The CRA Climate Analysis: Extreme Again

America's Climate Security Act of 2007 [S. 2191] is a bi-partisan bill that would create a cap-and-trade program to cut greenhouse gas emissions in the U.S. The Edison Electric Institute, a trade organization representing electric utilities, recently paid consulting firm Charles River Associates International (CRA) to assess the possible economic impacts of the legislation. An assessment of CRA's analysis using accepted academic modeling reaches the following conclusions:

- **CRA's results are dramatically different than economic assessments by researchers in academia and government**. For example, CRA's GDP forecasts in their update for Edison Electric Institute <u>are 318% – 419% and 276% – 632% higher</u> in 2015 and 2050, respectively, than those found by all the other models that have assessed the economic impacts of S.2191 to date.

- **CRA has a history of presenting extreme views for its industry clients.** For example, CRA's analysis in 2003 of the McCain-Lieberman bill projected household costs that were <u>three to four times higher</u> than the upper range of results in an MIT study, and <u>10 to 14 times higher</u> than MIT's lower range.

- **Determining exactly why CRA's numbers are so high is difficult, both because of how CRA reports their results and because the CRA model remains a "black box" to outsiders.** Although CRA released some information in a response to a request from Senator Lieberman, they have never fully opened up their model to outside peer review, so key assumptions remain hidden. Moreover, CRA lumps together results from various scenarios without specifying which scenarios lead to which results. One reason for the divergence from other models, however, appears to be that CRA ignores the role of international credits, which under the Lieberman-Warner bill could meet up to 15% of compliance obligations. In addition, their analysis assumes high costs for new coal-fired power plants with carbon capture and sequestration technology, and imposes artificial constraints on how widely that technology is used.

- **Like most economic forecasting models, CRA's analysis considers only one side of the ledger: it considers the costs of reducing emissions, but fails to consider the costs of inaction.**

- **No single model should be relied upon for policy making.** Instead, policy makers should look to the full range of economic models for possible guidance on the possible impacts of climate policy. And when confronted with a range of numbers, a common rule of thumb is to throw out the lowest and highest numbers, and concentrate on the middle of the range.

Former Federal Reserve Chairman Paul Volcker summarized the economic situation best: **"If you don't take action on climate change, you can be sure that our economies will go down the drain in the next 30 years. What may happen to the dollar, and what may happen to growth in China or whatever, will pale into insignificance compared with the question of what happens to this planet over the next 30 or 40 years if no action is taken."**

Our analysis is based on testimony by CRA, documentation supporting that testimony, CRA's recent update to their analysis, and economic models maintained by researchers at MIT, Research Triangle Institute (RTI), and the U.S. Department of Energy.