$850 billion energy
839 tax that would obviously be paid by every American family.
840 If you are going to drive a car, buy anything American or
841 just simply turn on a light, you are going to be faced with
842 the possibility of increased taxes. The Heritage Foundation,
843 their projections to 2035 are pretty dramatic. Now, I don't
844 know if they take into account inflation, which would
845 normally occur, but they say it would raise electricity rates
846 almost double and raise gasoline prices, raise residential

847 natural gas prices by almost 60 percent, increase the federal
848 debt by 26 percent and additional enormous costs for
849 families. So the resulting higher energy rates will be
850 especially hard, I think, on the poor, the elderly, low
851 income, particularly those individuals in my district who
852 spend most of their paycheck on service industries, gas,
853 groceries and cooling their homes.

854 During the Energy and Commerce Committee markup, we
855 offered numerous amendments, simple amendments that I thought
856 would simply pass with bipartisan support, we thought to
857 improve the bill to protect these American families from
858 paying these massive new taxes, but they were defeated almost
859 along party lines, so Mr. Chairman, in the end, this is
860 really your bill. This is not a bill that is supported by
861 the Republicans and so you will have to make the case why
862 Americans should be saddled with an \$850 billion new tax,
863 particularly in light of the economy now that can least
864 afford it.

865 So, you know, I think fostering new technology and
866 scientific research instead of capping our economy and
867 trading U.S. jobs is a better guard to our Nation's security
868 and increase our energy independence, and with that, I yield
869 back.

870 [The prepared statement of Mr. Stearns follows:]

871 ***** COMMITTEE INSERT *****

|
872 Mr. {Markey.} Great. We thank the gentleman. The
873 Chair recognizes the gentleman from Georgia, Mr. Barrow.

874 Mr. {Barrow.} I thank the chairman. All of us, I
875 think, are depending on technological breakthroughs to get us
876 something we don't have right now, and that is new sources of
877 energy that are clean, cheap and abundant. Mr. Barton talks
878 about fundamental disagreements. I am going to outline
879 another one.

880 So far, everybody who has talked has depended on
881 increases in the cost of dirty energy to provide the
882 incentive or the conditions to create this thing we don't
883 have yet, the technological breakthroughs we need. The do-
884 nothing crowd says we can wait and let natural forces of
885 supply and demand produce the crash in prices that will
886 produce the incentives to folks to develop what we need. The
887 do-something crowd says we need a controlled crash in advance
888 of that condition before Florida is awash with water so we
889 can try and, you know, accelerate the research and
890 development in a sort of trickle-down fashion. I think we
891 ought to disentrall ourselves from the whole idea that
892 increasing the cost of dirty energy is the best way to come
893 up with new sources of clean energy. It certainly ain't the
894 best way and it is certainly not the only way. We also ought

895 to disentrall ourselves of plans that were adopted at the
896 State level or the result of regional cooperation which
897 really reflect the limits of what States acting together or
898 independently can do under the Constitution. It seems that
899 the folks that are pushing that idea are determined to impose
900 the limits of State power acting alone or in concert with
901 other States on our national efforts.

902 What we are talking about here is a plan to redistribute
903 the proceeds of a plan to deliberately increase the cost of
904 dirty energy in order to create some sort of supply of new
905 energy that is cheap, clean and abundant. What I think we
906 ought to do is recognize that that is going to provide
907 uncoordinated research and development. It is going to
908 provide resources that are weaker, inherently weaker than
909 what we can do at the national level. What I think we need
910 is not a program that depends on a price crash but a program
911 that depends on a crash program of sustained public
912 investment in research and development and deployment of
913 clean sources of alternative energy. That is a level of
914 fundamental disagreement that I haven't heard yet and that is
915 where I come from on this. I think it is incumbent on those
916 of us who are dissenting from this approach to set forth our
917 vision of how we can do a better job that is more effective
918 and more coordinated, and with that, Mr. Chairman, I yield

919 back.

920 [The prepared statement of Mr. Barrow follows:]

921 ***** COMMITTEE INSERT *****

|
922 Mr. {Markey.} The gentleman's time has expired. The
923 Chair recognizes the gentleman from Washington State, Mr.
924 Inslee.

925 Mr. {Inslee.} Thank you.

926 Several people have mentioned China as an excuse for
927 doing nothing on this problem. We just spent a week in China
928 with the Speaker. I thought I would make three points about
929 why we should assume our traditional role as world leaders in
930 America on this subject.

931 Number one, in this bill we have provided protection for
932 American workers in trade-sensitive energy-intensive
933 industries in steel, aluminum, paper, by providing 15 percent
934 of the allocations to these industries so we do not have to
935 concern ourselves about job leaking to China in these trade-
936 sensitive energy-intensive industries. Mike Doyle and I
937 worked on that, and thanks to the Chair we got it in this
938 bill.

939 Point number two: China is acting on energy today in
940 three ways that we are not even today. Number one, they have
941 a 20 percent reduction of energy intensity from a carbon
942 perspective, CO2 perspective. Number two, they have a 15
943 percent renewable energy portfolio. Number three, they have
944 a corporate average fuel economy standard even more

945 aggressive than ours. And it is a certain irony today to me
946 that some people here are arguing we should not act using
947 China as an excuse when those are the same people who would
948 not even allow America to do that tomorrow which China has
949 already done yesterday. They are actually taking steps on
950 this problem which we have not even taken yet, and
951 unfortunately, some of my colleagues across the aisle have
952 resisted taking those actions.

953 Point number three: They have not done enough and we
954 are going to be pressing them to do more. It is clear that
955 we need to ask them to do more, given the rise in the number
956 of their plants without coal sequestration that they are
957 using right now. But it makes no sense to me whatsoever to
958 continue to provide China an excuse for further inaction by
959 inaction on our own part. When it comes to china, we ought
960 to think of two things: one, they are acting; two, they are
961 not going to act more unless we start to act.

962 This is a start of a clean energy revolution which both
963 countries can benefit from. We ought to continue this
964 effort. Thank you, Mr. Chairman.

965 [The prepared statement of Mr. Inslee follows:]

966 ***** COMMITTEE INSERT *****

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967 Mr. {Markey.} Great. The gentleman's time has expired.
968 The Chair recognizes the gentleman from Louisiana, Mr.
969 Melancon.

970 Mr. {Melancon.} Thank you, Mr. Chairman. This
971 committee has set a new high bar for work on a single
972 legislative issue and I commend the members and the staff for
973 their dedication to this important issue. While this
974 committee has hosted many hearings and I think this hearing
975 is helpful in working to fully understand this, I do have a
976 few concerns.

977 First, what are the real cost impacts on the consumers?
978 We know that EPA has come up with an estimate of around \$140
979 per family per year, but I don't believe those numbers are
980 modeled on RPS or an RES and I don't believe that the
981 allowance allocations were included in the analysis either.
982 But also on the other side, I do believe that the estimates
983 of \$3,100 per family were obviously a bit exaggerated to the
984 other side. So my question is, what are the real numbers and
985 can we get those at some point in time in a timely manner?

986 Second, what is the net job creation minus the carbon-
987 related job loss and will those jobs be more regional or
988 spread out. My concern in Louisiana is, I am for green jobs
989 but I am not for giving up the good-paying jobs that I have

990 in south Louisiana in hopes of getting some new jobs in other
991 parts of the country. As mentioned earlier by one member of
992 the committee, this shouldn't be about who wins and who
993 loses. This should be about us all having some skin in the
994 game and this country moving forward in a positive way that
995 benefits all of us in the long run.

996 Thirdly, what tools can we use to moderate the impact on
997 transportation fuels? Providing an allowance relief to
998 cogenerate electricity producers was an admirable move to
999 ensure that our constituents that are struggling through the
1000 current tough economic times won't be even more burdened by
1001 high utility prices. As a representative for a rural
1002 district, I have to worry about the people who regularly
1003 drive long distances as a requirement for their employment or
1004 commute. Developing similar cost containment measures for
1005 transportation fuels would be helpful to many people facing
1006 high gas prices this summer. I particularly have a son that
1007 commutes quite a long ways every day and the concern that he
1008 has already is a concern for me as a parent.

1009 So these are concerns of mine and my constituents in
1010 south Louisiana, and I don't think I have any time to yield
1011 back but I thank you for the opportunity to comment.

1012 [The prepared statement of Mr. Melancon follows:]

1013 ***** COMMITTEE INSERT *****

|
1014 Mr. {Markey.} Great. The gentleman's time has expired.
1015 The Chair recognizes the gentleman from New Jersey, Mr.
1016 Pallone.

1017 Mr. {Pallone.} Thank you, Mr. Chairman.

1018 The allocation of emission allowances is one of the most
1019 important policy provisions in the Clean Energy and Security
1020 Act. These allowances will protect consumers, invest in
1021 clean energy and energy-efficiency programs and help trade-
1022 exposed industries make the transition to clean energy
1023 technologies.

1024 The allocations for renewable energy and energy
1025 efficiencies are particularly important to me. States will
1026 receive 10 percent of allowances from 2012 through 2015 to
1027 invest in programs that will help meet the renewable
1028 electricity standard. My State, New Jersey, has one of the
1029 most aggressive renewable electricity standards in the
1030 country requiring that 20 percent of our electricity needs
1031 come from renewable energy by 2020. By investing allowances
1032 in clean energy and energy efficiencies, we are helping
1033 States like New Jersey meet these goals.

1034 I have always been a strong advocate for renewable
1035 energy programs and I believe Congress should be doing as
1036 much as possible to encourage investments in renewables.

1037 This will help us not only reduce greenhouse gases in this
1038 country but it will also create clean energy jobs. Hard
1039 choices were made with regard to the final allocation formula
1040 that passed through this committee and those choices will
1041 ensure that we take a huge step towards cutting greenhouse
1042 gas emissions and investing in a clean energy economy. The
1043 committee did a good job, in my opinion, to ensure that
1044 consumers are protected, critical investment in clean energy
1045 and energy efficiency programs are included, and industry is
1046 not harmfully affected by the cap on greenhouse gas
1047 emissions. Thank you, Mr. Chairman.

1048 [The prepared statement of Mr. Pallone follows:]

1049 ***** COMMITTEE INSERT *****

|
1050 Mr. {Markey.} Great. The gentleman's time has expired.
1051 The Chair recognizes the gentlelady from Wisconsin, Ms.
1052 Baldwin.

1053 Ms. {Baldwin.} Thank you, Mr. Chairman. I am going to
1054 waive my opening statement so that we can hear from the
1055 witnesses, other than to thank you for holding two important
1056 additional hearings to perfect the record this week. Today's
1057 hearing on allowances and Friday's hearing on transmission-
1058 related issues. I believe that these hearings will allow us
1059 to perfect or further complement the legislation that was
1060 already reported favorably by the full committee, and I
1061 appreciate the fact that you are holding these two additional
1062 hearings this week.

1063 [The prepared statement of Ms. Baldwin follows:]

1064 ***** COMMITTEE INSERT *****

|
1065 Mr. {Markey.} I thank the gentlelady. Although he is
1066 not a member of the Subcommittee on Energy and Environment,
1067 Mr. Terry is here from Nebraska and by unanimous consent we
1068 can allow him to make an opening statement if he would like.

1069 Mr. {Terry.} Yes, I would. Thank you.

1070 Mr. {Markey.} The gentleman is recognized.

1071 Mr. {Terry.} I appreciate holding this hearing on what
1072 is somewhat mysterious because of its complexity, the
1073 allowances and how they work, and it will be fun, I think, as
1074 well as educational for us.

1075 I have some difficulties getting my mind around the
1076 whole concept of cap and trade when there are alternatives
1077 such as cap and incentives or plans that we could have taken
1078 offline older, inefficient, coal-fired plants and perhaps
1079 replace them with clean and efficient nuclear power plants.
1080 Why all those type of concepts were just routinely discarded
1081 baffles me but on we go.

1082 But I have the pleasure here of having a constituent at
1083 the witness table in David Sokol. David is one of Omaha's
1084 preeminent business executives and philanthropists. I have
1085 known him for a long time, about 20-some years. He is the
1086 CEO of Mid American Energy Holdings. There is a variety of
1087 energy companies within that holding generating electricity

1088 and also pipelines with natural gas, and one of the things
1089 that I appreciate about Mr. Sokol is he studies the issue.
1090 In fact, he may have been ahead of the curve in reading the
1091 bill before most of the members probably had a chance to even
1092 read the bill. So I am pleased to have him here. He is
1093 straightforward, common sense, a little bit out of the box
1094 which I respect and appreciate, so I welcome Mr. Sokol.

1095 [The prepared statement of Mr. Terry follows:]

1096 ***** COMMITTEE INSERT *****

|
1097 Mr. {Markey.} The gentleman's time has expired, and all
1098 time for opening statements has expired. I would just like
1099 to for the record make it clear that there is absolutely
1100 nothing in the legislation that requires a compulsory
1101 copyright transfer, and that is one of the reasons why the
1102 Judiciary Committee has not been given a referral of this
1103 legislation because there is nothing in the bill on patents
1104 or copyrights, so I just want the record to reflect that in
1105 terms of transfer of patent or copyright interests that is
1106 affected by the bill.

1107 Now let us turn and recognize our first witness, Mr.
1108 Thomas Farrell. He is the chairman, the president and CEO of
1109 Dominion, who will speak today as a board member of the
1110 Edison Electric Institute. Mr. Farrell is also a board
1111 member of the Institute of Nuclear Power Operations and of
1112 the Council of Foreign Relations, an independent task force
1113 on climate change. Thank you so much, Mr. Farrell, for being
1114 with us here today. Whenever you are comfortable, please
1115 begin.

|
1116 ^STATEMENTS OF THOMAS F. FARRELL II, CHAIRMAN, PRESIDENT AND
1117 CEO, DOMINION (ON BEHALF OF EDISON ELECTRIC INSTITUTE); RICH
1118 WELLS, VICE PRESIDENT, ENERGY, DOW CHEMICAL COMPANY; DAVID
1119 SOKOL, CHAIRMAN OF THE BOARD, MID AMERICAN ENERGY HOLDINGS
1120 COMPANY; STEVE COUSINS, VICE PRESIDENT, REFINING, LION OIL;
1121 G. TOMMY HODGES, CHAIRMAN, TITAN TRANSFER, INC., (ON BEHALF
1122 OF THE AMERICAN TRUCKING ASSOCIATION); DAVID MONTGOMERY, VICE
1123 PRESIDENT, CHARLES RIVER ASSOCIATES; NAT KEOHANE, ECONOMIST,
1124 ENVIRONMENTAL DEFENSE FUND; AND REVEREND DR. MARI
1125 CASTELLANOS, MINISTER FOR POLICY ADVOCACY, UNITED CHURCH OF
1126 CHRIST, JUSTICE AND PEACE MINISTRIES

|
1127 ^STATEMENT OF THOMAS F. FARRELL II

1128 } Mr. {Farrell.} I thank Chairman Markey and Ranking
1129 Member Upton and members of the committee. Thank you for
1130 the opportunity to provide testimony on the allocation
1131 emission allowances under the American Clean Energy Security
1132 Act.

1133 Dominion Resources, to give you some perspective, is one
1134 of the Nation's largest integrated electric and natural gas
1135 companies with operations in the Midwest, Northeast and Mid-
1136 Atlantic regions of the country. Our corporate headquarters

1137 is in Richmond, Virginia. We are active along the entire
1138 energy production delivery chain. We operate a large fleet
1139 of nuclear, oil, coal, gas-fired and renewable energy
1140 facilities, both regulated and merchant. Slightly more than
1141 half of our electric output is fossil fired. We also operate
1142 natural gas pipelines, gas storage structures, L&G
1143 importation facilities and we explore for and produce natural
1144 gas. We serve about 5 million retail customers in 12 States.

