

**What Can Green Fleets Expect from
Climate Change Legislation?**

**Presented to the Green Fleet Conference
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Points to Cover

- What is cap and trade and why is Congress likely to adopt it.
- How high oil prices have changed the climate change debate
- Why we need to pass a climate change bill.
- What T. Boone Pickens wants to do to vehicle fleets
- How cap and trade will affect transportation infrastructure
- Green offsets and allowances
- What to do....

Why Is Congress Likely to Adopt Cap and Trade

Obama/McCain views on how to address climate change:

- Both would use cap and trade
- Both voted for Sen. Boxer's cap and trade bill in committee (Lieberman-Warner bill).
- Both have said they favor auctions of carbon allowances.
- Key House Chairmen and Speaker Pelosi favor cap and trade

How Cap and Trade Works for Most Carbon Emitters

The “CAP”

- Statute sets national cap, and quantity of available carbon allowances. This is the only cap.
- Cap adjusts downward each year.
- Each covered greenhouse gas emitter must present a carbon allowance for every ton of carbon they emit annually.
- Government auctions to highest bidder or gives carbon allowances out for free.
- Free market sets the allowance price

The “Trade”

- Allowance holders can trade, bank, sell, etc., allowances

Contrast: Transportation Companies Who Consume Oil

- With one exception, not regulated under cap and trade.
- Exception: Emissions reporting to EPA, but HR 6877 (Rep. Tammy Baldwin) would omit fleets
- No obligation to purchase or present carbon emissions allowances
- Their actual emissions are not even counted
- Mobile sources do not sequester emissions
- Presumed that whatever fuels that the oil companies sell become carbon dioxide.
- 114 gallons of gasoline yield 1 metric ton of CO₂

So What Do Transportation Companies Do Under Cap and Trade?

- Pay higher fuel prices as oil companies pass through the cost of cap and trade program.
- In short under cap and trade, fuel prices drive greenhouse gas emissions.

As of July, Recent Oil Price Increases Were A More Severe Restraint on Greenhouse Gas Emissions from Petroleum Fuels Than Any Climate Change Bill Under Consideration Would Be

- Chairman Dingell's proposed climate change concept is effectively implemented early
- Not even Lieberman-Warner comes close to driving oil prices like the July market did.

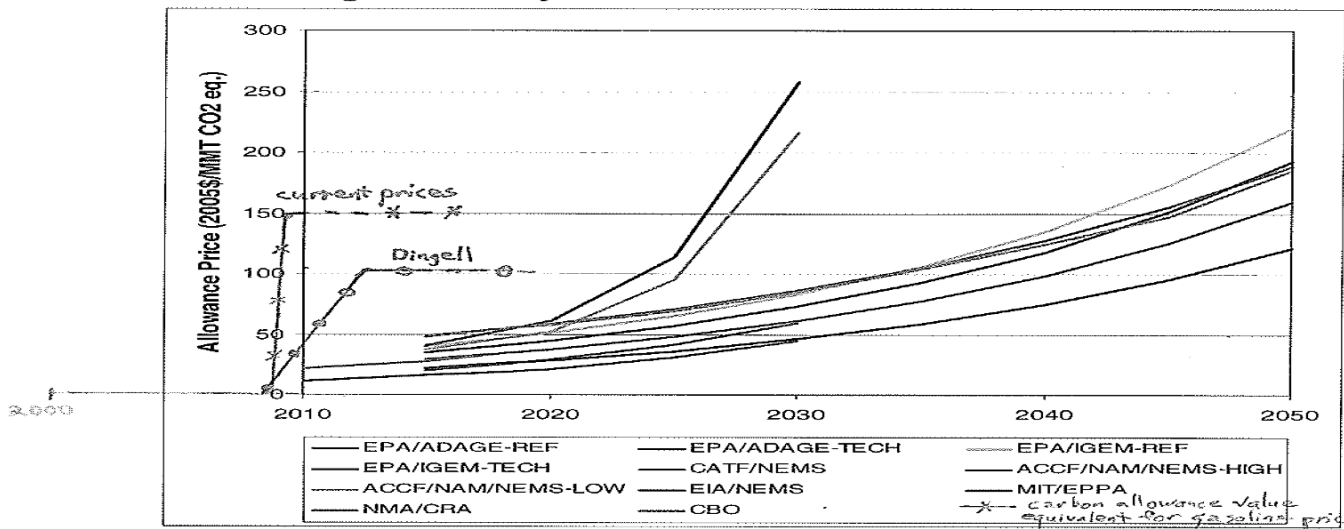
Chairman Dingell's proposed climate change concept was implemented early

