

Presentation to OMB: Existing Power Plants GHG Rule

July 23, 2015

**Introduction**

Thank you for the opportunity to be here today. I am Ed Wolking, Jr., Executive Counsel for the Detroit Regional Chamber, and I serve as executive director of the Great Lakes Metro Chambers Coalition. With me today are Matt Smith, president of the Greater Pittsburgh Chamber of Commerce, Brandon Mendoza, government affairs associate with the Pittsburgh Chamber, and Tim Peckinpaugh, partner, K&L Gates.

The Great Lakes Metro Chambers Coalition of nearly forty chambers of commerce came together in 2008 to pursue constructive federal policies that would aid in the revitalization of the Great Lakes trading region – twelve states that have a profound economic impact on the nation’s economy – New York, Pennsylvania, Ohio, Michigan, Indiana, Illinois, Wisconsin, Minnesota, Iowa, Missouri, Kentucky and West Virginia. Our chambers number more than 100,000 businesses that employ over a million people. The competitiveness and success of this great manufacturing region is key to our nation’s future.

The Coalition is here today to register our great concerns about the economic impact of the US Environmental Protection Agency’s (EPA’s) Clean Power Plan on the Great Lakes economy. If adopted as proposed, these rules will have a profound negative impact on the manufacturers which are the heart of our region, with very little worldwide gain on carbon emissions reduction. We believe there is a better approach.

**Importance of Great Lakes Manufacturing**

The Great Lakes trading area is home to 123,000 manufacturers and their 5 million employees. It is the heart of this nation’s manufacturing base, accounting for 35 percent of U.S. manufacturing output, 42 percent of U.S. manufacturing jobs, 28% of the nation’s exports and 38% of all U.S. originated patents.

While manufacturing accounts for about 12% of the nation’s economic output, in the Great Lakes, it accounts for a significantly greater share, generally in the mid-to-upper teens. In only two states, New York and West Virginia, is manufacturing’s share of output significantly less than the national average. In Wisconsin, manufacturing makes up nearly 20% of Gross State Product, and in Indiana, that proportion is 28%. Five of the ten most manufacturing intensive states are located in the Great Lakes, and five of the top ten exporting states are also in this region.

Combined with the two principal provinces of our nation’s great trading partner to the north, Ontario and Quebec, this region houses the third largest economy in the world with an estimated annual output of about $6 trillion. Indeed, the Great Lakes is the fulcrum of the largest bi-national trading relationship in the world, and that relationship is fueled by manufacturing.

Manufacturing drives economic performance of the region and the nation. It relies on a highly integrated U.S. and Canadian multi-modal supply chain that must be always ‘on’, always ‘on time,’ and always affordable.

Manufacturing’s multiplier effect in the economy outstrips all other sectors except, ironically, public utilities. In the Great Lakes region, the impact of manufacturing is further magnified by the multipliers of some of the most advanced sectors in the world. We find it also ironic that federal policy which on the one hand has trumpeted the sector as a good source of middle class jobs and has sought to increase manufacturing competitiveness, has on the other hand proposed policies which would cripple manufacturing competitiveness. The EPA’s proposed Clean Power Plan is a primary glaring example.

Manufacturing has experienced a strong bounce-back from the recession, and economists and analysts agree that affordable energy has played a key role. One of the most affordable and abundant sources is coal.

**Importance of Coal**

The EPA’s proposed regulations will have enormous impacts on coal-fired power as we know it today. Coal provides affordable, reliable base load power, crucial for attracting and retaining our manufacturers. It provides continuous 24-7 power that can be concentrated in large amounts at individual large sites.

Manufacturing and coal together are critically important to our region. Coal provides more than half of the Great Lakes region’s electricity, and up to 84% in Indiana, our region’s most manufacturing intensive state. The enclosed table shows the large dependency of our states and their manufacturers on coal-fired electric power. Coal has many benefits over other sources of fuel. It is abundant, easy to transport, energy-dense, reliable and affordable.

Other sources of base load power – natural gas and nuclear – are also essential but subject to economic, regulatory and political volatility. All three of these sources require additional investment if we want to maintain our competitive advantage.