1145 I am appearing before you today on behalf of the Edison
1146 Electric Institute. EEI member companies serve 95 percent of
1147 the ultimate electricity customers in the investor-owned
1148 segment of the industry and account for about 70 percent of
1149 the total U.S. electric power business. EEI has endorsed an
1150 economy-wide cap-and-trade program to reduce greenhouse gas
1151 emissions that includes provisions to mitigate the cost
1152 impacts on electricity customers and the economy. Under any
1153 scenario, it will be expensive to transform the United States
1154 into a low-carbon society. It will take effective carbon
1155 regulation and the development and deployment of a full range
1156 of climate-friendly technologies to get the job done, some of
1157 which are commercially available now and some of which are
1158 not.

1159 EEI's membership spent 2 years developing a
1160 circumstances proposal to minimize the economic impact of

1161 reducing carbon emissions for all electricity consumers,
1162 especially the low-income families and energy-intensive
1163 businesses and industries that will suffer the most from
1164 higher electricity costs. The allowance allocation formula
1165 in H.R. 2454 is the essence of the EEI proposal. The
1166 allowance allocation concept has the broad support of a
1167 variety of shareholders including the U.S. Climate Action
1168 Partnership, labor groups and EEI and its member companies.
1169 The allowance allocation method we support offers the best
1170 means of protecting electricity consumers of all types, large
1171 and small, rural, urban and suburban, without sacrificing the
1172 desired environmental improvements. Consumers can be assured
1173 that whether they receive electricity from a shareholder-
1174 owned utility, an electric cooperative or municipal utility,
1175 they will receive the benefits of the allowance program
1176 provided for in the legislation.

1177 The bill's allowance allocations to the power sector
1178 amount to 35 percent of the total annual allowances available
1179 to all major sectors of the economy covered by the bill.
1180 About 30 percent go to local distribution companies and about
1181 5 percent will go to merchant coal generators and other
1182 generators with long-term power purchase agreements until
1183 direct allocations begin to decline from 2026 through 2030.
1184 A longer phase-out period is one of the modifications of the

1185 bill that EEI seeks. H.R. 2454 currently provides for
1186 allowances to decline precipitously from 35 percent to zero
1187 in the 5-year period from 2025 to 2029. Because the emission
1188 cap declines sharply from 2020 to 2030, consumer protection
1189 will be strengthened if allowances are phased out more
1190 gradually.

1191 The bill specifies that these allowances must be used
1192 exclusively for the benefit of retail ratepayers. The
1193 allocation proposal ensures that all classes of electricity
1194 customers receive the benefits of the value of the emissions
1195 allowances regardless of the size, location or ownership
1196 structure of the LDC. Targeting LDCs as the primary
1197 recipient of the allowances ensures that the benefits and
1198 costs of those allowances flow directly to end-use consumers.
1199 LDC rates are regulated by State commissions. These
1200 commissions have extensive oversight experience and authority
1201 to ensure that allowances received by LDCs will be reflected
1202 in any rate-making cases. The bill enhances the role of
1203 State commissions and includes safeguards to ensure that
1204 allowances directly benefit customers. Allocations to LDCs
1205 can also take into account regional variations in electricity
1206 use generation mix and cost. Different regions use different
1207 amounts of fossil fuel to produce electricity. Some regions
1208 use more coal than others. Average customer demand for

1209 electricity also varies significantly by region due to such
1210 things as weather and the price of power.

1211 We are pleased that the bill provides direct allowances
1212 to the electricity sector in the early years of the program.
1213 This feature of the bill is critical to protecting consumers
1214 until new technologies are available to enable the continued
1215 use of our domestic coal resources. It is important to note,
1216 however, that significant costs remain for the utility sector
1217 to comply with major programs in this Act. The renewable
1218 electricity standard and the climate cap-and-trade program
1219 will require significant financial investments to either
1220 change the current generation profile, purchase renewable
1221 energy credits or offsets, make alternative compliance
1222 payments, purchase allowances from auction or some
1223 combination of all of these. H.R. 2454 distributes emissions
1224 allowances to LDCs based on a calculation of each LDC's share
1225 of the total LDC allowance pool. To give equitable treatment
1226 to the concerns of different local distribution companies,
1227 the distribution of allowances follows a 50/50 formula, 50
1228 percent based on each LDC's share of average annual electric
1229 sector CO2 emissions during the base period including
1230 emissions associated with purchase power and 50 percent based
1231 on each LDC's share of average annual electricity retail
1232 sales during the base period. The emissions component of the

1233 formula recognizes the concerns of utilities with significant
1234 fossil generation that their customers will face higher
1235 compliance costs. Emissions-based allowances would help
1236 offset those costs. The sale component recognizes the
1237 concerns of other utilities whose customers already face
1238 higher prices resulting from utility investments in carbon-
1239 free power generation.

1240 Mr. {Markey.} Mr. Farrell, if you could summarize, we
1241 would appreciate it.

1242 Mr. {Farrell.} It would be my pleasure. We will, I am
1243 sure, get into discussions about what happens with merchant
1244 coal generators, a very important part of the bill.

1245 In sum, we believe the allowance allocation approach set
1246 forth in the bill will moderate the economic impact of
1247 greenhouse gas regulation on electricity consumers
1248 nationwide, especially during the early years of the program.
1249 We commend the committee for the hard work it has done to
1250 craft a climate policy that successfully reduces greenhouse
1251 gas emissions while addressing the cost implications to
1252 consumers and the economy. Thank you, Mr. Chairman.

1253 [The prepared statement of Mr. Farrell follows:]

1254 ***** INSERT 1 *****

|
1255 Mr. {Markey.} Thank you, Mr. Farrell, very much.

1256 Our second witness is Mr. Rich Wells. He is the vice
1257 president for energy at the Dow Chemical Company, where he is
1258 responsible for Dow's complete energy portfolio. He has been
1259 a member of the board of directors of the Alliance to Save
1260 Energy. We welcome you, Mr. Wells. Whenever you are ready,
1261 please begin.

|
1262 ^STATEMENT OF RICH WELLS

1263 } Mr. {Wells.} Thank you, Mr. Chairman and members of the
1264 committee. I thank you for the opportunity today to comment
1265 on the allowance allocation provisions of the American Clean
1266 Energy and Security Act.

1267 I am vice president of energy for the Dow Chemical
1268 Company, a leading specialty chemical and advanced materials
1269 company with over 50,000 employees, half of which are located
1270 here in the United States. While we are known as an energy-
1271 intensive company, Dow also makes products that help
1272 consumers save energy and reduce their greenhouse gas
1273 emissions. As an example, our thermal insulation and foam
1274 sealant products can reduce home and business energy costs by
1275 up to 30 percent. In fact, the recent lifecycle assessment
1276 found in emissions reductions from the use of Dow insulation
1277 products were seven times greater than our company's total
1278 annual emissions. So as you can see, American energy-
1279 intensive companies can and do develop products that help
1280 lower the overall carbon footprint of our economy.

1281 In order for the cap-and-trade system proposed in the
1282 committee bill to be economically sustainable, it must be
1283 designed in a way that allows American energy-intensive and

1284 trade-exposed manufacturers to remain globally competitive in
1285 the face of rising energy costs. When I testified before
1286 this committee in April, I said that it was critical under
1287 the competitiveness title that the output-based rebates be
1288 adequate to cover direct and indirect emissions associated
1289 with sectors that meet the energy-intensive and trade-exposed
1290 criteria. Since that time the committee has allocated 15
1291 percent of the total number of allowances toward this
1292 purpose. We believe the committee has made a reasonable
1293 allocation choice based on available information. However,
1294 due to the uncertainty surrounding indirect emissions, we
1295 urge continued study of this issue as the bill is further
1296 reviewed by Congress.

1297 We are, however, concerned that the current bill phases
1298 out the amount of allowances for energy-intensive and trade-
1299 exposed sectors before carbon leakage is addressed. We urge
1300 the committee to continue to study this issue to ensure that
1301 there is adequate allocation of allowances until such time
1302 that the carbon leakage problem is solved through an
1303 international agreement. If we do not properly address this
1304 issue, then we will fail to protect American jobs and the
1305 manufacturing sector.

1306 Also in April, I testified that the compensatory
1307 allowance provision for feedstock material was restrictive to

1308 the point where no company would be able to claim a single
1309 allowance for using fossil energy in non-emissive ways. We
1310 would like to thank the committee for modifying that
1311 provision which we now believe does not punish those
1312 companies that use hydrocarbons as raw materials to make non-
1313 emissive products.

1314 One of the easiest ways to meet aggressive short-term
1315 emission reduction targets is through fuel switching from
1316 coal to natural gas in the power sector. Too strong a price
1317 signal on carbon would accelerate this movement which is
1318 already underway, even in the absence of climate change
1319 legislation. If fuel switching is excessive, demand for U.S.
1320 natural gas will rise and American manufacturers that depend
1321 upon this energy source will suffer. Dow supports the
1322 allocation of some portion of free allowances to coal-fired
1323 power generation to help minimize fuel switching.

1324 For the same reason, we also support the allocation of
1325 bonus allowance to promote carbon capture and storage
1326 deployment. It is critically important that the bill be
1327 designed to minimize the cost imposed on U.S. manufacturers.
1328 That is why we should not assume allowance allocation alone
1329 can address all the challenges posed by cap and trade for the
1330 manufacturing sector. For instance, compensatory allowances
1331 will not cover all the fossil energy Dow purchases as a

1332 feedstock material. Likewise, allowance allocation will
1333 lessen but it won't eliminate fuel switching from coal to
1334 natural gas. Therefore, in order to complement allowance
1335 allocation measures and to keep U.S. manufacturers globally
1336 competitive, we think it would be better for the 2020 target
1337 to reflect the 14 percent reduction from 2005 levels rather
1338 than a 17 percent reduction. We also believe the bill's
1339 excessive procedural hurdles on offsets will result in high-
1340 quality legitimate offsets being excluded.

1341 Mr. Chairman, we commit to working with you and others
1342 to further refine the basic provisions to assure the
1343 competitiveness of energy-intensive and trade-exposed
1344 industries. I thank you for the time today. I would be
1345 happy to answer your questions when appropriate.

1346 [The prepared statement of Mr. Wells follows:]

1347 ***** INSERT 2 *****

|
1348 Mr. {Markey.} Thank you, Mr. Wells, very much.

1349 Let me turn now to Mr. Terry to introduce our next
1350 witness.

1351 Mr. {Terry.} I am pleased I gave him a pretty good
1352 introduction for time allowed but I want to once again
1353 welcome and thank a good friend and constituent, David Sokol,
1354 CEO of Mid American Energy, who has great insight into the
1355 issues facing electrical generation. Thank you, David.

|
1356 ^STATEMENT OF DAVID SOKOL

1357 } Mr. {Sokol.} Thank you, Congressman. Thank you, Mr.
1358 Chairman. As the Congressman said, I am Dave Sokol, chairman
1359 of Mid American Energy Holdings Company, part of Berkshire
1360 Hathaway, and we have \$41 billion in energy assets in 20
1361 States and around the world, serving 7 million end-use
1362 customers. Our two domestic utilities service retail
1363 electric and natural gas customers in 10 States and our
1364 generation capacity consists of about 22 percent renewables,
1365 48 percent coal, 24 percent natural gas and the remainder
1366 nuclear.

1367 I want to be absolutely clear at the outset, cap and
1368 trade is two concepts. As we have consistently stated, the
1369 electricity sector can meet the interim and ultimate caps of
1370 reducing greenhouse gas emissions to 80 percent below 2005
1371 levels by 2050. But the bill's trading mechanism will impose
1372 a huge and unacceptable double cost on our customers, first,
1373 to pay for emissions allowances, which will not reduce
1374 greenhouse gas emissions by one ounce, and then the
1375 construction of new low- and zero-carbon power plants and
1376 other actions that will actually do the job of reducing these
1377 emissions. This bill will cost hundreds of billions of

1378 dollars and we think it is wrong to saddle customers with
1379 these unnecessary and duplicative costs that provide them
1380 with absolutely no benefit. Some Congressmen claim that the
1381 cost of compliance with this bill will be zero or modest at
1382 worst. They are wrong, either because they have not read the
1383 bill or they have chosen to intentionally mislead the public
1384 on this topic. The cost impact of the allowance trading
1385 mechanism has been grossly understated for utilities with
1386 coal-fired generation. Under the allowance allocation
1387 formula, we calculate strictly pursuant to the bill that our
1388 2012 allowance shortfall will be nearly 50 percent, not 10
1389 percent. This represents 32.4 million allowances which at
1390 \$25 per allowance will cost our customers in the first year
1391 alone \$810 million. That would essentially create a tax
1392 between 12 and 28 percent in the States that we serve. That
1393 is just for the first year and a very conservative estimate
1394 of \$25 per allowance, and as you know, some predict market
1395 prices to be two to four times higher. As the cap tightens
1396 and auctions increasingly replace free allocations, annual
1397 compliance costs will run into the tens of billions of
1398 dollars. But as they say, the devil is in the details so let
1399 us take a closer look at the bill.

1400 In the first year, the bill creates 4.6 billion
1401 allowances, takes off 1 percent for strategic reserves and

1402 then gives the electricity sector a percentage that amounts
1403 to 2 billion allowances. Now, the sector's total greenhouse
1404 gas emissions in 2005 were 2.4 billion tons, so the 2 billion
1405 allowances constitute a 16.7 percent shortfall. The bill
1406 then gives an estimated 300 million allowances to merchant
1407 coal generators and other long-term power purchase agreements
1408 which will therefore not be utilized for the benefit of
1409 customers and that leaves local distribution companies with
1410 about 1.7 billion allowances, a 30 percent cut below the
1411 sector's 2.4 billion tons of emissions, not a 10 percent cut.

1412 But there are other cuts as well. For example, our two
1413 utilities have added about 2,000 megawatts of wind generation
1414 since 2004. We are the largest utility owner of wind
1415 generation in the United States. How does that bill treat
1416 our customers for their early action and willingness to move
1417 on climate change by adding wind and reducing carbon
1418 emissions? The bill penalizes them. And under your bill,
1419 utilities, the ones that actually need the allowances for
1420 compliance, will be forced to compete with Wall Street
1421 investment banks, hedge funds and speculators. Those folks
1422 don't generate electricity, they don't cut emissions but they
1423 do love volatility.

1424 The bill's supporters also point to the SO₂ trading
1425 program as a successful template for this bill. Let us be

1426 clear: the only similarity between the SO2 program and the
1427 Waxman bill is that they are both called cap and trade. The
1428 differences are huge. First, the SO2 program applied only to
1429 the utility sector, not economy wide. Secondly, the volume
1430 of trading in the carbon market will be at least 300 times
1431 greater than the SO2 market. Third, the SO2 program, when it
1432 started, plant owners had choices. They could implement off-
1433 the-shelf available technology, switch to lower-sulfur fuels
1434 or buy allowances. Today there is no commercially available
1435 technology to capture and sequester carbon from coal and
1436 natural gas plants, and as you know, they produce 70 percent
1437 of our Nation's electricity. And fourth, 97 percent of the
1438 SO2 allowances went to the utilities and were freely
1439 distributed over the life of that program, again, not the
1440 case here. And then lastly, the proceeds from the SO2
1441 auction were redistributed to the utilities to offset their
1442 cost of compliance, again, not so here with CO2.

1443 As we have said, the billions of dollars we pay for
1444 these allowances in this new market will not reduce our
1445 greenhouse gas emissions by one ounce. Only actions to
1446 actually meet emissions caps will do that. If your goal is
1447 to decarbonize the electric power sector, then you should
1448 keep the long-term caps but give States the option to bypass
1449 this trading mechanism by using their existing State and

1450 federal regulatory framework to determine the most efficient
1451 way to get there. This tackles the real problem, or at least
1452 the problem we thought, which was reducing greenhouse gas
1453 emissions, but it eliminates the costly and useless allowance
1454 trading. Is this still going to be expensive? Yes, but let
1455 us not make the consumer pay twice to reach these goals.

