Appendix B. Analysis Clarification Letter

March 30, 2007

Dr. Howard Gruenspecht
Deputy Administrator
Energy Information Administration
U.S. Department of Energy
1000 Independence Avenue, SW
Washington, DC 20585

Dear Dr. Gruenspecht:

In a letter dated February 5, 2007, Senators Lieberman and McCain requested that the Energy Information Administration (EIA) analyze the economic impacts of S. 280, the Climate Stewardship and Innovation Act of 2007. Recently, we met with your staff regarding the interpretation of specific aspects of the bill and certain key assumptions to be used in the analysis. We are writing to provide further clarification of the request in light of our discussion at that meeting.

Reference Case: Evaluate the proposed bill relative to the reference case of the *Annual Energy Outlook 2007*, or a comparable update to the reference case that reflects any additional technology options or modeling features that are necessary for this analysis.

Emission Caps and Banking: Based on discussion with your staff, we expect you will assess the bill's impacts through 2030. However, since the draft bill lowers the cap on covered sectors' emissions in 2030, entities should have an incentive to over comply – "bank allowances" – in years immediately before 2030 so that they can use these allowances to smooth the impact of the stepwise reduction in the emissions cap that occurs in those years. Your analysis should address this incentive by choosing an emissions trajectory that is consistent with achieving the specified emissions targets without reliance on the use of banked allowances at some point in the decade after 2030, but is also consistent with the over compliance that is expected in the early phases of the emission reduction program.

Auction Share: The bill does not specify the percentage of allowances that would be allocated to the Climate Change Credit Corporation (CCCC) for auction. Assume that 30 percent of the 2012 allowances are allocated to the CCCC, and that the percentage increases at a constant annual rate to reach 90 percent of the 2030 allowances. As a sensitivity case, assume that 70 percent of the 2012 allowances are allocated to the CCCC, and that the percentage increases at a constant annual rate to reach 90 percent of the 2030 allowances.

Allocation of CCCC Funds: For macroeconomic impact analysis, assume that funds for transition assistance and adaptation (Sec. 202 (b)(2)), starting at 20 percent in 2012 and falling 2 percent per year there after, are allocated to consumers. Similarly assume that the 10 percent of the CCCC proceeds for adaptation and mitigation assistance for low income persons and communities (Sec. 202 (b)(4)) also flows to consumers. Assume that the 10 percent of the CCCC funds allotted for adaptation assistance for fish and wildlife habitat (Sec. 202 (b)(5)) will lead to increased government expenditures. For all the remaining funds of the CCCC that will be allocated for technology deployment programs (Sec. 202 (b)(6)), assume a 10/90 split between consumers and businesses. Assume that some of the funds to consumers are used for rebates on energy efficiency measures, similar to the assumptions made in your 2003 study of S. 139.

Early Auction: For the early auction of allowances under Sec. 162(g), assume that half of the 2012 allowances to be auctioned are auctioned in 2008 and the remainder in 2012. Assume that one fourth of the proceeds of the early auction are expended in each subsequent year, 2008 to 2011. Assume that 10 percent of the proceeds funds consumer-oriented energy efficiency programs and that 90 percent flows to business.

Technology Impact: To the extent you cannot address the bill's positive effects on the cost, performance and availability of specific technologies to reduce greenhouse gas emissions, provide a sensitivity case to examine the bill's impacts under the more optimistic technology development assumptions in your Annual Energy Outlook 2007 integrated high technology case.

Allowance Offset Percentage: Assume that all covered entities will take advantage of the 30 percent offset provision, if it is economical to do so. In aggregate, then, assume up to 30 percent of the allowance requirements can be met through offsets. As a sensitivity case, assume up to 100 percent of the allowance requirements can be met through offsets.

While we want as thorough an analysis as you can provide, a report by mid-June would be helpful. Please note that timing is an important priority for this request, even if is necessary to forego more in-depth analysis or additional sensitivity cases in order to respond in a timely manner.

Please clearly identify any aspects of the bill and its impacts that your analysis does not address.

Please do not hesitate to contact us should you have questions regarding any of the above.

Sincerely,

David McIntosh
Office of Senator Lieberman

Floyd Des Champs
Committee on Commerce, Science and Transportation

cc: Pat Hamman, Congressional Affairs, EPA

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