Even though wind and solar may be growing, they are less energy-dense, and utilities are still grappling with how to integrate these intermittent sources into the power grid without jeapordizing its stability. A study by the Brookings Institution, summarized in the attachment from the Economist magazine last summer, shows just how expensive wind and solar really are.

Nuclear could provide a stable, affordable alternative – and we favor its safe deployment – but there has been little political will to develop new nuclear plants, and, indeed, EPA has identified more than 6% of the nuclear power capacity in this country as “at risk of retirement,” and several of those plants are in Illinois.

Like coal, natural gas is also an abundant resource, but has its limitations. Natural gas is not always available for “just in time” delivery during extreme weather events. During the polar vortex of the winter in 2014, firm contracts for home heating took away supplies for electricity generation. As reliance on natural gas for electricity generation increases, price volatility will inevitably increase, and electricity prices will rise. Rising and volatile prices can be especially detrimental to industrial users, for which electricity is at least as important an input to production as any raw material.

**Impact of EPA’s Proposed Rule**

The Coalition is concerned that the EPA’s Clean Power Plan goal of a 30% reduction in carbon emissions from existing power plants by 2030 would be extremely difficult to achieve, and even if it could be achieved, the reduction in worldwide carbon emissions would be negligible, 1.3%. Moreover, the front-loading of EPA’s objectives to 2020 will prove to be extremely costly for both manufacturers and consumers. Those least able to pay will be most affected. And manufacturers are very concerned that the obligation of regulations in states that fail to meet the targets will be transferred to them.

The impact of the EPA regulations on individual states in our region will be significant, uneven, and potentially severe. Power-exporting states will be penalized. The reliability of an interconnected electric power grid that has been severely tested and is sorely in need of additional investment will be further threatened. In every one of the twelve states, governors or state environmental, natural resources, or public utilities agencies have objected to important parts of EPA’s Clean Power Plan.

Concerns have been registered at the federal level, as well. Both the Federal Energy Regulatory Commission (FERC) and the North American Electric Reliability Corporation (NERC) have expressed concern over the reliability of the nation’s electricity grid by the year 2020, from the changes likely to be generated by EPA’s proposed rule. NERC has called for a detailed analysis to determine whether the necessary gas pipelines and transmission infrastructure can be in place, and it has also called for a way to insure reliability if supply interruptions and price spikes materialize.

Power plants scheduled to be phased out by 2030 may actually be shuttered earlier as a result of the Clean Power Plan rules, leaving the fragile electricity grid even more vulnerable to brownouts or blackouts. Electric power generation and consumption is a complex, interdependent, and critical underpinning of the U.S. economy. Energy consumption does not start and stop at a state’s borders. Our nation needs a coherent, comprehensive energy policy that also sensibly addresses the generation and distribution of cleaner electric power. EPA’s new source and clean power rules, drafted independently of a coherent national energy strategy, hurt the cause of a more prosperous economy that can drive a cleaner environment.

As the examination of EPA’s proposed rule has unfolded, power distributors and users have begun to share their assessments of the probable cost. Those estimates are significant. Midcontinent Independent System Operator, MISO, for example, has estimated that implementation of the proposed rule would cost $55 billion to $83 billion over twenty years.

A study by NERA Economic Consulting, on behalf of the broad-based American Coalition for Clean Coal Electricity, projects that the costs to comply with the proposed rule could total $366 billion in current dollars, that 43 states will have double digit electricity price increases, and that 14 of those states will have peak year price increases of more than 20%. NERA also projects that EPA’s Clean Power Plan could cost consumers and businesses $41 billion or more per year, much more than the costs of all Clean Air Act rules for power plants in 2010 ($7 billion) and the annual cost of the Mercury and Air Toxics Standards rule ($10 billion). All of this cost would produce only a marginal effect on world climate change – less than ½ percent reduction in CO2 concentrations, lower global average temperature of less than 2/100th degree, and reduction of sea level rise of 1/100th inch.

Although EPA’s proposed rule does not mandate any single method for meeting the CO2 target, it clearly directs states to adopt energy policies that shift electricity generation from coal to other energy sources, such as renewables. We recognize the role that renewable resources can play in generating a portion of our electricity needs. In fact, all of our Great Lakes states have already deployed renewable resources to support a portion of their electricity generation. Unfortunately, these early actions are being used by EPA to support more aggressive targets for increasing amounts of renewable energy deployments and generation in states. Nearly every Great Lakes state will need to at least double its deployment of renewable energy generation by 2029 from its 2012 levels, and two Great Lake states (Ohio and Pennsylvania) will have to increase their renewable energy by nearly eight fold. These targets will be very difficult to meet and illustrate the unfair and uneven impacts of the proposed rule.