1456 Thank you. I would be happy to take any questions.

1457 [The prepared statement of Mr. Sokol follows:]

1458 ***** INSERT 3 *****

|
1459 Mr. {Markey.} Our next witness is Mr. Steve Cousins,
1460 the vice president of refining for Lion Oil and chairman of
1461 the National Petrochemical and Refiners Association
1462 Manufacturing Committee. We welcome you, sir.

|
1463 ^STATEMENT OF STEVE COUSINS

1464 } Mr. {Cousins.} Thank you, Chairman Markey, Ranking
1465 Member Upton and members of the subcommittee. My name is
1466 Steve Cousins. I am the vice president of refining for Lion
1467 Oil Company. My training is as a chemical engineer and I
1468 have spent my 31-year professional career at our El Dorado,
1469 Arkansas, refinery, which has been in operation for 85 years.
1470 Our refinery produces approximately 70,000 barrels per day
1471 and our main products are gasoline, diesel fuel and asphalt.
1472 We employ 1,200 people directly at our unionized El Dorado
1473 facility and there are approximately 3,600 other individuals
1474 that dependent indirectly on our plant for their livelihoods,
1475 and like many in the audience here today, we wear hardhats to
1476 work too. We aren't Big Oil. We are a small rural oil
1477 refiner.

1478 The subject of this hearing is extremely important to
1479 Lion Oil. In our opinion, the proposed allocation of
1480 allowances will result in the shuttering of our refinery and
1481 the loss of the 1,200 jobs we have worked for decades to
1482 bring to and sustain in southern Arkansas. If Congress
1483 includes transportation fuels in a cap-and-trade program and
1484 makes refiners hold allowances for those products, it must

1485 provide the industry with a fair and equitable allowance
1486 allocation.

1487 According to EPA's best estimates, the combined carbon
1488 dioxide emissions for domestic petroleum refineries and the
1489 consumer combustion of refined products constitute
1490 approximately 35 percent of the Nation's current CO2
1491 emissions. These emissions also represent 52 percent of the
1492 legislation's total emissions allowance pool, and yet the
1493 bill, as currently drafted, only provides our industry with 2
1494 percent of the CO2 emissions allowances. Compare that a
1495 proposed allocation to other industries. Electric generators
1496 will receive allocations for 90 percent of their CO2
1497 emissions. So-called energy-intensive industries will
1498 receive allocations for 100 percent of their CO2 emissions.
1499 And remarkably, domestic auto manufacturers which are not
1500 responsible for the CO2 emissions from their vehicles at all
1501 will also receive a larger allocation for CO2 emissions than
1502 refiners.

1503 Simply stated, American refiners like our business are
1504 dramatically shortchanged in this bill. I am not an
1505 economist but I strongly believe that if the bill's current
1506 allocations stand, the impact on Lion Oil will be profound.
1507 At a cost of \$20 a ton, Lion Oil will have to spend \$180
1508 million a year to purchase allowances in the first years of

1509 the cap-and-trade program just to cover our obligation for
1510 consumer emissions for fuels. Further into the program, our
1511 company could be forced to spend \$750 million by the year
1512 2030 and nearly \$2 billion a year by the year 2050. Over the
1513 last 23 years, Lion Oil's actual average net profits have
1514 been \$13 million per year. It is not hyperbole to say that
1515 the addition of \$180 million per year to the operating costs
1516 of a refinery that averages \$13 million a year in profit will
1517 make our survival impossible. We cannot offset these large
1518 carbon costly profits from other lines of business. We don't
1519 have gasoline stations, we don't have oil wells. Lion is a
1520 small, independent refiner. We are not a big oil company.
1521 Our operation has to pay for itself or the plant cannot
1522 continue to operate. In short, without a fair and equitable
1523 allowance allocation, our company will be unprofitable in
1524 year one and insolvent within a matter of months, not years.

1525 Proponents of this bill suggest that we will simply pas
1526 the compliance costs through to consumers in the form of
1527 higher retail pump prices for gasoline and diesel. Even
1528 assuming that 90 percent of the carbon costs could be passed
1529 through, the remaining 10 percent, or \$18 million per year,
1530 is still 150 percent of our annual profit. No company can
1531 survive those kind of negative financial results for long.

1532 Foreign refiners already have a competitive advantage

1533 over American businesses. This bill would effectively
1534 outsource our energy future and eliminate hundreds of
1535 thousands of American jobs in our industry as well as those
1536 in companies that rely on our industry. There is a new
1537 refinery in India and it is already expanding to over 1
1538 million barrels per day. It is not designed to sell any
1539 product in India, it is designed to sell its product in the
1540 United States and Europe. They don't have to meet the U.S.
1541 EPA standards. They don't have to meet U.S. OSHA standards.
1542 They don't have to compensate for their onsite CO2 emissions.
1543 They would be more than happy to take the place of Lion Oil
1544 and 15 other small refiners in this country.

1545 In closing, I would simply stress that this legislation
1546 should not be passed in its current form to protect the
1547 quality jobs we provide, to protect consumers, farmers and
1548 truckers that we supply from higher gasoline and diesel fuel
1549 prices.

1550 I appreciate the opportunity to appear before you today.
1551 I look forward to any questions you may have.

1552 [The prepared statement of Mr. Cousins follows:]

1553 ***** INSERT 4 *****

|
1554 Mr. {Markey.} Thank you, Mr. Cousins, very much.

1555 Our next witness is Mr. Tommy Hodges. He is the
1556 chairman of Titan Transfer Incorporated and will speak today
1557 on behalf of the American Trucking Association. We welcome
1558 you, sir.

|
1559 ^STATEMENT OF G. TOMMY HODGES

1560 } Mr. {Hodges.} Thank you, Mr. Chairman, Ranking Member
1561 Upton and other members of the committee. My name is Tommy
1562 Hodges. I am chairman of Titan Transfer out of Shelbyville,
1563 Tennessee, a nationwide truckload carrier hauling all type of
1564 goods all across the country. I also come on behalf of the
1565 American Trucking Association as first vice chairman of that
1566 association and also as chairman of the ATA's sustainability
1567 task force, an effort that we have made over 2 years ago to
1568 try to reduce our carbon footprint.

1569 Mr. Chairman, we are an industry of small businesses.
1570 Roughly 96 percent of all trucking companies in America have
1571 20 or fewer trucks and are considered by any standard small
1572 businesses. Our industry operates on margins on fractions of
1573 cents. We are a penny industry that handles dollars in and
1574 hopes a few pennies stick to the bottom line. We are
1575 especially vulnerable to fluctuations that are sudden and out
1576 of our control in our operating expenses, as we have
1577 witnessed in 2007 and 2008, over 5,000 small trucking
1578 companies going out of business and much of that can be
1579 traced back to the volatility of fuel of 2008.

1580 Since 1998, the trucking industry has been a major

1581 contributor and participant in cleaning up in our atmosphere.
1582 Over 90 percent of the particulate matter and nitrous oxides
1583 have been eliminated from our exhaust pipes at a tremendous
1584 cost. A catalytic converter on a new truck costs me as an
1585 investor in that equipment \$9,700. We cannot continue to add
1586 costs on an industry that is so vital to our economic engine.
1587 Let me my company as an example. We have a little over 400
1588 trucks based on Shelbyville. We drive about 36 million miles
1589 a year and we use a little over 5 million gallons of fuel. A
1590 sudden impact on that when we operate on pennies puts us out
1591 of business. We cannot afford to do that. Speculation in
1592 the carbon markets will add to the volatility of this fuel
1593 and drive more companies out of business. The Nation's long-
1594 haul trucking industry depends on diesel fuel. We are not
1595 recreational users. We don't choose to go to the movie house
1596 in our trucks. We use the fuel to deliver products and
1597 services to the American public. We don't make useless
1598 trips. We would be out of business if we did so.

1599 One of our biggest concerns about H.R. 2454 is that none
1600 of the generation of monies from the sale of these carbon
1601 taxes or carbon credits will go to fix one of the critical
1602 problem we have in the Nation, and that is the lack of
1603 capacity on our highways, congestion. We waste about 62
1604 billion gallons of fuel over a 10-year period by going

1605 nowhere, stuck in traffic. Nothing that we have read in this
1606 bill solves one bit of that problem. We think it is
1607 imperative that that gets addressed.

1608 Mr. Chairman, as the previous Mr. Cousins indicated,
1609 when 30 to 35 percent of our carbon problem is generated by
1610 petroleum-based burning, whether that is in our trucks or
1611 whatever use, and we only give a 2 percent credit to that
1612 industry, we are mandating volatility. We will have no
1613 choice. We will again drive small businesses out of
1614 business. The allocation shortfall will have a dramatic
1615 impact upon the price of petroleum derived from fuel and will
1616 negative impact the trucking industry and the U.S. economy by
1617 adding another layer of volatility to the price of fuel.
1618 Special consideration should be given to diesel fuel if
1619 nothing else under H.R. 2454 because of its critical nature
1620 of moving America's goods. We have a saying in our industry,
1621 and it is simply that without trucks, America stops. We
1622 believe that. Trucking is and will remain the predominant
1623 means of moving the Nation's freight.

1624 We must be careful not to inhibit the ability of the
1625 Nation's trucking fleets to afford fuel purchases in order to
1626 keep up with business and consumer demands for products. If
1627 the diesel fuel prices are not kept in check, the movement of
1628 the Nation's freight will be impeded and the very core of the

1629 Nation's economy impacted. One might ask how. In our area
1630 of the woods, there is a little plant in Red Boiling Springs
1631 called Nestle's and they make water, and all of us got
1632 addicted to carrying around a bottle of water, and that
1633 bottle of water is far more expensive than diesel fuel but we
1634 still spend and buy it, and most of the times we will buy a
1635 bottle for 99 cents. If that bottle suddenly costs us a
1636 dollar, you may not buy that bottle of water, but with little
1637 thought that you just put somebody out of a job in Red
1638 Boiling Springs. And some of the proponents may ask quickly,
1639 well, they will find another job in a green industry. There
1640 is no other industry in Red Boiling Springs, Tennessee.

1641 Mr. {Markey.} Can you summarize, please, Mr. Hodges?

1642 Mr. {Hodges.} Yes. Mechanisms should be put in place
1643 to ensure fuel emissions and allowances that in fact keep
1644 prices in check.

1645 Thank you, Mr. Chairman. This concludes my oral remarks
1646 and I would encourage each member to read and study my
1647 written testimony and would be happy to provide ATA's
1648 sustainability task force reports to committee members.

1649 [The prepared statement of Mr. Hodges follows:]

1650 ***** INSERT 5 *****

|
1651 Mr. {Markey.} Thank you, Mr. Hodges, very much.

1652 Our next witness is Mr. David Montgomery. He is the
1653 vice president of Charles River Associates and co-head of
1654 their energy and environment practice. Welcome, sir.

|
1655 ^STATEMENT OF DAVID MONTGOMERY

1656 } Mr. {Montgomery.} Thank you, Mr. Chairman. I am
1657 honored by your invitation to appear today. Although I am
1658 the vice president of Charles River Associates, I am speaking
1659 to my own conclusions today as an economist. I have actually
1660 worked on the subject of emission trading for close to 40
1661 years, I made the unfortunate calculation, starting with my
1662 Ph.D. thesis that turned into the first rigorous theoretical
1663 analysis of how a cap-and-trade program could actually be
1664 made to work.

1665 My testimony today is based on some of the findings in a
1666 report that was recently authorized by several of us at
1667 Charles River Associates and I would like to submit that for
1668 the record as well as my testimony in order to try to provide
1669 backup for the statements.

1670 Mr. {Markey.} Without objection, it will be included in
1671 the record.

1672 Mr. {Montgomery.} Thank you. I think the most
1673 important point in my testimony is that no distribution of
1674 allowance value can eliminate all of the costs of capping
1675 emissions. Free allowances can only eliminate the necessity
1676 of paying the government for permission to emit up to the

1677 level of the cap. But even if allowances are free,
1678 businesses and consumers must still bear the costs of the
1679 actions that they need to take to get emissions down to the
1680 cap. I think this is the point also made by Mr. Sokol and I
1681 think he is absolutely right on that.

1682 The cost of bringing emissions down to the cap is
1683 reflected in reductions in GDP and household consumption.
1684 Allocations do shift who bears the burden across industries,
1685 regions and income groups as would decisions about how to
1686 spend or return to taxpayers the revenues from allowance
1687 auctions but it is important to keep in mind that there is
1688 never enough to go around in the allowance value and
1689 completely insulating some parties only increases the share
1690 of the cost of achieving the cap must be borne by others.
1691 The cost for the average family would be significant even
1692 after taking into account free allocations and spending of
1693 auction revenues. These impacts can't be predicted with
1694 certainty but taking into account all of the provisions of
1695 the bill in our analysis on average nationwide the cost per
1696 household in 2020 could be from \$600 to \$1,600 per household,
1697 and we base this range on what I think are reasonable
1698 assumptions at both ends of the range.

1699 It is also important not to be deceived by these
1700 averages in looking at the impacts on any particular sector

1701 or group. The cost, for this hearing, I have taken a closer
1702 look at the regional impacts of H.R. 2454, taking into
1703 account the 50/50 formula for allowance allocations to local
1704 distribution companies in particular. Even with those
1705 allowance allocations, our analysis suggests that the
1706 regional impacts would be unequal and uneven. Impacts on
1707 household income differ across regions and appear regressive
1708 based on regional average income and the magnitude of cost
1709 increases. The wealthiest regions, Northeast, Mid-Atlantic
1710 and California, have the lowest cost and the two least
1711 wealthy regions, which in our analysis are Oklahoma, Texas
1712 and the Southeast, have the highest cost per household. The
1713 free allocations to electric local distribution companies
1714 according to the formula will also lead to different
1715 increases in electricity rates in different regions.
1716 Interestingly, there also seems to be an inverse relationship
1717 between regional income and the benefits of free allowances.
1718 The Southeast has the lowest average regional income and a 15
1719 percent increase in electricity costs while the Northeast has
1720 the highest average regional income and nearly no increase in
1721 electricity costs.

1722 International offsets and allocations to tropical
1723 deforestation also play a huge role in H.R. 2454. All the
1724 economic impacts I have discussed would be much larger if the

1725 full amount of international offsets allowed by the bill does
1726 not become available, and I think there is some significant
1727 questions that have been raised by recent studies about
1728 whether the countries that are suffering now from the highest
1729 rates of deforestation and forest degradation have the
1730 institutional capacity to meet the requirements of ACES for
1731 governance of those forests.

1732 Let me turn to another topic that I think is quite
1733 important. Despite some claims to the contrary, how
1734 allowances are allocated can have effects on the overall
1735 economy. It depends on the allocation formula. In
1736 particular, thinking about the allocations to LDCs, if free
1737 allowances are used to reduce energy prices seen by
1738 consumers, the incentive to conserve energy will be reduced
1739 and the costs of complying with H.R. 2454 will increase. Two
1740 other use of allocations can also increase economic impacts.
1741 Technology subsidies that lead to uneconomical choices of
1742 technology such as bonus allowances for CCS or use of
1743 allocations to interfere with the economics of fuel switching
1744 will raise costs. Output-based allowances to industries can
1745 also lead to uneconomic choices in the level of output.

1746 The output-based award of allowances to specific trade
1747 impact of industries has been mentioned a couple of times
1748 today but it appears to me based on the work we have done on

1749 trade issues that it would be in direct violation of the WTO
1750 agreement on subsidies and countervailing measures. It would
1751 likely to be ruled an actionable subsidy if any other country
1752 were to challenge it before the WTO. Everything about the
1753 WTO is murky but this possibility seems to have gone
1754 unrecognized. It needs to be carefully considered, otherwise
1755 we might pass a bill into law that we later discover doesn't
1756 have any real trade protection at all.

