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July 27, 2017

Dear Senator Lankford and Representative Jenkins,

We write in support of your bill, the Transparency and Honesty in Energy Regulations Act of 2017 (THERA). THERA halts the use of the fatally flawed and arbitrary "social cost of carbon" (SCC) metric, as well as the related "social cost of methane" (SCM) and "social cost of nitrous oxide," in agency rulemaking and regulatory action. We applaud your leadership on this issue and urge other Representatives to support this legislation.

The SCC estimate is a product of the Obama administration's Interagency Working Group (IWG) on the Social Cost of Carbon. The problems with this approach are many, but the most important are that these calculations are "wholly arbitrary," that the IWG refuses to follow OMB's guidelines for economic analysis, and that the process relies on economic models that are calibrated to follow climate model projections, not actual, real-world observations. The problems are too large to ignore, especially since they are being used to justify regulations that make energy more expensive for American families and businesses.

The biggest problem with using the SCC for regulatory purposes is that the computer models generating these estimates contain arbitrary inputs. MIT Professor Robert Pindyck wrote that these computer models are "close to useless" for guiding policymakers, since the damage estimates inside of them are "arbitrary" having no basis in either economic theory or empirical observation.

If the arbitrary nature of the SCC (and related concepts) weren't a big enough problem, OMB's Circular A-4 outlines some requirements for "good regulatory analysis." The Obama administration's IWG, however, refused to follow two of the important guidelines (an analysis at a 7 percent discount rate and an analysis of only domestic benefits instead of global benefits). Their failure to comply has the combined effect of justifying much more costly regulations which, in turn, drive up the cost of energy in the United States.

Another major flaw is that the IWG tuned their calculation of the SCC to follow computer climate models, rather than real world data. If the calculations are re-run using empirical data, according to one model the estimated social cost of carbon should be 30 to 50 percent lower and according to another model, the SCC should be more than 80 percent lower. In fact, if the IWG only used this second model, there is a 40 percent chance that the SCC would be negative, i.e., carbon dioxide actually turns out to be a benefit to the economy. For more on this issue, see this op-ed and this paper.

Your bill recognizes that the government has been playing “fast and loose” with the SCC and related measures, in what can fairly be described as an attempt to generate numbers that justify agencies’ administrative actions in pursuit of a political agenda on climate change. By putting a stop to it, your legislation will also put a stop to higher energy prices for American families and businesses. We applaud your efforts and thank you for this important initiative.

Sincerely,

Thomas Pyle, American Energy Alliance
Myron Ebell, Competitive Enterprise Institute
Joseph Bast, Heartland Institute
Thomas Schatz, Council for Citizens Against Government Waste
Craig Richardson, E&E Action
Grover Norquist, Americans for Tax Reform
Phil Kerpen, American Commitment
Amy Oliver Cooke, Independence Institute
Rick Manning, Americans for Limited Government
Harry Alford, National Black Chamber of Commerce
Dave Stevenson, Caesar Rodney Institute
Wayne Brough, FreedomWorks
Jim Martin, 60 Plus Association
Judson Phillips, Tea Party Nation
Norm Singleton, Campaign for Liberty
Paul Gessing, Rio Grande Foundation
Jameson Taylor, Mississippi Center for Public Policy
Kory Swanson, John Locke Foundation
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Brett Healy, MacIver Institute