Appendix B. Followup Letter

Congress of the United States
Washington, DC 20515

June 13, 2006

Mr. Guy F. Caruso
Administrator
Energy Information Administration
U.S. Department of Energy
1000 Independence Avenue, SW
Washington, DC 20585

Dear Mr. Caruso

In a letter dated May 2, 2006, we requested that the Energy Information Administration (EIA) analyze the economic and industry impacts that would result from enactment of H.R. 5049, the Keep America Competitive Global Warming Policy Act.

Recently, our staff met with Ron Earley, Dan Skelly, and Erik Rasmussen of your staff, who asked that we provide further guidance regarding the interpretation of specific aspects of our bill and certain key assumptions to be used in the analysis. Accordingly, we offer the following guidance:

In general:

1. In keeping with the conventions used in your *Annual Energy Outlook 2006*, report energy and allowance costs in constant 2004 dollars, and report macroeconomic indicators, such as GDP, in constant 2000 dollars.

Allowance System

2. Assume the allowance system regulations are issued on July 1, 2008, and that allowances are issued annually beginning on January 1, 2009.

3. Section 3(b) in the bill provides some latitude to the EPA Administrator in establishing the prospective number of allowances issued based on the emissions trend over the three preceding years. For purposes of the EIA analysis, assume that the number of allowances issued per Sec. 3(b) in 2009 and thereafter is equal the forecast values for greenhouse gas (GHG) emissions for 2009 as presented in the 2006 Annual Energy Outlook (AEO 2006). Assume the allowances issued remain at that level throughout your projection horizon.

4. Based on Section 4 of the bill, assume the allowances are allocated as follows:

25 % DOE for R&D programs
10 % State Department for investment in developing countries

35 % EPA for use
- 5 % to fossil fuel electric generation industry
- 5 % to petroleum and natural gas industries
- 5% to coal industry
- 5% to energy-intensive industries
- 15% to transition assistance to individuals and local government through states in year 1 (reduced by 1.5 percent per year thereafter)

5% Low Income Home Energy Assistance Program (LIHEAP) assistance to individuals through states

25% U. S. Treasury general fund

5. Assume there is no allowance banking, given the 2-year expiration time for allowances.

6. Per Sec. 5, analyze two possible trends for safety valve allowance prices, each starting at $25 per metric ton of carbon in 2009 (nominal dollars). In the first case, assume the nominal safety valve price grows each year at a rate matching the projected growth in the Consumer Price Index--All Urban, plus 1.0 percentage point. In the second case, assume a 2.0 percentage point addition to the projected CPI-All Urban growth rate. For projections, use the CPI—All Urban rates presented in AEO2006.

7. Per Sec. 5, the U.S. Treasury can sell an unlimited number of allowances at the safety valve price. Assume all proceeds from the sale of these safety valve allowances flow to the general fund in the U.S. Treasury.

8. The bill addresses emissions of six classes of greenhouse gases, as well as carbon sequestration. We understand that EIA's model provides estimates of energy-related carbon dioxide emissions and that in previous studies you have used external estimates of abatement opportunities for the other greenhouse gases and carbon sequestration outside the energy sector. For this analysis, assume the bill coverage extends to the other greenhouse gases for which you have readily available abatement cost and sequestration information, consistent with assumptions in your recent analyses of the Climate Stewardship Act and the climate proposal by the National Commission on Energy Policy.

Spending Provisions of the Bill

9. We understand that no program-specific content can be modeled by EIA in NEMS, with one possible exception -- LIHEAP. This would lower the price paid for energy to this group and lower the overall price for energy by a small margin.

10. We understand that the analysis will indicate that there is a flow of funds from the Federal government to individuals, but the EIA will not do a detailed assessment of the impact of the state level features of the bill.

11. Also, there will be a flow of funds from the Federal government to finance projects overseas. We understand that EIA cannot assess these overseas projects.

12. Although there may be Federal budget implications of the provisions of this bill, EIA will not analyze the possible Federal budget impacts.

We understand that this request is coming to you just as you are beginning the development of the 2007 Annual Energy Outlook. We request that this analysis be completed by mid-August, as discussed with your staff.

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

Sincerely,

Tom Udall

Tom Petri