1757 If any of these problems materialize, limited
1758 availability of international offsets, distortions created by
1759 free allocations, and I would also mention, I discuss in my
1760 testimony, unnecessary regulatory measures that could raise
1761 costs by imposing the judgment of Congress and government
1762 agencies over the judgment of consumers in response to a cap-
1763 and-trade program, and the bill contains many regulatory
1764 measures but the idea of a cap-and-trade program is to put a
1765 price out there and let individual businesses and consumers
1766 make the decision. I am in favor of letting the market work
1767 that way but those regulatory measures, if they become
1768 binding, could significantly increase the cost of the bill
1769 and change it. Anyway, if any of these materialize, then the
1770 cost of reducing emissions to the stated caps will increase.
1771 I think that is relevant to the topic today because the
1772 higher the cost is of getting emissions down to the cap, the

1773 harder it is to use allocations to insulate needy portions of
1774 the economy from the cost and larger will be the cost that
1775 those who do not get free allocations have to bear.

1776 Thank you, Mr. Chairman.

1777 [The prepared statement of Mr. Montgomery follows:]

1778 ***** INSERT 6 *****

|
1779 Mr. {Markey.} Thank you, Mr. Montgomery, very much.

1780 Our next witness is Nat Keohane, an economist and

1781 director of economic policy and analysis for the

1782 Environmental Defense Fund Climate and Air Program. We

1783 welcome you, sir.

|
1784 ^STATEMENT OF NAT KEOHANE

1785 } Mr. {Keohane.} Thank you, Mr. Chairman and
1786 distinguished members of the subcommittee for holding this
1787 hearing. I am honored to be here today. I will add, I am
1788 also an economist by profession and training and have worked
1789 on cap-and-trade markets, although I can't claim to have the
1790 40 years behind me that--when Dr. Montgomery was writing his
1791 thesis, I was yet to be born, so that is an interesting
1792 contrast.

1793 So with the--

1794 Mr. {Markey.} I am with you, Mr. Montgomery.

1795 Mr. {Keohane.} With the proposed legislation that is
1796 the subject of this hearing, Congress has an unprecedented
1797 opportunity to put the American economy on a stronger footing
1798 for the 21st century. A cap on carbon will harness the
1799 efforts of entrepreneurs and innovators throughout our
1800 economy, ensuring that America will lead the world in making
1801 the next generation of clean energy technologies, and the
1802 investment unleashed by a carbon cap will help jump-start our
1803 economy today while paying rich dividends later in the form
1804 of cleaner air, enhanced energy security and most of all, a
1805 livable planet to pass on to our children and grandchildren.

1806 In the process, a carbon cap will transform a common
1807 resource into a valuable asset. That asset is a public trust
1808 and allocating its value wisely and equitably is a crucial
1809 test of any climate bill. So what are the principles any set
1810 of allocations should reflect? First, a substantial portion
1811 of the allowance value should go to energy consumers,
1812 particularly low-income households. Second, the allocations
1813 should preserve and strength international competitiveness of
1814 American businesses and workers during the transition to a
1815 clean energy economy. Third, the allocation must be fair and
1816 equitable, respecting differences across States and regions.
1817 Fourth, the integrity and credibility of the program must be
1818 preserved. Allowances that are intended for the benefit of
1819 consumers must be accompanied by strong safeguards to ensure
1820 that consumers receive the value, and while some allowances
1821 may fairly be allocated to industries in order to smooth the
1822 transition to a clean energy economy, Congress must avoid
1823 giving windfall profits to industry. Finally, the
1824 allocations should use some value to help advance the
1825 underlying objectives of the legislation such as investment
1826 in clean energy and for adaptation. These principles are
1827 consistent with the blueprint for legislative action that the
1828 business and industry coalition, U.S. CAP, has put forward,
1829 and the bill performs well on each of them.

1830 First, energy consumers will receive ample protection
1831 against increases in cost. For the first part of the
1832 program, 40 percent of the allowance value will directly
1833 benefit energy consumers, households, small business and
1834 industrial users. In addition, a full 15 percent of the
1835 allowance value will be given to low- and moderate-income
1836 households. The Center for Budget and Policy Priorities
1837 estimates that this amount is sufficient to fully compensate
1838 those low-income households for higher energy costs.
1839 Finally, nearly 20 percent of the value of allowances over
1840 the whole period will be returned to all households in the
1841 form of tax rebates. When you add it all up, about 44
1842 percent, nearly half of the total allowance value, goes
1843 directly to households in the form of tax rebates or lower
1844 utility bills. That amounts to an estimated \$700 billion in
1845 present value using EPA's projected allowance prices. So
1846 that is the first principle.

1847 What about the second? Well, the Inslee-Doyle provision
1848 directs up to 15 percent of allowances in the early years to
1849 energy-intensive trade-exposed industries, and EPA estimates
1850 that this provision will fully compensate those industries
1851 for their increased costs. Third, the bill strikes an
1852 equitable balance across regions. This is done, as we have
1853 heard, by allocating half of the allowances for the

1854 electricity sector on the basis of carbon dioxide emissions
1855 and half on the basis of electricity generation. But more
1856 broadly, regional equity is ensured by the use of multiple
1857 channels, for example, combining direct tax rebates for
1858 households with reductions in utility bills. Fourth, the
1859 legislation ensures that allowance value intended for
1860 consumers will reach them. Allowances will be allocated to
1861 local distribution companies with clear and stringent
1862 provisions requiring those LDCs to demonstrate how they will
1863 pass on the value to consumers before they can receive a
1864 single allowance. Finally, over one-quarter of the allowance
1865 value over the life of the bill will fund public purposes to
1866 help achieve the broader environmental objectives. These
1867 include funding for clean energy innovation, for carbon
1868 capture and sequestration, for investments in renewable
1869 energy and energy efficiency, and adaptation.

1870 In sum, this legislation satisfies the five principles I
1871 laid out and does so with flying colors, but in a sense, the
1872 true test of the allocation scheme boils down to just one
1873 number: the estimated cost to American households. The best
1874 estimate we have is from a recent analysis by the
1875 Environmental Protection Agency of the bill. You will hear
1876 groups on both sides including the prior witness come up with
1877 other numbers but the EPA relied on the gold standard, two of

1878 the best and the most widely respected peer-reviewed economic
1879 models available, and what they found--and by the way, they
1880 only looked at the costs to households. They did not look at
1881 the benefits in the form of enhanced energy security and
1882 cleaner air and averting catastrophic consequences of climate
1883 change, only looking at the costs. The EPA estimated the
1884 average cost of the average household at just \$98 to \$140 per
1885 year in present value. One way to think of it, that is 27 to
1886 38 cents a day for the average American family, or less than
1887 a postage stamp. It is also, and I have done this before but
1888 I will do it again to make it concrete, it is about 13 cents
1889 per person per day, a little more than a dime a day. A big
1890 part of the reason these estimated costs are so low is
1891 because they take into account that much of the value of
1892 allowances will go back to households, and while the EPA
1893 specifically analyzed the discussion draft, it has reported
1894 that the estimated household costs are likely to be even
1895 lower once all the provisions of the current legislation are
1896 taken into account.

1897 Mr. Chairman, environmental organizations like mine are
1898 quick to criticize Congress when public policy diverges from
1899 what we see as the public interest. In this case, however,
1900 this committee got it right. The proposed allocations will
1901 keep costs low for consumers, ensure a level playing field

1902 for American industry and promote investment in a clean
1903 energy future, all while preserving the environmental and
1904 economic effectiveness of this legislation.

1905 Thank you for inviting me to testify. I look forward to
1906 your questions.

1907 [The prepared statement of Mr. Keohane follows:]

1908 ***** INSERT 7 *****

|

1909 Mr. {Markey.} We thank you very much.

1910 Our final witness is the Reverend Dr. Mari Castellanos,

1911 and she is a minister for public advocacy with the Justice

1912 and Peace Ministries of the United Church of Christ. We

1913 welcome you.

|
1914 ^STATEMENT OF MARI CASTELLANOS

1915 } Rev. {Castellanos.} Good morning, Chairman Markey,
1916 Ranking Member Upton, Ranking Member Barton and other members
1917 of the committee, thank you very much. Thank you for the
1918 invitation to testify today. It is a pleasure to be here,
1919 and I am honored to be here this morning representing the
1920 National Council of Churches.

1921 The church is going to address the issue of climate
1922 change to remain faithful to our teachings about justice and
1923 stewardship. The Bibles teaches us to love our neighbors as
1924 ourselves, to protect and provide for those living in poverty
1925 and to tend for God's creation in a manner that recognize the
1926 beauty and the bounty that the Lord has blessed us with.
1927 Climate change is a moral issue and a reflection of our
1928 failure to live out God's call. Diverse faith traditions
1929 including Catholics, Protestants and Jews have recognized the
1930 importance and necessity of reducing our greenhouse gas
1931 emissions to a level that will prevent the worst impacts of
1932 climate change.

1933 A recent report by the Global Humanitarian Forum paints
1934 a bleak picture of the impact that climate change is having
1935 and will continue to have on God's creation and God's people.

1936 The findings indicate that every year climate change leaves
1937 over 300,000 people dead, 325 million seriously affected and
1938 creates economic losses of \$125 billion. These are
1939 astonishing numbers but they provide the quick realization
1940 that climate change is not any longer something that may
1941 happen but rather it is already happening, and we must act
1942 decisively to prevent the worst impacts while protecting the
1943 most vulnerable.

1944 Rosemary Miega is one individual whose story comes to
1945 mind. A middle-aged Ugandan woman after retiring from
1946 government work, Rosemary started her own farming
1947 cooperative. After 5 successful years of Rosemary working
1948 with local farmers in her region, helping them increase their
1949 profits, the rain patterns in Uganda began to shift. What
1950 had been a flourishing, self-sufficient farming community
1951 became impoverished almost overnight. Churches and non-
1952 governmental organizations around the world are working to
1953 help communities adapt to changes in their local environment
1954 but it is not enough. Estimates indicate that \$86 billion
1955 per year will be needed to help developing countries adapt to
1956 climate change. As the world's largest historical emitter of
1957 greenhouse gases, it is morally imperative for us to provide
1958 a response that is adequate to their needs and proportional
1959 to our share of the emissions.

1960 This is why ample international adaptation assistance
1961 must be included in any climate legislation the United States
1962 puts in place. At a bare minimum, the United States should
1963 provide \$7 billion a year to the most vulnerable developing
1964 nations, those who are suffering and will suffer from the
1965 impacts of climate change we can no longer reverse. This is
1966 an issue of justice and moral responsibility. It is also an
1967 issue of global security and stability. Our willingness to
1968 adequately assist our global neighbors in their time of need
1969 will be a direct reflection of our ability to accept
1970 responsibility for our past actions and will play a critical
1971 role in the development of a successful global agreement that
1972 addresses climate change.

1973 As the United Nations currently negotiates the post-
1974 Kyoto treaty, it is vital for the United States to commit to
1975 a more equitable response. For the United States to be seen
1976 as a good global neighbor, we must provide financial
1977 assistance to developing countries through both bilateral and
1978 multilateral agreements. For too long we have dragged our
1979 feet. If we are to be taken seriously, we must bring
1980 something substantial to the table. The inclusion of
1981 responsible international adaptation assistance will help to
1982 maintain both economic stability and global security. We
1983 truly live in a global village and depend on all our

1984 neighbors for our prosperity. International adaptation
1985 assistance will ensure the economic and political stability
1986 of developing nations. The committee's inclusion of
1987 equitable international adaptation assistance in the American
1988 Clean Energy and Security Act would be a compassionate, just
1989 and appropriate step forward to meet the severe needs of
1990 those who are already suffering and at risk.

1991 Mr. {Markey.} If you could summarize, please?

1992 Rev. {Castellanos.} While we are thankful to the
1993 committee for its support of this critical component, we do
1994 fear that the amount of money available to this program is
1995 insufficient to meet the present and growing needs of the
1996 communities around the world.

1997 Thank you very much, and may God bless your endeavors.

1998 [The prepared statement of Rev. Castellanos follows:]

1999 ***** INSERT 8 *****

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2000 Mr. {Markey.} Thank you so much. Our committee needs
2001 God's blessing in terms of this legislation. Thank you.

2002 The Chair will recognize himself for a round of
2003 questions, and I will first note that in December of 2008 the
2004 price of a barrel of oil had gone down to \$30 a barrel. It
2005 is now up to \$69 a barrel. The price of gasoline at the
2006 pump, the national average was \$1.61 in December. It is now
2007 up to \$2.62, so it has gone up 80 cents, and this is as we
2008 are in the middle of the worst recession since World War II,
2009 so we can only assume that we are in the eye of the storm.
2010 We are heading back towards \$4-a-gallon gasoline. We are
2011 heading back towards \$147 a barrel for oil. So we need a
2012 plan and we can't run the risk of just living on this roller
2013 coaster. Our economy just rises and falls with the price of
2014 oil and held hostage by OPEC. So we need a plan and we need
2015 something that works.

2016 Your company, Mr. Farrell, generates power using a
2017 similar formula to Mr. Sokol's company. We have a formula in
2018 the legislation that follows the recommendation of the Edison
2019 Electric Institute that allocates 50 percent of electric
2020 power's allowances based on emissions and 50 percent based on
2021 retail electricity sales. Can you explain why you believe
2022 that formula, why EEI believes that formula is fair and what

2023 would happen in terms of EEI's support if we altered that
2024 formula?

2025 Mr. {Farrell.} Mr. Chairman, thank you for the
2026 question. The background for the formula is important I
2027 think to understand how it got to where it is. EEI has
2028 member companies from all across the country, represents all
2029 the regions, all different kinds of customers, has all
2030 different kinds of generation mix, some very heavy coal, some
2031 very heavy nuclear, some mixed like ours is, like some of Mid
2032 American's assets, and as we sat through a 2-year process to
2033 come up with a program that could allocate out the
2034 allowances, we came to a conclusion, the compromise that made
2035 sure that there was the most consumer protection across the
2036 Nation was to come up with this formula where half of the
2037 allowances came related to your sales and half of it came
2038 related to the way in which your power is generated, and that
2039 includes purchase power for utilities that don't own all of
2040 their generation, a very important component. But the key is
2041 not so much the allocation methodology, the breakdown between
2042 50 percent sales and 50 percent how your generation comes.
2043 It is the length of the timetables and the rapidity with
2044 which you have to meet the caps. So the longer the
2045 timetable, the more consumer protection and the lower the cap
2046 is or the higher the emissions allowed are over the period of

2047 time, the greater the consumer protections, and that is why
2048 our focus was on trying to get to 2025 before there was a
2049 phase-out. We were hopeful that the phase-out would be
2050 longer and we hoped that there would be improvements.

2051 But no one is requiring a utility--the mandate in the
2052 bill, as I understand it, is the cap, is a reduction of
2053 greenhouse gas emissions over a period of time. You are not
2054 required to take allowances. If you choose to change out
2055 your fleet over that period of time, you are free to do that
2056 so there wouldn't be any costs associated with allowances
2057 over that period of time as may have been suggested. So the
2058 key is, we were trying to come up with a methodology that
2059 would spread out the consumer protections across as many
2060 consumers as possible and to take into account the various
2061 generation mixes that exist in the United States. That is
2062 how we came up with the formula.

2063 Mr. {Markey.} Mr. Keohane, could you reflect on Mr.
2064 Montgomery's testimony? Tell me about past studies that have
2065 been conducted by his organization and generally how have
2066 past industry cost estimates compared to actual costs of
2067 programs under the Clean Air Act.