- 9/27/07 Dingell proposes 50 cent per gal. gasoline tax plus \$50 per ton carbon fee phased in over 5 years.
- Equals 94 cents per gal. increase on gasoline which would yield \$3.80 per gallon by September 2012.
- 9 months later (June), gasoline was \$4.16/gal.
- Today, gasoline is not far from \$3.80 per gallon (\$3.70+? What time is it?)
- Never introduced – too expensive in a recession
- Even he called it “political poison”

Even Lieberman-Warner Was Overtaken by Fuel Price Increases

- As of July since their bill was introduced 10/18/07, gasoline prices rose \$1.35 per gal. and diesel rose \$1.70 per gal.
- Corresponds to carbon allowance value of \$150 per ton of carbon for gasoline and \$170 per ton for diesel.
- Economic modeling predicted no such price increases from the L-W bill until 2025-2050.

Figure 8. Projected Allowance Prices Under S. 2191



* carbon allowance value equivalent for gasoline price increases since S. 2191 introduction.

→ Dingell gasoline tax and carbon fee.

Sources for Figures 8 and 9: EPA/ADAGE and EPA/IGEM: "Data Annex" available on the EPA website at [http://www.epa.gov/climatechange/economics/economicanalyses.html] MIT/EPPA: Sergey Paltsev, et al., "Appendix D" of Paltsev et al., *Assessment of U.S. Cap-and-Trade Proposals*, MIT Joint Program on the Science and Policy of Global Change (2007). EIA/NEMS: EIA, *Energy Market and Economic Impacts of S. 2191, the Lieberman-Warner Climate Security Act of 2007* (April 2008). CATF/NEMS: Jonathan Banks, Clean Air Task Force, *The Lieberman-Warner Climate Security Act — S. 2191: A Summary of Modeling Results from the National Energy Modeling System* (February 2008). ACCF/NAMS/NEMS: SAIC, *Analysis of The Lieberman-Warner Climate Security Act (S. 2191) Using the National Energy Modeling System (NEMS)*, report by the ACCF and NAM (2008). NMA/CRA: CRA International, *Economic Analysis of the Lieberman-Warner Climate Security Act of 2007 Using CRA's MRN-NEEM Model* (April 8, 2008). CBO: Congressional Budget Office, *Cost Estimate: S. 2191: America's Climate Security Act of 2007* (April 10, 2008). Estimates extrapolated by CRS from available data where necessary. Estimates converted to 2005\$ using GDP implicit price deflator.

Why We Need a Climate Change Bill (the environmentalists' trump card)

- Supreme Court said greenhouse gases are “pollutants” that are covered by Clean Air Act.
- Without climate change legislation, EPA will regulate greenhouse gases via Clean Air Act.
- Recent federal appellate case said Clean Air Act not amenable to cap and trade mechanism.
- Nobody wants greenhouse gases regulated by 50 state implementation plans, but if there is no climate change legislation, we will need 60 votes in Senate to defang Clean Air Act.

What T. Boone Pickens Wants from Centrally Fueled Fleets

- Would take natural gas from electricity generation
- Would give it to transportation to substitute for oil
- Generate electricity from wind instead of natural gas.
- Why? To make natural gas compete with oil, which is expensive, instead of coal, which is cheap.
- Hidden detail: would mandate fleet vehicles use natural gas instead of petroleum

What's Wrong With T. Boone Pickens Plan?

- Natural gas-fired electricity generation is always ready to produce electricity, but the wind does not always blow ----- especially when you need electricity the most – hot summer afternoons.
- Thus, we can't dump the gas-fired electricity generators and we can't store electricity very efficiently.
- You have to choose between using gasoline, compressed natural gas or having a trunk.
- If the objective is a quick transition, use the 7 million flexible fuel vehicles on the road now. By 2012, half of Big Three production will be flexible fuel.

More On Oil Price Hikes

- EPA says fuel prices have doubled in last two years, effectively a \$200 per ton carbon tax.
- Sen. Bingaman says they will make climate change bill a “heavy lift” for Congress
- Key: Not all fuel prices went up the same

Effect on Transportation Infrastructure Funding

- Highway Trust Fund is nearly broke
- How does Congress increase fuel taxes in face of fuel price increases from the market and cap and trade?
- Cap and trade, as now structured, preempts funding of transportation infrastructure.

Prospects for Government Incentives for Green Vehicles

- Alternative fuel tax credits are in play.
- Free carbon allowances are possible but not likely.
- Carbon offsets are not likely – problem of “additionality.”

What Will Drive Likelihood and Timing of Climate Change Enactment?

- State of the economy
- Fuel prices
- Public perception of the effects of climate change

Ideas On What To Do

- Leave oil out of climate change legislation?
- Use a safety valve for carbon allowance prices and subtract out new gasoline taxes and further market price hikes.
- Amounts to fuel-adjusted safety valve on the price of carbon allowances.