Moreover, some states, like Pennsylvania, produce more electricity than is consumed[[1]](#endnote-1), exporting it to other states. Should Pennsylvania be punished for electricity consumption elsewhere?

Another troubling area is the 1.5% annual reduction target for energy consumption by state. EPA apparently believes that a 1.5% savings from efficiency policies is achievable. EPA seems to be missing the fundamental connection between economic growth and energy consumption. As a state’s economy improves, so often too does its energy consumption, which leads to increased CO2 emissions. Will a state be penalized if it has worked hard to build a growing economy?

**Coalition’s Proposal**

Over time, strong economies produce higher living standards and general improvements in environmental quality – not the regulations themselves. Our nation’s leaders are publicly committed to a competitive, world-class manufacturing sector. A critical factor in our manufacturing resurgence is a competitive and improving energy position. Do we want to sacrifice that advantage?

Our manufacturers need a reliable supply of electricity at stable prices in order to be competitive. Half of our region is in the PJM Interconnection RTO, which already has the largest amount of planned coal-fired power plant retirements[[2]](#endnote-2). These proposed regulations will accelerate this trend faster than the grid can adapt in the current electricity marketplace.

For these reasons, we urge that EPA:

1. Fully utilize all of our energy resources. Keep the Administration’s pledge of an “all of the above” energy strategy that truly seeks to maximize the net benefits of coal. Commit to strong, results-oriented funding levels for the National Energy Technology Laboratory, which is leading the way with cutting-edge R&D on clean coal technologies.

1. Fully commit to carbon capture and sequestration (CCS) technologies and workforce retraining. Meaningful federal investment in CCS technology, as well as beneficial reuse of carbon, must be connected to the implementation of the requirements on coal-fired generation. We need a skilled workforce to keep up with these significant changes and mitigate likely job displacement. The EPA must engage all relevant agencies and all stakeholders to construct a realistic pipeline of technology and people to achieve environmental goals and build a growing economy.
2. Not penalize states for their success. This is a national issue. Our energy production and consumption does not start and stop at state borders. Compliance must not disproportionately penalize one state at the gain of another.
3. Carefully consider whether the benefits are worth the costs. The current course of CO2 emission reductions will produce similar positive results as would the proposed regulations over the same time as technology improves and planned replacement capacity comes on line. Already, China has made significant improvements in its coal-fired fleet by importing American clean coal technologies.

Greenhouse gas emissions from electric power plants in the U.S. peaked in the 2005 – 2007 period and have been generally declining since. The Coalition believes that the current course of CO2 emissions reductions will produce similar results as would the proposed regulations over the same time frame, as technologies improve and prior-planned replacement capacity comes on line. We need to stay the course, not throw additional unnecessary regulatory costs and obstacles in the path of the sweeping forces already underway that are restoring our nation’s energy independence and leading to a cleaner energy future.

Thank you for the opportunity to share our concerns today.

1. Energy Information Administration, “Pennsylvania State Energy Profile,” http://www.eia.gov/state/print.cfm?sid=PA (July 9 2014) [↑](#endnote-ref-1)
2. "Coal Plant Retirements: Feedback Effects on Wholesale Electricity Prices," *The Brattle Group,* November 2013

   iii Thomas Content, “Kewaunee closing makes Wisconsin's task to meet EPA rules tougher,” *Milwaukee-Wisconsin Journal Sentinel*, June 14 2014

   iv Julie Wernau, "Utility bill spikes caused by lack of electric, gas coordination, experts say," *Chicago Tribune*, July 9, 2014

   v Energy Information Administration, “Pennsylvania State Energy Profile,” http://www.eia.gov/state/print.cfm?sid=PA (July 9 2014)

   vi "Coal Plant Retirements: Feedback Effects on Wholesale Electricity Prices," *The Brattle Group,* November 2013 [↑](#endnote-ref-2)