2068 Mr. {Keohane.} Thank you, Mr. Chairman. Yes, I think
2069 it is important to note a few things, and by noting these, I
2070 am just looking at the numbers. I don't mean to cast any

2071 aspersions on the intents or what Dr. Montgomery and his
2072 colleagues may have tried to do. But it is a fact that if
2073 you look, if you go back and look, every time there has been
2074 a climate change bill, there is a range of cost estimates and
2075 CRA is always on the high end of those cost estimates. Even
2076 more tellingly, we went back actually and we looked at a
2077 range of estimates that CRA had made of prior environment
2078 regulation, and again, in that case, every time CRA was on
2079 the high side, usually at the very high side, of those
2080 estimates of environmental regulation, sometimes several
2081 times, three to four or more times the costs that were
2082 estimated by EPA and independent government agencies, and
2083 when you go back and you compare those to the actual costs,
2084 CRA consistently was much, much higher than the actual costs.
2085 This is, by the way, a general trend and it is useful to
2086 mention because several researchers including some at
2087 Resources for the Future have gone back and compared actual
2088 costs of environmental regulation to predicted costs that
2089 were done at the time it was passed, and in an overwhelming
2090 majority of the cases, particularly for market-based
2091 regulation, the estimates that were made at the time of
2092 legislation, even by government agencies like EPA, turned out
2093 to be much higher than the actual costs. I will give one
2094 estimate. We have heard about the SO2 allowance program.

2095 That turned out to be less than 30 percent of the cost that
2096 was estimated by EPA on the eve the legislation was passed.
2097 So I think if we take that pattern, what we learn from the
2098 past record is that estimates and particularly by CRA but
2099 frankly by everybody have turned out to be overestimates of
2100 the cost of environment regulation, and the reason is, they
2101 can't take into account technological innovation. Thank you.

2102 Mr. {Markey.} Thank you, Mr. Keohane.

2103 I am going to have to recognize--my time is expired. I
2104 am sure that there are members who are going to give you
2105 plenty of time--

2106 Mr. {Barton.} Mr. Chairman, I think since he made a
2107 direct comment against Mr. Montgomery, Mr. Montgomery ought
2108 to have a right to respond to what he just said.

2109 Mr. {Markey.} Well--

2110 Mr. {Barton.} I ask unanimous consent that the chairman
2111 has an additional 2 minutes so that Mr. Montgomery can
2112 respond.

2113 Mr. {Markey.} If the gentleman would like to yield me 2
2114 additional minutes, that would be great. I am not requesting
2115 it.

2116 Mr. {Barton.} You can object to it, Mr. Chairman.

2117 Mr. {Markey.} No, not at all. Mr. Montgomery?

2118 Mr. {Montgomery.} Thank you, Mr. Chairman. I

2119 appreciate your indulgence. But Mr. Keohane's statements
2120 about the comparison between CRA's estimates and analysis of
2121 the costs of climate legislation are simply not true. I am
2122 sure that we have been on different ends of the range of
2123 estimates at various points in time, and I am not sure I can
2124 even figure out what it was that he is referring to in our
2125 analysis of other environmental regulations.

2126 But let me point out what actually happened last year.
2127 This disturbs me because this calumny against CRA has been
2128 repeated over and over again, that we are consistently higher
2129 than everyone else, and we have actually responded to it for
2130 the record in the hearings that were held of the Lieberman-
2131 Warner bill, and I would like to submit again both the
2132 question and the answer for the record that we submitted when
2133 this came up in the Lieberman-Warner debate when my colleague
2134 Ann Smith was testifying. But the fact is that last year
2135 there were a number of studies that were done of the
2136 Lieberman-Warner bill. They differed a great deal. They
2137 differed mostly because people made different assumptions
2138 about what was in the bill. Many of the studies were looking
2139 at outdated versions of the bill. The Electric Power
2140 Research Institute, which is, I believe, an independent and
2141 objective research institution, part of the electric power
2142 industry, put on a forum in Washington where they brought all

2143 of the modelers who had actually produced analyses of the
2144 Lieberman-Warner bill, the Clean Air Task Force, the Energy
2145 Information Administration, the work that was sponsored by
2146 the National Association of Manufacturers, Massachusetts
2147 Institute of Technology with their EPO model, EPA and Charles
2148 River Associates. When you took the analyses that made
2149 similar assumptions and that characterized the bill in a
2150 similar way, we were dead in the center of those results. We
2151 have generally been dead in the center of any effort to look
2152 at our analysis that has compared comparable analyses that
2153 were looking at the same bills, the same carbon credits and
2154 the same characterization, for example, of how much offsets
2155 were available. So I object to the characterization that we
2156 have always been higher than anybody else in this analysis.

2157 Mr. {Markey.} The gentleman's time has expired. The
2158 Chair recognizes the gentleman from Michigan, Mr. Upton.

2159 Mr. {Upton.} Thank you, Mr. Chairman. I ask unanimous
2160 consent to put in a statement from Jim May, president and CEO
2161 of the Air Transfer Association of America, on allowance
2162 allocations, if I might.

2163 [The information follows:]

2164 ***** COMMITTEE INSERT *****

|
2165 Mr. {Markey.} Without objection, so ordered.

2166 Mr. {Upton.} I regret in my opening statement I
2167 referred to Mr. Sokol's testimony. I meant Mr. Cousins, so I
2168 apologize for that.

2169 Mr. Cousins, how much money have you all invested in
2170 environmental improvement projects at your refinery, and can
2171 you describe some of those improvements that you have made?

2172 Mr. {Cousins.} Well, first, that is the first and only
2173 time in my life I am going to be mistaken for somebody as
2174 articulate and intelligent as Mr. Sokol, so I appreciate
2175 that.

2176 We have spent somewhere upwards of \$300 million over the
2177 last 30 years on environmental projects. I do not have the
2178 exact number because some of the data is--

2179 Mr. {Upton.} And do you have an estimate of what this
2180 bill for you to stay in business--you indicated in your
2181 testimony that you would be out of business fairly short
2182 order, 1,200 jobs, but if you were able to stay in, what type
2183 of capital improvements would this bill require you to do in
2184 terms of cost?

2185 Mr. {Cousins.} Well, actually, in our business, since
2186 there is no way to reduce the carbon and hydrocarbon
2187 products, there really is no investment solution to fix this

2188 for us.

2189 Mr. {Upton.} You are just done?

2190 Mr. {Cousins.} Just buying the credits, which is \$180
2191 million a year and progressing on up to as high as \$750
2192 million or \$2 billion a year, which are far beyond our annual
2193 profits of \$13 million a year.

2194 Mr. {Upton.} Is your sense that what Jack Girard from
2195 the American Petroleum Institute said today that is quoted in
2196 the Washington Times, that allowances would mean increase as
2197 much as 77 cents a gallon for gas and diesel going up 88
2198 cents? Is that about right?

2199 Mr. {Cousins.} I have seen numbers that high. I have
2200 seen numbers as low as 20 cents a gallon and as high as the
2201 80-cent range. It is very difficult to predict. The carbon
2202 number portion you can predict. The ramifications of
2203 shifting most of this Nation's energy supply into the hands
2204 of a very few giant multinational corporations out of the
2205 hands of a more diverse group of smaller companies is hard to
2206 predict.

2207 Mr. {Upton.} And Mr. Hodges, what would an 88-cent
2208 increase for a gallon of diesel do to the trucking industry?

2209 Mr. {Hodges.} Well, it would take our number two cost
2210 and immediately push it to our number one cost. It would
2211 immediately start to drive trucking companies out of

2212 business, mostly those that are small and somewhat marginally
2213 capitalized.

2214 Mr. {Upton.} Mr. Sokol, you indicated in your remarks
2215 that you were figuring that it was going to cost \$810 million
2216 at \$25 a ton.

2217 Mr. {Sokol.} That is just for our regulated utility
2218 customers.

2219 Mr. {Upton.} Right, and I notice that, I guess it was
2220 Brookings that said Brookings estimates that the market could
2221 drive up the price of carbon dioxide allowance to as much as
2222 \$50 a ton by 2020, so I would presume that that would double
2223 the cost.

2224 Mr. {Sokol.} We have seen estimates between \$50 and
2225 \$125 a ton.

2226 Mr. {Upton.} And how much would that mean for the
2227 average consumer? Is it really 13 cents?

2228 Mr. {Sokol.} No, and those numbers--you know, you can
2229 make numbers say whatever you want. If you like, I can go
2230 through an example in the State of Iowa where while I
2231 actually live in Nebraska, we actually--Nebraska is 100
2232 percent public power State, which I point out public power
2233 associations and rural electric co-ops also oppose this bill
2234 for the same reasons we do, and the reason is, it throws the
2235 consumer under the bus. In Iowa, our cost increase just for

2236 784,000 customers is \$283 million in the first year just for
2237 the allocation purchases. That will be \$110 per month per
2238 customer. They can't afford it.

2239 Mr. {Upton.} Mr. Wells, last question as my time is
2240 coming up. You indicated in your testimony that you would
2241 support a carbon agreement to prevent carbon leakage.

2242 Mr. {Wells.} What we are saying is for trade-exposed
2243 energy-intensive industries, we need the 15 percent allowance
2244 until such time that there is agreement, international
2245 agreement to level the playing field.

2246 Mr. {Upton.} So if for some reason the WTO rules that
2247 either the border adjustment or free allowances are in fact
2248 unfair and need to be taken out, is Dow Chemical going to
2249 still support this bill?

2250 Mr. {Wells.} If we don't have the free allowances--

2251 Mr. {Upton.} If those are taken out?

2252 Mr. {Wells.} Yeah, if the free allowances aren't there,
2253 that would put us at a competitive disadvantage to other
2254 economies, particularly those economies that are more carbon
2255 intensive. That would be a problem for our industry and for
2256 our company.

2257 Mr. {Upton.} My time has expired. Thank you.

2258 Mr. {Boucher.} [Presiding] Thank you very much, Mr.
2259 Upton. The Chair will now recognize himself for a round of

2260 questions.

2261 Mr. Farrell, as a fellow Virginian, let me take this
2262 moment of personal privilege to welcome you to the
2263 subcommittee today and thank you for your outstanding
2264 testimony. I want to propound several questions to you in
2265 order to demonstrate how a cap-and-trade program that
2266 operates based on free allocation can effectively reduce
2267 greenhouse gas emissions with the least cost to consumers.
2268 So let us begin with the obvious. Some have suggested that
2269 for the program to be effective, it has to be based on an
2270 auction, that only the auction can put a price on carbon
2271 dioxide emissions, that only under an auction scenario will
2272 the program actually be effective in reducing greenhouse
2273 gases. So let me ask you to explain how under free
2274 allocation with a cap-and-trade provision reductions actually
2275 occur.

2276 Mr. {Farrell.} Thank you, Mr. Chairman. There is a
2277 cap, as you say, and the cap limits the amount of carbon
2278 dioxide emissions that can actually occur. So the cap itself
2279 acts to reduce carbon emissions.

2280 Mr. {Boucher.} And then that cap is lowered over time?

2281 Mr. {Farrell.} Lowers over time. As you get to 2050,
2282 you are at an 80 percent lower level than you are now, so
2283 that is how you get there with one respect. We didn't touch

2284 on this, but the bill has a very rigorous energy efficiency
2285 standard in it which is going to reduce carbon emissions
2286 independently from the cap-and-trade part of the bill. The
2287 allowance provisions, the free allowance provisions,
2288 particularly for electric utilities, allow us to keep costs
2289 of the transition of this economy away from more carbon-based
2290 sources of generation to less carbon-based to dampen,
2291 moderate the costs on the consumer. I think to--I don't want
2292 to get into a debate with another witness but to suggest that
2293 a free allowance system throws consumers under the bus is
2294 something I just cannot agree with--

2295 Mr. {Boucher.} Well, I will get to that part of it in
2296 just a moment. So what I think we can conclude from this
2297 answer is that the effectiveness of the cap-and-trade program
2298 based on free allocation comes from the cap itself and the
2299 fact that that cap is lowered every year in accordance with
2300 the terms of the program and so the emitting entities are
2301 allowed to emit less each year, and as they comply with that
2302 lowering cap, overall emissions are reduced. Is that a fair
2303 description of how it works and that works with free
2304 allocation?

2305 Mr. {Farrell.} Yes, Mr. Chairman.

2306 Mr. {Boucher.} So I think the next obvious question is,
2307 how we make sure that the financial value of these freely

2308 allocated allowances inure solely to the benefit of the
2309 electricity consumers and could you address the provisions in
2310 the legislation that make sure that when these allowances are
2311 allocated to the local distribution companies, that the
2312 benefit, the financial benefit of that allowance inures to
2313 the ratepayer benefit?

2314 Mr. {Farrell.} Mr. Chairman, local distribution
2315 companies, that is the essence of the proposal, and what that
2316 means is, is that the local company that has the wires that
2317 distributes the electricity rather than the generator of the
2318 electricity, it is the company that distributes it will
2319 receive the allowance in this 50/50 breakout, 50 percent
2320 based on sales, 50 percent based on its generation sources.
2321 Local commissions, State commissions exist in all 50 States
2322 and have been regulating electric utilities for 100 years,
2323 have a lot of knowledge on how to protect ratepayers against
2324 profit taking by utilities or excess profits by utilities.
2325 So to the extent there is some dysfunction and there is some
2326 over-allocation of a particular allowance, the local utility
2327 commission is there to ensure that the benefit of it will go
2328 to the ratepayers and the bill has a particular provision in
2329 it, this bill, requiring it go to the benefit of the
2330 ratepayer.

2331 Mr. {Boucher.} And the local distribution companies are

2332 regulated everywhere in the Nation?

2333 Mr. {Farrell.} All 50 States, and the District of
2334 Columbia.

2335 Mr. {Boucher.} Okay. Now, you have mentioned in your
2336 testimony a problem with the provisions in the bill that
2337 require a phase-out of free allocation and a phase-in of
2338 auctions, and that phase period begins in 2026 and goes
2339 through 2030, and I think you have recommended that that
2340 phase period be a longer period of time rather than simply 5
2341 years. Can you talk about the importance of having a longer
2342 period as opposed to just that 5-year period?

2343 Mr. {Farrell.} Well, Mr. Chairman, the key consumer
2344 protection in this bill, as I said earlier, is not so much
2345 the 50/50, that is very important, but is the length of the
2346 time of the free allowances and the phase-in period as you
2347 move to auctions because we need time for the technology to
2348 catch up with the public policy, and the more time we have to
2349 get to the same endpoint, the 80 percent reductions by 2050,
2350 the more time we have to change out our technologies, which
2351 is going to cost consumers money, the longer we have the free
2352 allowances the better.

2353 Mr. {Boucher.} One argument that I have heard for a
2354 longer period is that as that as the transition to auction
2355 occurs over a 5-year period, the electricity price increases

2356 that attend a movement from free allocation to auction would
2357 be relatively severe in each of those 5 years, that if you
2358 have a longer phase-in period, perhaps 15 years, the price
2359 shock of electricity price increases is therefore lessened,
2360 and from the vantage point of consumers, it would be better
2361 to have that longer period rather than the shorter period.
2362 Would you agree with that?

2363 Mr. {Farrell.} That is correct. We would agree with
2364 that.

2365 Mr. {Boucher.} Now, let me address one final issue
2366 while I still have another couple of minutes remaining. I
2367 think it is important that everyone understand that there are
2368 two possible ways that electricity price increases could
2369 occur in association with a cap-and-trade program. One comes
2370 from the allocation process itself, and we have taken steps
2371 in our legislation, I think you would agree, to make sure
2372 that to the greatest possible extent we have cushioned the
2373 ratepayer from the rate increase effects that might come just
2374 from the allocation process. The second way in which
2375 electricity prices could increase is when utilities and other
2376 emitters have to take steps in order to meet the emission
2377 reduction requirements that come under the cap and the
2378 ratcheting down of that cap year by year, and I would like
2379 for you to address, if you would, the extent to which you

2380 think the provision in our legislation that would actually
2381 auction 15 percent of the total allowances and then have the
2382 revenue that the government receives from that auction be
2383 dedicated to cushioning the effect of the rate increase from
2384 that latter phenomenon, that is, the cost of actually
2385 reducing emissions for the middle and lower income
2386 electricity consumers across the country. Could you talk
2387 about the extent to which you think that can be effective?

