

Comments about Washington's Energy and Climate Strategy: HB 2658/SB 6515 and SB 6421

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As part of the effort to address Washington's carbon emissions and energy strategy, the legislature is considering policies that will set a narrow path for the state's economy in hopes they can predict the future of Washington's economic growth. Such an approach is unlikely to be successful as recent efforts to pick and choose the course of technology demonstrate.

A better approach would be to provide general incentives to innovate and conserve across the entire range of energy use, taking advantage of the knowledge, creativity and enthusiasm of all of Washington's entrepreneurs, scientists and citizens. The approach currently being offered imposes policies involuntarily on Washington's residents, rather than engaging their creativity.

The following is our analysis on key elements of HB 2658/SB 6516 found in Part IX, Sections 901 – 904 and SB 6421 Sections 1 – 4.

Generally, we believe these policy options should be addressed separately from the reorganization of the Department of Commerce. The direction outlined in these sections represents such a potentially costly and sweeping policy, it should be given the appropriate level of attention by the relevant legislative committees and through a thoughtful process with energy experts.

Section 1 (1). "The legislature further finds that the state's dependence on fossil fuels is both an economic and environmental liability, as the citizens of Washington spend significant resources on the import of fossil fuels..."

Reducing reliance on foreign oil may help shield the state from price variability and prevent transferring dollars to dictatorial regimes. Doing so, however, is not a cost savings but will likely increase costs. The alternatives to oil and natural gas cost more. Biofuels are more expensive and the cost of supporting that technology has grown so much that the federal government dropped the \$1 per gallon subsidy. Economically, it makes more sense to buy cheap oil and spend our dollars on things we can do better, rather than artificially increase the price of energy. Increasing spending on energy is a cost that will reduce economic prosperity, not the other way around.

Section 1(3)(a). "Increase competitiveness and economic security by reducing fossil fuel imports;"

Reducing imports of cheap fossil fuels is very unlikely to improve Washington's competitiveness. The reason carbon emissions are a concern is because oil is cheap. If alternative energy sources were inexpensive, we would not need policies to encourage their use. Thus, these policies encourage replacing inexpensive energy with more expensive forms of energy. Spending more to get less energy by buying alternatives to imported fossil fuel hurts prosperity in the same way growing our own coffee, instead of importing it, would drive coffee prices up, leading to less

coffee being sold and fewer jobs. It should be clear that the goal is to see a reduction in the use of carbon-based energy to reduce the risk from climate change. That is a goal we support, but we should not pretend that limiting energy options will reduce prices or make us more prosperous.

Section 1(3)(b). “Develop a clean energy economy and jobs through business and workforce development;”

Choosing a particular economic sector to develop has not proven to be a successful economic strategy. It limits attention to a narrow sector and Washington’s economic success has not been a result of such central planning efforts. Microsoft, Boeing, Amazon and Starbucks all developed organically without government planning. Had legislators promised to make Washington state the coffee capital of the world two decades ago, any proposal to that end would have been mocked. Yet, Starbucks has achieved that level without a dedicated state strategy.

Additionally, workforce training may make labor more available, but there is more to building a business than labor cost and supply. When Imperium chose Aberdeen for its bio-refinery, it did so despite the fact that there was an educated workforce in Anacortes with refining skills. Other factors weighed more than the availability of a trained workforce.

As such, taxes and regulation to support this direction are likely to undermine businesses that are currently strong and growing in favor of a speculative effort focused on a narrow economic sector that is being enticed by many other states as well and does not currently have a strong base in the state. Is it realistic to believe that we can 1) accurately predict the state’s economic future, 2) offer the right combination of incentives, 3) without undermining current economic sectors and, 4) in a way that allows us to catch and surpass states and countries that have been doing this for many years?

Section 1(3)(d). “Maintain competitive energy prices that have been an instrumental part of our state’s economic success to date.”