2388 Mr. {Farrell.} Yes, Mr. Chairman. There will be, as
2389 the generation fleets are changed out over time, there will
2390 be increases in expenses in utilities to change to newer
2391 systems as Mr. Sokol referred to. It is an absolutely valid
2392 point, and we go over time, those will increase. The point
2393 of the 15 percent set aside is that that will be a revenue
2394 source and can be redistributed to help dampen the costs of
2395 what will necessarily increase electricity rates from the
2396 change-out of our generation fleets.

2397 Mr. {Boucher.} All right. Thank you very much, Mr.
2398 Farrell.

2399 My time is expired. The gentleman from Texas, the
2400 ranking Republican on the full committee, Mr. Barton, is
2401 recognized for 5 minutes.

2402 Mr. {Barton.} Thank you, Mr. Chairman. I want to
2403 commend you for chairing this hearing in the absence of Mr.

2404 Markey and also commend you for actually paying attention. I
2405 think it is somewhat telling that on the majority side, you
2406 are the only one here, and this is pretty important, so
2407 hopefully you will take your knowledge and disseminate it on
2408 your side so that they will at least know what was said at
2409 this important hearing.

2410 Mr. Sokol, when you made your remarks, you talked about
2411 some costs. My understanding is that you are taking those
2412 numbers strictly from your service territories that your
2413 company provides electricity for. Is that true?

2414 Mr. {Sokol.} That is correct, and I think it is very
2415 important to understand, those numbers that I gave you--and
2416 Congressman Boucher, we appreciate the efforts you have made
2417 to try and make this as fair as possible and I don't mean to--
2418 -you have done everything I think you can, given the cards
2419 that are being dealt to you. But those numbers take into
2420 account everything you said, and I will tell you we have the
2421 concern that the consumer is being left under the bus here,
2422 not intentionally by you, I understand that, but all of these
2423 numbers that I went through for just the State of Iowa, \$283
2424 million a year, is after all the allocations are passed 100
2425 percent through to the customer, the 15 percent is
2426 reallocated to low income, it doesn't change the fact that
2427 purely compliance with the purchasing of the trading credits

2428 costs \$283 million, which cumulates uninflated to \$9 billion
2429 over 30 years for those consumers and that is on top of the
2430 \$9.3 billion they are going to have to spend to build new
2431 generation plants to actually meet your caps because your
2432 point was an important one. We have to meet the caps, and we
2433 have not argued with the caps.

2434 Mr. {Barton.} Well, I need to reclaim my time, Mr.
2435 Sokol, because I have about four other questions. My
2436 question to the rest of the panel, does anybody dispute Mr.
2437 Sokol's numerical analysis? Anybody?

2438 Mr. {Keohane.} I would just like to point out that I
2439 think Mr. Sokol speaks from a unique case--

2440 Mr. {Barton.} But do you--

2441 Mr. {Keohane.} --very long on coal-fired generation
2442 and--

2443 Mr. {Barton.} I am not asking where he--I am asking if
2444 you dispute his--

2445 Mr. {Sokol.} We are also the largest owner of
2446 renewables.

2447 Mr. {Barton.} --numerical analysis.

2448 Mr. {Keohane.} I think there is an issue--

2449 Mr. {Barton.} Is he telling the truth? I mean, he
2450 knows what the numbers are in his service territory. Do you
2451 dispute that he is lying to this committee? Do you assert

2452 that he is lying to this committee?

2453 Mr. {Keohane.} I didn't say that, Mr. Barton. I said
2454 that he is an exception to a rule. I also want to point out,
2455 it is interesting to hear Mr. Terry talk about old coal-fired
2456 power plants when--

2457 Mr. {Barton.} Mr. Chairman, could I reclaim my time? I
2458 only have 2 minutes and 22 seconds. So we have established
2459 that one of the major power companies, at least in his
2460 service territory, there are huge cost increases in this bill
2461 that you can't paper away.

2462 Now I want to go to Mr. Cousins. You are represented by
2463 Mr. Ross, I believe. I think he is in--your facility is in
2464 his district.

2465 Mr. {Cousins.} Yes, sir.

2466 Mr. {Barton.} If I understand you correctly, for
2467 refinery industry, you are saying that there are 2 percent
2468 allowances given to refineries generically but the products
2469 that the refinery industry in America creates are responsible
2470 for 35 percent of the emissions. Is that correct?

2471 Mr. {Cousins.} That is correct.

2472 Mr. {Barton.} And you are saying in the case of your
2473 refinery, you simply can't recoup the cost it is going to
2474 cost your refinery to stay in business. It is going to cost
2475 you \$180 million a year and you don't believe you can pass

2476 that through. Is that correct?

2477 Mr. {Cousins.} We do not believe we can pass 100
2478 percent of that through.

2479 Mr. {Barton.} So you are fairly certain if this bill
2480 becomes law or isn't changed in a material way for
2481 refineries, that your refinery that has been in business for
2482 80 years is going to go out of business.

2483 Mr. {Cousins.} Yes, sir, and that is a serious thing to
2484 say, for us to say publicly. We would not say that if we
2485 were not--

2486 Mr. {Barton.} And that is 1,200 direct jobs and 3,600
2487 indirect jobs.

2488 Mr. {Cousins.} That is correct.

2489 Mr. {Barton.} Now, would you care to speculate on how
2490 many of those job losses are going to get one of these new
2491 green jobs and at what level they are going to be compensated
2492 if they do get one of the new green jobs?

2493 Mr. {Cousins.} We don't have any of those jobs in our
2494 area right now, and I am not an economist or even--I wouldn't
2495 know how to speculate on that. I would not think that many
2496 of those are paying in the \$25- to \$30-an-hour range.

2497 Mr. {Barton.} Mr. Montgomery, the analysis of the bill
2498 for many of the proponents of the bill uses a per-ton
2499 estimate of about \$10 a ton. In the bill itself in the

2500 strategic reserve, they have a minimum price for allowances
2501 sold for the strategic reserve of \$38 a ton. Could you
2502 explain if you wish to the dichotomy between people that
2503 estimate the cost at \$5 to \$10 a ton and the fact that the
2504 strategic reserve minimum price is \$38 a ton?

2505 Mr. {Montgomery.} I am not sure I can give a definitive
2506 answer to this, but my understanding is that the intention of
2507 this strategic reserve is to prevent prices to intervene much
2508 like the strategic petroleum reserve when prices spike to an
2509 unanticipatedly high level. I think that the estimate of \$10
2510 a ton presumably is those who assume that there is a very
2511 large--that all of the international offsets for forestry,
2512 from other sources, all the domestic offsets will be
2513 available at very low prices and that there is not much left
2514 to do after that to reduce emissions and that comes up with a
2515 price of \$10 a ton. It suggests that price would have to
2516 increase by a factor of four before the strategic reserve
2517 accomplished anything which implies there is an awful lot of
2518 price volatility that would remain even if the strategic
2519 reserve were released when something really absolutely
2520 extraordinary happened.

2521 Mr. {Barton.} Mr. Chairman, my time has expired. I
2522 would like Mr. Keohane to submit for the record an answer to
2523 that same question since he is also an economist, or if you

2524 wish to give him a chance to testify right now, I would
2525 appreciate that.

2526 Mr. {Boucher.} Thank you, Mr. Barton. Mr. Keohane, let
2527 me ask you in fact to do as Mr. Barton suggests and submit
2528 that for the record, and add to that answer, if you would,
2529 your response to Mr. Sokol's economic analysis. Look at it
2530 carefully, run your analysis against it and let us have the
2531 benefit of your view on that as well.

2532 Mr. {Keohane.} I would be pleased to do both those
2533 things. Thank you.

2534 Mr. {Boucher.} Thank you very much.

2535 The gentleman from Kentucky, Mr. Whitfield, is
2536 recognized for 5 minutes.

2537 Mr. {Whitfield.} Well, thank you, Mr. Chairman, and
2538 this testimony today has been quite interesting, and Mr.
2539 Sokol, now, you and Mr. Farrell, your companies both are
2540 members of the Edison Electric Institute. Is that correct?

2541 Mr. {Sokol.} Correct.

2542 Mr. {Whitfield.} And the Edison Electric Institute, did
2543 they formally, Mr. Farrell, endorse this bill or did they not
2544 endorse the bill?

2545 Mr. {Farrell.} We are very supportive of the allocation
2546 formula and we are supportive of the bill going through the
2547 legislative process.

2548 Mr. {Whitfield.} So you support the bill as is?

2549 Mr. {Farrell.} We are supportive of the bill going
2550 through the legislative process. We have asked for
2551 improvements which the chairman mentioned a couple, yes, sir.

2552 Mr. {Whitfield.} So you are supporting it but you hope
2553 you can improve it as we go through the process?

2554 Mr. {Farrell.} Yes.

2555 Mr. {Whitfield.} Now, I am assuming that the Edison
2556 Electric Institute Board voted upon this and the majority of
2557 them felt this way, correct?

2558 Mr. {Farrell.} It was unanimous of those attending the
2559 meeting.

2560 Mr. {Whitfield.} Okay.

2561 Mr. {Sokol.} We voted against it.

2562 Mr. {Whitfield.} You voted against it?

2563 Mr. {Sokol.} Yes.

2564 Mr. {Whitfield.} Oh, okay. So it was unanimous but
2565 someone voted against it. I won't get into that.

2566 Mr. {Sokol.} I know for sure we voted against it.

2567 Mr. {Whitfield.} Well, Mr. Sokol, up here listening to
2568 you and Mr. Farrell testify, you both have retail electric,
2569 you both have natural gas customers, you both--both your
2570 companies operate in multiple States, 12 and 10 States, and
2571 you heard Mr. Farrell's testimony to Mr. Boucher's question,

2572 but would you explain to the committee why in your opinion
2573 your company and Mr. Farrell's company do not agree on this
2574 legislation?

2575 Mr. {Sokol.} Well, the Edison Electric Institute, of
2576 which we have been involved with the discussions for several
2577 years, first of all, it is an association so it deals with
2578 all kinds of different members, some of which have 100
2579 percent nuclear, some have no generation at all, and so a
2580 normal and understandable debate would occur within an
2581 association that basically there were winners and losers, and
2582 it ultimately came from down from the association standpoint
2583 that this is the best they could get, and our view is, the
2584 consumer is not being represented in this debate, and I will
2585 give you an example and this is--

2586 Mr. {Whitfield.} And could you try to also specify what
2587 the difference is you think between your company and Mr.
2588 Farrell's company?

2589 Mr. {Sokol.} There really is no difference between any
2590 of the companies in that the bill will act as it is written.
2591 Our difference is, and I think I can state it perhaps using a
2592 third company, a large company, AEP. They were recently
2593 challenged that this may cost their company \$28.6 billion, a
2594 number they did not refute. Their comment was well, the
2595 report doesn't remember that we get to recover these costs

2596 through rate increases. That is the problem, is that
2597 utilities, particularly investor-owned utilities, and we own
2598 several, have made the decision that they are going to cut
2599 the best deal they can and then let the customer beware. But
2600 the customer is not in this room and that is what bothers us.
2601 Our ratepayers have to pay this. If you would add something
2602 that says have every public utility commission in every State
2603 in the next 30 days analyze this bill and tell the consumer
2604 what it will cost them and the consumers are happy with that,
2605 it is a pass-through for us. So but I am not going abdicate
2606 my responsibility to those consumers because people have to
2607 pay these bills and that is our difference with the Edison
2608 Electric Institute, and I think it is why EPPA and the rural
2609 electric co-ops are very concerned. They don't have
2610 shareholders. They just have consumers.

2611 Mr. {Whitfield.} And I have heard from both of those
2612 groups quite emphatically, but Mr. Farrell, you sound like
2613 you are not worried about any increase for the consumer. I
2614 mean, are you concerned about that or do you feel that this
2615 bill actually protects them?

2616 Mr. {Farrell.} We are absolutely concerned about
2617 consumer protections, Mr. Whitfield, and I apologize to Mr.
2618 Sokol if I didn't hear his vote at the meeting. It was a
2619 very large majority of member companies--

2620 Mr. {Sokol.} That is true, by the way.

2621 Mr. {Farrell.} --across the United States. And EEI's
2622 proposal is all about consumer protections. If the bill had
2623 called for 100 percent auctions, we would not--I certainly
2624 wouldn't be here responding favorably to Mr. Boucher's
2625 questions. Changing this to the free allowances for the
2626 length of time, we would like a longer period of time. We
2627 would like a less quick rise to the cap because we think that
2628 would increase the consumer protections but it is the essence
2629 of the free allowances through 2025, even though the cap is
2630 rising over that period of time, that provides the consumer
2631 protections in this bill. If they were not there, EEI would
2632 not be where it is today.

2633 Mr. {Whitfield.} I might also say, Mr. Hodges, I am
2634 glad you are here testifying today. I read an article in the
2635 New York Times about six months ago comparing the trucking
2636 industry in the United States to China, and this article said
2637 we have in this country one of the most stringent emissions
2638 standards for diesel fuel emissions for trucks in the world,
2639 that China has one of the worst and it sounds like from your
2640 testimony with the possible increase of diesel fuel cost, it
2641 will even be less competitive with the Chinese transportation
2642 system.

2643 Mr. {Hodges.} Well, fortunately, we don't haul to

2644 China.

2645 Mr. {Whitfield.} But companies do.

2646 Mr. {Hodges.} We are concerned with domestic
2647 transportation and everything that China does send to this
2648 country generally ends up getting delivered by a truck and
2649 that truck is powered by diesel fuel.

2650 Mr. {Whitfield.} And the reason I am concerned about it
2651 is, when companies decide where to locate, they look at cost,
2652 and if transportation costs, labor costs, environmental costs
2653 are higher, then they may make decisions to go elsewhere. My
2654 time is expired.

2655 Mr. {Boucher.} Thank you, Mr. Whitfield.

2656 The gentleman from Oregon, Mr. Walden, is recognized for
2657 5 minutes.

2658 Mr. {Walden.} Thank you, Mr. Chairman.

2659 Mr. Sokol, I want to go to this issue of equal
2660 allocation around the country because I have heard from some
2661 witnesses that this seems to be all fairly distributed and
2662 couldn't have been done better and yet I understand from data
2663 I have received that Pacific Corps, your subsidiary company
2664 in Oregon, is only going to receive 53 percent of the
2665 allowances for free that it needs for compliance in 2012,
2666 which means ratepayers there will have to make up the
2667 difference of \$163.5 million in one year. Meanwhile, our

2668 neighbors to the north under this legislation, Seattle City
2669 Light will get 29 times the number of allowances it needs for
2670 compliance for a windfall of \$54 million in one year alone.
2671 Now, that doesn't sound like a very even distribution of
2672 allocation of these credits, does it, to you?

2673 Mr. {Sokol.} It doesn't, and I think it begs the
2674 question, if all these allocations are free, why are we doing
2675 it? You know, rarely have I seen a circumstance in my career
2676 where someone says all right, you have to buy these and then
2677 I am going to give them to you for free and so you are going
2678 to be neutral. Well, if it is that simple, why don't we just
2679 not do it? And that is really our point. Sometimes I think
2680 people can't take yes for an answer. Place the caps in
2681 place, the caps of 3 percent reduction, 17 percent growing to
2682 83 percent by 2050. If that is policy, put them in place and
2683 mandate that every utility in the United States meet it.
2684 Those that already meet it have no cost and no harm. Those
2685 that don't meet it, and our utilities would not meet it, we
2686 would be required to go and change our equipment to do that,
2687 and that is a fair thing for us to do. This bill then adds
2688 again to that through this trading mechanism, and I guess the
2689 point just is, why have it? If the allocation is fair and is
2690 not going to cost anybody anything, then why are we doing it
2691 and why don't we just put the caps in place as we did with

2692 the Clean Air Act initially and ask our companies to meet it
2693 and we will do so or be shut down.

2694 Mr. {Walden.} That is a thought I have often had, Mr.
2695 Sokol, that I don't get this. It looks to me like we should
2696 have learned our lesson from the subprime market. We had an
2697 amendment to prevent derivatives being pulled out of this and
2698 I think that was defeated during the markup. I am deeply
2699 concerned about the gaming of the system that lies ahead and
2700 the cost to ratepayers. Now, we focused a lot and rightfully
2701 so on household costs, and I have heard ranges from a postage
2702 stamp to, you know, \$1,600. My concern, having been a small
2703 business owner for 21 years that ran transmitters in the
2704 radio business, we consumed a lot of electricity. Has
2705 anybody done analysis you are aware of or anybody on the
2706 panel on what this means to small businesses in America
2707 because I don't see them getting a rebate under this. They
2708 don't get a check from the government under this, do they? I
2709 mean, if I am a Pacific Corps customer and my business was, I
2710 have sold it, what do I get out of this bill other than a
2711 higher rate in Oregon?

2712 Mr. {Sokol.} Well, the way the allocations are done,
2713 the industrial customers would carry a larger piece of it,
2714 but--

2715 Mr. {Walden.} Is a small business an industrial

2716 customer? You are just a shopkeeper. Is that how you are
2717 treated?

2718 Mr. {Sokol.} You know, barber shops, grocery stores,
2719 things of that nature would not fall underneath the low-
2720 income assistance side of the allocations.

2721 Mr. {Walden.} So what happens to them?

2722 Mr. {Sokol.} They would pay more.

2723 Mr. {Keohane.} Mr. Chairman, may I very quickly?

2724 Mr. {Walden.} Actually I control the time but go ahead.

2725 Mr. {Keohane.} I was just going to say, I think the
2726 commercial ratepayers are included in that local distribution
2727 company allocation so I think they would be addressed through
2728 the--

2729 Mr. {Sokol.} But that is--

2730 Mr. {Walden.} Mr. Sokol, would you--

2731 Mr. {Sokol.} Those allocations are already in the
2732 numbers you used, 100 percent of them are given to the
2733 customers' benefit. The low-income allocations would not go
2734 to commercial--

2735 Mr. {Walden.} Right, that is my point, and so it is a
2736 little misleading to say they are going to get that when
2737 these numbers include that, and so they don't get the extra
2738 help, and you know, I am in a district that is really facing
2739 Depression-era unemployment numbers. We are second to

2740 Michigan and Oregon in unemployment. My counties are at 17
2741 to 20 percent unemployment. People are trying to figure out
2742 how to keep their doors open and this bill is going to
2743 absolutely put a new bill on their doorstep they can't
2744 afford, and I have been a small businessperson. I have
2745 signed the front of a payroll check and paid the bills, paid
2746 the light bills, the public utilities, the co-ops and even to
2747 you in the old days, Pacific Corps, and it matters and I am
2748 deeply concerned about where this is headed.

2749 Now, I want to go off onto wind because my district has
2750 a lot of wind energy and I just want to get something on the
2751 record here, and I have been an advocate of renewable energy
2752 and wind energy, but I don't think it is the panacea some
2753 people think and it has a cost associated with it, and Mr.
2754 Sokol, it is my understanding that for every megawatt of
2755 wind, a power company has to have a backup or prudently
2756 should have some sort of backup energy source for when the
2757 wind doesn't blow. Is that true in your company, and if so,
2758 is there a ratio that you use?

2759 Mr. {Sokol.} If you are a load-serving utility, the
2760 answer to that is, you do need to have a backup until--and
2761 hopefully there is a lot of promise for battery storage
2762 technology currently emerging, and if that happens, that will
2763 help enormously, but without that, the wind only blows when

2764 it blows so--

2765 Mr. {Walden.} So you have to have gas backup, right?

2766 Mr. {Sokol.} Gas or other generation.

2767 Mr. {Walden.} Mr. Farrell, is that correct? You are
2768 nodding your head as well.

2769 Mr. {Farrell.} It is.

2770 Mr. {Walden.} So aren't we in effect creating two
2771 energy systems here, one that works when the wind is blowing
2772 and one that works when it doesn't, and isn't there an added
2773 cost to that? And I am not against wind. We have a lot of
2774 it. It is a good thing, but to me, there are limits to what
2775 we can do and we need to know what those costs are.

2776 Mr. {Sokol.} I think in fairness, there is a cost to it
2777 but there is also environmental benefit that when the wind is
2778 blowing, we are not creating any emissions and so--

2779 Mr. {Walden.} I agree with that.

2780 Mr. {Sokol.} --you know, there is a balance there, but
2781 there is a cost.

2782 Mr. {Walden.} My time has expired, Mr. Chairman. Thank
2783 you.

2784 Mr. {Boucher.} Thank you very much, Mr. Walden.

2785 The gentleman from Louisiana, Mr. Scalise, is recognized
2786 for 5 minutes.

2787 Mr. {Scalise.} Thank you, Mr. Chairman. I will start

2788 with Mr. Wells.

2789 In your earlier comments, you had talked about the
2790 carbon leakage. I think you had said will fail to protect
2791 American jobs if the allowances aren't allocated properly.
2792 You said the 2020 target is too high. There are excessive
2793 procedural hurdles and then you said if free allowances are
2794 not in the bill, Dow will be at a competitive disadvantage.
2795 Now, you are supporter of this bill, right? This is coming
2796 from somebody who is a proponent.

2797 Mr. {Wells.} Yes, much like the previous comment. We
2798 are supportive of it to continue to move through the process
2799 but there are parts of the bill we would like--

2800 Mr. {Scalise.} So those are the highlights of the bill,
2801 is that jobs can be shipped overseas if it is not done
2802 properly. I want to ask you, especially as you talked about
2803 if the allocations aren't done properly you will be at a
2804 competitive disadvantage. Exactly what do you mean by that?
2805 Who you will be at a competitive disadvantage against?

2806 Mr. {Wells.} Let me use an example. Natural gas, I
2807 have talked about that every time I have been here, very,
2808 very critical to the American chemical industry. Natural gas
2809 prices have gone up 460 percent since 2000. In that time,
2810 American manufacturers have lost 3.7 million jobs. My own
2811 industry has lost close to a million jobs.

2812 Mr. {Scalise.} Because of the higher costs--

2813 Mr. {Wells.} The higher costs of energy--

2814 Mr. {Scalise.} --as it fluctuates.

2815 Mr. {Wells.} --and the higher costs of feedstocks

2816 associated with the rise in natural gas pricing. If free

2817 allowances are not there for what we call the energy-

2818 intensive trade-exposed manufacturers like petrochemicals,

2819 then it is safe to assume a similar sort of thing will occur.

2820 Mr. {Scalise.} Loss to where? Where would be--

2821 Mr. {Wells.} They would move places where energy costs

2822 are cheaper, so--

2823 Mr. {Scalise.} Do you have some examples of some of the

2824 countries?

2825 Mr. {Wells.} It would be the Middle East.

2826 Mr. {Scalise.} So our friends in the Middle East who

2827 were trying to--those of us who want to have a real

2828 comprehensive energy policy to encourage use of our natural

2829 resources to create good jobs here to reduce our dependence

2830 on Middle Eastern oil, in effect the Middle Eastern countries

2831 could actually benefit from a cap-and-trade energy tax if

2832 there is not adequate allocation to keep you competitive?

2833 Mr. {Wells.} Absolutely, yes.

2834 Mr. {Scalise.} Well, that is encouraging for some

2835 people, surely not people like me. What is the average pay

2836 of the jobs that your company has?

2837 Mr. {Wells.} They are well paying. I don't have a
2838 number. Our operators in the Gulf Coast, it has been many
2839 years since I worked down there but \$70,000 and above is a
2840 good number.

2841 Mr. {Scalise.} Seventy thousand dollars a year on
2842 average. When you talk about jobs going to the Middle East,
2843 and obviously we have expressed concerns in this committee in
2844 other industries of jobs going to places like China, India,
2845 steel makers going to Brazil, in your industry, if a job that
2846 is producing products here in America goes to the Middle East
2847 where they are going to be producing the same product, they
2848 will just be producing it in another country, do you know how
2849 the carbon emissions compare? In other words, how much
2850 carbon your company emits producing something here in the
2851 United States versus how much they would produce in a country
2852 in the Middle East?

2853 Mr. {Wells.} I don't have exact numbers but, you know,
2854 in many cases our carbon footprint is a function of our
2855 energy efficiency and how well we use energy, and I have
2856 testified in front of this group that my particular company
2857 has cut our energy usage by 38 percent since 1990. We know
2858 that developing economies have not had that kind of
2859 improvement so it is safe to say that they are much more

2860 carbon intensive than we are.

2861 Mr. {Scalise.} Yeah, which is another irony of this
2862 legislation, that purports to want to reduce carbon emissions
2863 when in effect by running more of these jobs overseas they
2864 are going to go to countries that emit more carbon, and
2865 carbon is a worldwide--

2866 Mr. {Wells.} If we don't take care of our energy-
2867 intensive trade-exposed--

2868 Mr. {Scalise.} So you could end up emitting even more
2869 carbon by legislation like this because those jobs go to
2870 other countries that emit more.

2871 Mr. Cousins, you had talked about your refinery, the
2872 1,200 jobs that would be lost, I think thousands more
2873 indirect jobs that would be lost. What is the average pay of
2874 your workers?

2875 Mr. {Cousins.} The pay is similar to the Gulf Coast.
2876 We might be 5 percent lower, so that number is--that \$70,000
2877 with overtime, we have got many employees in that range.

2878 Mr. {Scalise.} Seventy thousand dollars a year, jobs
2879 that would be lost. I know my time is running out. I don't
2880 know if you have seen the Spain study. Spain did a study on
2881 cap and trade in their country and how it affected them after
2882 years and years of going through that process. What they
2883 identified was for every quote, unquote, green job that they

2884 created, they lost 2.2 full-time jobs and in effect the green
2885 jobs they created, nine out of 10 of them were temporary
2886 jobs, so if you looked at it from a permanent job standpoint,
2887 for every one job they created, they lost 20 full-time jobs,
2888 and when you talk about the jobs that would be lost and you
2889 talked about India building a refinery basically to take the
2890 place when they shut down your 1,200 jobs at \$70,000 a year.
2891 India will now be refining that oil that they will then be
2892 shipping here. How do their emissions compare to carbon that
2893 you emit?

2894 Mr. {Cousins.} It is going to be the same. It is going
2895 to go in the same atmosphere. It is going to be the same
2896 amount of carbon. It is going to be the same amount.

2897 Mr. {Scalise.} And if they don't follow the same
2898 regulations that are followed in America, if they actually
2899 emit more carbon--

2900 Mr. {Cousins.} Right, they won't have to--

2901 Mr. {Scalise.} --producing the same oil that then we
2902 would have to be paying more for because then it would be
2903 coming from another country.

2904 And Mr. Hodges, if I can, you had talked about the job
2905 losses. I think you said last year somewhere over 5,000 when
2906 the price of oil hit over \$4 a gallon. Obviously because we
2907 don't have a strong policy, we became more dependent on

2908 Middle Eastern oil. For those of that want to reduce our
2909 dependence on Middle Eastern oil if we can lower that, we
2910 could, I guess, create more jobs but how many jobs would you
2911 lose if you actually had to pay more money because as
2912 President Obama said, prices would skyrocket under cap and
2913 trade. As his budget director, Peter Orszag said, families
2914 would have to pay higher utility costs and energy costs.
2915 Would you be able to absorb those costs or would you have to
2916 pass those on?

2917 Mr. {Hodges.} Most of the time in our industry, we can
2918 pass a percentage of fuel increases to our customers, but
2919 unfortunately, we only get about 85 percent of that cost
2920 recouped from our customers, meaning we would have to absorb
2921 the 15 percent in addition to, as noted earlier, we would
2922 have additional high electricity costs. When we have a
2923 \$40,000 spend a month for utilities, we are suddenly looking
2924 to going from \$40,000 to \$50,000.

2925 Mr. {Scalise.} So if you can't pass all of it on, then
2926 what happens?

2927 Mr. {Boucher.} Mr. Scalise, I believe your time--

2928 Mr. {Scalise.} I apologize. So obviously the costs
2929 will be raised and you will lose jobs too, so I yield back.
2930 Thanks.

2931 Mr. {Boucher.} Thank you, Mr. Scalise.

2932 The gentleman from Florida, Mr. Stearns, is recognized
2933 for 5 minutes.

2934 Mr. {Stearns.} Thank you, Mr. Chairman.

2935 At this hearing, the American Gas Association wanted to
2936 testify, unfortunately weren't able to. They would like to
2937 put their statement with unanimous consent as part of the
2938 record, Mr. Chairman.

2939 [The information follows:]

2940 ***** COMMITTEE INSERT *****

|
2941 Mr. {Boucher.} Without objection.

2942 Mr. {Stearns.} I would like to ask each of you a
2943 question, and this is relative to India and China. Because
2944 once assuming let us say that somehow this gets through
2945 Congress and it is signed by the President, the question
2946 would be, would India, China, Russia and other countries
2947 unilaterally go ahead and implement a similar cap and trade.
2948 So the question I will have just for each one of you, just go
2949 down the panel here, do you believe that India and China
2950 would unilaterally adopt a cap and trade after we did it, yes
2951 or no, and then you might just give me a sentence if you say
2952 yes, why they would do it, and if you say no, why they
2953 wouldn't do it. I will start with you, the Reverend
2954 Castellanos.

2955 Rev. {Castellanos.} Well, you are asking a theologian
2956 to come up with an answer from an economist, but I would--

2957 Mr. {Stearns.} What better person to ask?

2958 Rev. {Castellanos.} I would say yes, if they really
2959 want to be faithful to the commitment to the nature and the
2960 environment.

2961 Mr. {Stearns.} I mean, do you think the history of
2962 China has shown that they will be faithful?

2963 Mr. {Stearns.} I believe in hope and I think that

2964 people change, and I see progress, and I think we could have
2965 a great influence on whether it goes that way.

2966 Mr. {Stearns.} Okay. Next?

2967 Mr. {Keohane.} I think sometimes the difference between
2968 theology and economics is not so great as people say. So at
2969 any rate, in answer to your question, I do think that the
2970 most important thing the United States can do to get
2971 countries like India and China--

2972 Mr. {Stearns.} Well, just yes or no. Do you think they
2973 will do it, first of all, yes or no?

2974 Mr. {Keohane.} I do think they will follow--

2975 Mr. {Stearns.} So yes, they will unilaterally pass a
2976 cap and trade. Okay.

2977 Mr. {Keohane.} I think they will follow with a program
2978 to reduce and a commitment to reduce their own emissions
2979 within a reasonable period of time, and I know this, that if
2980 we don't do anything, they won't do anything, and that means
2981 that the climate crisis will continue.

2982 Mr. {Stearns.} Even though they are building a new coal
2983 plant every week, but anyway, go ahead, Mr. Montgomery.

2984 Mr. {Montgomery.} Unequivocally no.

2985 Mr. {Stearns.} Okay.

2986 Mr. {Montgomery.} China--we would be giving away the
2987 only card remaining in our hand as we negotiate with the

2988 Chinese to convince them that they need to do something other
2989 than that we do not pay 100 percent of the bill for it.
2990 These are negotiations on national interest and we would be--
2991 and by committing ourselves to do something which they want
2992 us to do and getting nothing in exchange, we give away our
2993 only position.

2994 Mr. {Stearns.} And you are also saying that they have a
2995 competitive advantage by not adopting a cap and trade so they
2996 can stretch this out a couple years and say we will, we will
2997 but we won't and over 5 or 6 years they would get a
2998 competitive advantage.