This is a strange goal to include with the others. All of the other strategies are designed to replace low-cost, carbon-based fuels with higher cost, carbon-free energy. This will help meet the goal in section (c) to “meet the state’s obligations to reduce greenhouse gas emissions,” but that goal comes at a cost. Some claim that development in clean energy will bring costs down to the level of carbon-based fuels in the near future. We should remember, however, that a 1977 Stanford Research Institute study predicted that solar energy “is likely to dominate the space-heating market for new construction as soon as the year 2000.” It is less than 1 percent today. Hoping that we can increase our use of carbon-free energy, reduce the use of cheap, carbon-based energy and keep our costs as low as they are is a strategy that hasn’t been effective anywhere in the world.

Section 2 (1). “Pursue energy efficiency and conservation as the state’s preferred energy resource;”

It is unclear why this approach is superior to other approaches. For instance, would we “prefer” to spend \$1 to conserve a kWh of energy or generate a kWh of wind energy for 15 cents? Stating a preference for efficiency and conservation gives no guidance on when to prefer it and to what standard those decisions are made. If it is only preferred when all else is equal, it is essentially a useless statement because 1) all else is never equal and 2) there is no inherent reason conservation is a superior strategy to others whether the goal is carbon reduction or cost savings. Narrowing the options available to achieve those goals simply makes it more difficult to do so and drives the cost of the goal up.

It may be argued that conservation is the least expensive way to achieve those goals, but then the standard we should use is what is least expensive, not set an arbitrary goal of promoting conservation whether it is least expensive or not. Ironically, this statement, which appears intended

to clarify policy, actually makes direction less clear by adding additional complications that constrain the achievement of the goals outlined in Section 1.

Section 2(4). “Improve transportation energy use through increased vehicle and system efficiencies, development of electricity, biofuels, and other clean fuels, and land use policies that provide improved transportation choices.”

This would continue the state’s poor track record in predicting the future of transportation technology. In the past, we have:

- Predicted that all-electric or hydrogen cars would be the technology of the future. California even created mandates in the early 90s but had to remove them because the technology didn’t exist.
- Created the “hydrogen highway” which was to allow hydrogen vehicles to drive from LA to Vancouver for the Olympics. This has not occurred.
- Promoted biofuels as an environmentally-friendly alternative to petroleum. The city of Seattle has now stopped purchasing soy-based biofuel because the EPA reports that it is more environmentally damaging than regular diesel. Additionally, the environmental and economic problems with corn-based ethanol are well known.
- Advocated light-rail as a way to reduce carbon emissions when Sound Transit’s research shows that it will reduce operational CO₂ emissions by a paltry one percent by 2030.

While some of the technologies listed here may emerge, there is no evidence that our record of prediction will be any better in the future. Indeed, the carbon-free transportation technology of the future may not be any of these. Instead it may be high-speed Internet that allows the reduction of commuting and transportation-related emissions. Narrowing the choice of technologies reduces the chances of success.

Providing a broad-based, technology-independent incentive is the best way to encourage the development of technologies that are most efficient and technologies that are scientifically promising but are not blessed with effective lobbyists. Statutory preferences for certain types of technology inhibit the development of technologies that hold promise but have not received these preferences. Hybrids are one such example. Just ten years ago, hybrids received no favorable treatment when compared to hydrogen or electric vehicles. They had to succeed despite preferences for other technologies. Only years later did they receive government subsidies and favoritism. Efforts to choose particular technologies are inherently backward-looking, choosing existing lines of technology rather than encouraging the development of new technologies that are currently unknown.

If the state is serious about improving economic security, creating jobs, cutting carbon emissions and keeping energy prices low, they should increase the number of options to achieve these goals. This will encourage not only technologies that are currently promising, but encourage scientists and entrepreneurs to push the boundaries and use their creativity to provide new options. It will also emphasize innovation and prosperity rather than attempting to impose rules designed to modify lifestyles that are costly and ineffective.

If, however, we believe we can accurately predict the economic direction of the state by making risky bets on currently popular, but unproven, technologies and hoping that citizens will modify their living arrangements to meet the desires of policymakers, we will not only see increased costs but will fail to meet the environmental goals that provide the very justification for those policies.