2999 Mr. Hodges?

3000 Mr. {Hodges.} I would say also no, simply based on the
3001 fact that it has been my experience over years that issues
3002 like this only get addressed as economies mature. When they
3003 are in rapid growth, they don't address these issues. They
3004 address other issues that are pertinent to the growth, not
3005 issues that are pertinent to controlling the growth and
3006 refining that growth.

3007 Mr. {Stearns.} Mr. Cousins?

3008 Mr. {Cousins.} Based only my limited supply of common
3009 sense, I would say no.

3010 Mr. {Stearns.} Okay. Mr. Sokol?

3011 Mr. {Sokol.} I think when it becomes in their economic

3012 and political interests to do it, they would and not until
3013 then.

3014 Mr. {Stearns.} So your answer is no, and so we are
3015 operating on a cap and trade and they would not adopt it, and
3016 they would--do you think they would ever adopt it?

3017 Mr. {Sokol.} Well, at some point, as I said, when it
3018 becomes in their economic and political interests, then they
3019 will but that point may be 20 years from now. And your
3020 question really drives to the point that I think is extremely
3021 important is, if we are going to do this, and I think the
3022 sense is, we are going to put the caps, let us do it at the
3023 lowest cost to the consumer and to industry so that if we are
3024 wrong in our guess that they are going to follow us, we have
3025 at least done the least damage economically.

3026 Mr. {Stearns.} Right, so we are losing whole complete
3027 competitive advantage.

3028 Mr. Wells?

3029 Mr. {Wells.} No, I don't think they are going to have
3030 cap and trade any time soon. However, I do think if we go
3031 ahead, they will do things to address their intensity. I am
3032 particularly very optimistic about their work on energy
3033 intensity and energy efficiency which in fact in many cases
3034 is better than what we are doing here.

3035 Mr. {Stearns.} Do you think India is developed enough

3036 that even if they could, they would? Do they have the
3037 regulatory powers and the type of political environment that
3038 they could adopt something like this?

3039 Mr. {Wells.} I would have to defer. I am not an expert
3040 on India. I do know quite a bit more about China but cannot
3041 answer for India. I apologize.

3042 Mr. {Stearns.} Okay. And lastly, Mr. Farrell?

3043 Mr. {Farrell.} Congressman, I am here on behalf of EEI,
3044 and as far as I am aware, they don't have a position on that
3045 question.

3046 Mr. {Stearns.} How about you? Do you have a position?

3047 Mr. {Farrell.} I am not an expert enough in what goes
3048 on in China and India to offer you any useful information.

3049 Mr. {Stearns.} Okay. So you defer not to answer.

3050 Okay.

3051 Mr. {Markey.} The gentleman's time has expired.

3052 Mr. {Stearns.} Okay. Thank you, Mr. Chairman.

3053 Mr. {Markey.} The Chair recognizes the gentleman from
3054 Washington State, Mr. Inslee.

3055 Mr. {Inslee.} Thank you.

3056 Mr. Wells, I want to commend your company for its great
3057 energy efficiency. It has been a real leader, and our
3058 commendations to you.

3059 Mr. {Wells.} Thank you, Congressman.

3060 Mr. {Inslee.} Mr. Sokol, I don't know much about your
3061 company but I presume it considers itself responsible. I
3062 want to ask you about your solid-waste disposal programs. I
3063 presume you do not dispose of your solid waste on land which
3064 you don't own without permits, I assume. Is that correct?

3065 Mr. {Sokol.} I think I can say fairly we don't dispose
3066 of any waste in any location that is not properly permitted.
3067 I can't confirm to you that we own 100 percent of the land
3068 but I think it would be in the high 80s or 90s but I am not
3069 certain it is 100 percent.

3070 Mr. {Inslee.} Right. And I assume you don't believe
3071 that you own the atmosphere.

3072 Mr. {Sokol.} Clearly not.

3073 Mr. {Inslee.} And yet your testimony would suggest that
3074 you believe your company has the right to dispose of your
3075 gaseous waste in the form of carbon dioxide in an atmosphere
3076 which you do not own without charge and without regulation,
3077 and I don't understand how you take that position. Could you
3078 explain that?

3079 Mr. {Sokol.} Congressman, I don't know where in my
3080 testimony you see that. We have agreed for 5 years on these
3081 caps, actually slightly more stringent. We have no issue
3082 with the cap on CO2. If that is government policy, put it in
3083 place as we did the 1970 Clean Air Act, the 1990 amendments,

3084 and allow us to go meet it. We don't disagree with the early
3085 caps, the late caps. It is only the trading mechanism which
3086 becomes a duplicative cost without any help at all to the
3087 environment that we struggle with for our customers but we
3088 are not opposed to the caps, and if these caps are put in
3089 place we will meet them on time.

3090 Mr. {Inslee.} So you recognize the need for a
3091 limitation on the amount of carbon dioxide in the atmosphere
3092 but you expect the government to just give you a permit to
3093 that gratis to an unlimited amount--

3094 Mr. {Sokol.} Tell us what the limit is and we will meet
3095 it. That is all we are asking.

3096 Mr. {Inslee.} Well, we have a limit.

3097 Mr. {Sokol.} There is no limit today on CO2.

3098 Mr. {Inslee.} Here is my question to you. We have set
3099 a limit in this cap. That means there is a limit on the
3100 amount of carbon dioxide that can go into the atmosphere. So
3101 some of--

3102 Mr. {Sokol.} Yes, we would meet that, and we don't want
3103 you to pay for us to do that.

3104 Mr. {Inslee.} Well, but somehow we have to figure out
3105 who is going to have the right to use that limit to cap, to
3106 dispose of CO2 into the atmosphere, and you have suggested by
3107 objecting to this partial auction that somehow you should

3108 have full right to give as much as you want from your company
3109 without figuring how the next company will get its permit. I
3110 don't understand how you--

3111 Mr. {Sokol.} No, what the bill states for utility is
3112 that you would go back to our average 2005 CO2 emissions
3113 rates and that we would have to reduce them pursuant to this
3114 cap in each of the years shown, and we are fine with that and
3115 we don't want anybody else's allocation, we don't want to go
3116 plant trees in Honduras. We will make technological changes--
3117 -

3118 Mr. {Inslee.} But what gives--

3119 Mr. {Sokol.} --to our system to meet them pursuant to
3120 the cap.

3121 Mr. {Inslee.} What gives your company a right to, sort
3122 of a constitutional right to a permit to use a limited
3123 carrying capacity vis-à-vis some other company or some other
3124 ratepayer? In other words, why are your ratepayers sort of
3125 constitutionally entitled in your view to a free permit as
3126 opposed to my ratepayers or somebody in Florida or anywhere
3127 else? I just don't understand that.

3128 Mr. {Sokol.} I don't think they are. I am not asking
3129 for a free permit.

3130 Mr. {Inslee.} But you are asking for a free permit.

3131 You are essentially saying that you shouldn't have to buy in

3132 any auction at any price set by the market--

3133 Mr. {Sokol.} No, Congressman, I--

3134 Mr. {Inslee.} --for this limit asset. I don't

3135 understand that.

3136 Mr. {Sokol.} The last time I checked the Constitution,
3137 I have got a copy here, these assets are owned by us. We
3138 have operating permits today to operate them. The United
3139 States Congress is trying to make a decision to put limits on
3140 CO2 and tell us that we can emit less in the future, and we
3141 think that is appropriate government policy decision to make
3142 and when you make that we will comply with it. We are not
3143 asking you to give us anything. We are running these
3144 facilities today pursuant to State and federal law. They
3145 were regulated. Some of them are in the State of Washington,
3146 Oregon, Nebraska--or not Nebraska--Iowa, Wyoming, Utah, and
3147 you are asking us to reduce the amount of CO2 we have emitted
3148 and we are saying we will do that.

3149 Mr. {Inslee.} Well, my concern is that, and I will just
3150 make a comment and I have got one more question. My concern
3151 is, we have limited ability to hand out, if you will, permits
3152 for a limited carrying capacity of the atmosphere, and when
3153 people come and want total free permits, they are asking for
3154 something that doesn't belong to them frankly. It belongs to
3155 the taxpayers and the citizens.

3156 I want to ask a quick question of Mr. Farrell, if I can.
3157 We do have regional disparities by almost necessity, and I am
3158 not responsible for putting the Columbia River in the
3159 Northwest nor am I responsible for putting coal in the East.

3160 Mr. {Farrell.} It was Virginians who found the river
3161 though.

3162 Mr. {Inslee.} That is the way it should be, but we have
3163 tried to--isn't it fair to say that by having a half-and-half
3164 distribution model between the type of energy you have and
3165 that is half of the system, the base, half the amount, isn't
3166 that one way to try to address some of these regional
3167 disparities?

3168 Mr. {Farrell.} That is exactly what we are trying to
3169 accomplish, Congressman.

3170 Mr. {Inslee.} Thank you.

3171 Mr. {Markey.} Thank you. The gentleman's time has
3172 expired. The Chair recognizes the gentleman from Arizona,
3173 Mr. Shadegg.

3174 Mr. {Shadegg.} Thank you, Mr. Chairman. When he left,
3175 Mr. Walden asked that this paper from the American Forest and
3176 Paper Association be put into the record. He had been asked
3177 by them to put it into the record. He forgot to do so. I
3178 ask unanimous consent to do so.

3179 [The information follows:]

3180 ***** COMMITTEE INSERT *****

|
3181 Mr. {Markey.} Without objection, it will be included in
3182 the record.

3183 Mr. {Shadegg.} Thank you very much.

3184 Mr. Sokol, I would like to clarify the question that
3185 just occurred because it confused me. The Clean Air Act, for
3186 example, regulates various pollutants, NOX, SOX, SO2 and
3187 others, and it did that by simply setting limits. It did not
3188 charge a fee for emitting what was below the limit. Is that
3189 correct?

3190 Mr. {Sokol.} That is correct.

3191 Mr. {Shadegg.} And that is what you envision here?

3192 Mr. {Sokol.} Yeah.

3193 Mr. {Shadegg.} You are willing to live with a limit as
3194 proposed in this legislation. As I understand it, you said
3195 you could live with a limit that was even lower than that.
3196 This notion of charging you for what you are currently
3197 emitting to allocate it between various companies is something
3198 that would be completely new to the emissions of pollutants
3199 so far as I know. The Clean Air Act doesn't operate in that
3200 function, does it?

3201 Mr. {Sokol.} It does not, and the reference that people
3202 often make to the SO2 trading situation from the 1990 Clean
3203 Air Act is completely unanalogous.

3204 Mr. {Shadegg.} Yes, I thought you did an excellent job
3205 of pointing out the differences in that. So you can meet the
3206 caps in this legislation. I think people listening to your
3207 testimony would like to have greater clarity on I think a
3208 fundamental point you made. You said the bill doubles the
3209 cost, that is, consumers are actually paying both to reduce
3210 carbon dioxide, presumably a good thing, but also paying for
3211 this tremendous trade mechanism that can be gamed on the
3212 other side. I believe in Europe it has been gamed. I would
3213 like you to take a moment and re-explain why you see it
3214 doubles those costs.

3215 Mr. {Sokol.} In our testimony that we filed for the
3216 record, you will see we have done it for each of our
3217 utilities. This is going to be very quick, but this bottom
3218 red line here is the amount of free allocations we will
3219 receive from this bill, our customers will receive. The
3220 black line is the stepping down of carbon obligation under
3221 your cap. We are a utility. Our natural gas plants emit
3222 CO₂, our coal plants emit CO₂. There is no technology
3223 commercially available today to take that CO₂ out of that air
3224 stream so what we have had to do is go with our regulator and
3225 say, look, if this is the requirements, here is how quickly
3226 we can replace those plants to meet these requirements. You
3227 don't build new generation in a day and new generation is not

3228 free. So that is laid out. Then between now and then, we
3229 just have to buy allocations up to the cap to continue
3230 serving our customers. Those two costs, the costs of
3231 compliance is \$9.1 billion over 30 years to build those new
3232 plants and then the cost of just paying for the allocations
3233 again below the cap, we are already going to be at or below
3234 the cap, is another \$9.3 billion that our customers will pay.
3235 That is the double cost. We are below the cap. Why should
3236 they be penalized more? And all that is, is a wealth
3237 transfer and a good portion of it going to States like
3238 Washington and California and others from the Midwest and it
3239 doesn't make any sense.

3240 Mr. {Shadegg.} Well, and the trading market itself, at
3241 least if we look at what happened in Europe, has made a
3242 number of people rich. That has allowed people to get rich
3243 off of the trading scheme itself, hasn't it, and is that a
3244 part of your objection or is that not a part of your
3245 objection?

3246 Mr. {Sokol.} Well, is it not only an opportunity for
3247 the gaming of the system, which will be massive. There was a
3248 recent article written that said within 3 years it will be
3249 larger than the trading of petroleum as a commodity market,
3250 and that is over \$1 trillion a year. But secondly, our
3251 industry doesn't need it. Just set the permits where they

3252 need to be and make us go do it.

3253 Mr. {Shadegg.} Got it. Some of us would agree with
3254 that.

3255 Quickly, this hearing is on the allocations. It looked
3256 to me like your testimony pointed out that the allocations as
3257 between electricity generation and high-intensity energy
3258 users, language that I think was negotiated by one of my
3259 colleagues from Pennsylvania, is not fair or equitable and
3260 the same with regard to the auto industry. Is that correct?

3261 Mr. {Sokol.} Well, I think there is a whole number of
3262 elements here that people in good faith probably tried to
3263 negotiate to be fair but this is a massive question and the
3264 allocation of fairness--there should be weeks of regulatory
3265 hearings where people can submit information to get these
3266 unintended consequences known. I mean, if you want to make a
3267 bad decision, you know, you are Congress and I am fine with
3268 that, you have the prerogative, but at least know the
3269 decision you are making, and that is what is not happening
3270 and this is a reordering of the American economy.

3271 Mr. {Shadegg.} Mr. Cousins, as I understood your
3272 testimony, which I thought was quite clear, there is no
3273 question but that at the cost of this legislation, which you
3274 said could not be passed on 100 percent, that being, I guess
3275 I calculated it about seven times what your profit has been

3276 in the past, 13 to 100 million, it would drive you out of
3277 business.

3278 Mr. {Cousins.} Yes, sir.

3279 Mr. {Shadegg.} Mr. Barton asked you about the number of
3280 job losses that would produce and you said direct and
3281 indirect were how many?

3282 Mr. {Cousins.} Direct were 1,200 and indirect were
3283 3,600.

3284 Mr. {Shadegg.} At your--

3285 Mr. {Cousins.} At our facility.

3286 Mr. {Shadegg.} And are there similar refineries that
3287 would be in the same position?

3288 Mr. {Cousins.} Yes, there are. There are approximately
3289 36 small refiners in the small category that are our size
3290 roughly spread all out in rural areas, and most of those
3291 would be equally vulnerable.

3292 Mr. {Shadegg.} I have one last question. It seems to
3293 me that in part this bill is being sold as a way to make us
3294 less dependent on foreign energy sources yet the story you
3295 told about the refinery built in India to deliver product to
3296 the United States, not to India, combined with this bill
3297 driving your company out of business, I guess you perceive
3298 this bill's impact resulting us having less refining capacity
3299 in the United States and driving us or forcing us to use

3300 foreign suppliers rather than domestic. Is that correct?

3301 Mr. {Cousins.} In the near term I think that is
3302 absolutely correct. In the long term, I think that is beyond
3303 my ability to predict.

3304 Mr. {Shadegg.} Thank you very much.

3305 Mr. {Markey.} Great. The gentleman's time has expired.
3306 All time for questions from the subcommittee members has now
3307 expired. We thank you all so much. This was a very valuable
3308 hearing. It is helping us to focus on the very important
3309 issues at the heart of this legislation. With the thanks of
3310 the committee, this hearing is adjourned and we ask the
3311 witnesses to stay close to us. We are going to need
3312 additional conversations with you. Thank you.

3313 [Whereupon, at 1:46 p.m., the subcommittee was
3314 adjourned.]