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## THE KANSAS CITY STAR.

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The Kansas City Star

May 31, 2009 Sunday

**SECTION:** A; Pg. 11

**LENGTH:** 1501 words

**HEADLINE:** Plan puts a price tag on pollution

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**BODY:**

Look at pollution as pork belly futures.

Or try thinking of "cap and trade" as a game of musical chairs, where the granddaddies of greenhouse gases scramble for dwindling seats.

Another analogy: That AT&T commercial with the mother who doles out tokens of unused cell-phone minutes to her sons? If each token were a permit to pump a ton of carbon dioxide into the air, and the sons were coal-fired power plants

Still confused about cap and trade, aren't you?

"I tend not to use analogies, because I'm not sure anything fits," said Eric de Place, at the environmental think tank Sightline Institute in Seattle. "We've never set a national price on carbon emissions."

But Congress appears headed in that direction, touting cap and trade as a market-based approach to warding off global warming.

Here are some questions and answers:

**What does "cap and trade" mean?**

Let's start with "cap."

It is an overall limit set for greenhouse gas emissions nationwide, based on a previous year's totals. The year 2005

or 2006 would be tempting benchmarks, since carbon dioxide emissions were peaking and have since been dipping, largely because of the recession.

As the years pass, the cap gets lower and lower.

If President Barack Obama gets his way - he likes cap and trade - Congress will pass a plan that will reduce total emissions by at least 14 percent below 2005 levels in 2020 and 80 percent below 2005 levels by 2050.

The "trade" side of the package would allow companies to buy and sell pollution permits.

### **How do you trade pollution permits?**

You go shopping in the emissions market or bid at an auction.

Say you want to build a power station. You calculate that you need permits to cover 75,000 metric tons of carbon-dioxide-equivalent gases the plant will cough up in the first year.

It just so happens that Joe's Electric Co. has unused permits to sell, having just retrofitted its operations to lower emissions. If the exchange price for permits stands at \$10 to emit one ton of carbon emissions, you can pay Joe \$750,000 for the papers that allow you to emit.

(Consider yourself lucky. Large older power plants emit *millions* of metric tons annually, so they would pay a lot more.)

### **And this is supposed to wean us off fossil fuels?**

It could, because of the financial incentive for energy producers to go greener.

Imagine if electricity demand shoots up (it always does in good times) and everyone's desperate to generate power just as you're planning your station.

The demand drives up the market price for permits to, say, \$40 per ton of pollutant. Then maybe you start thinking of fuel sources other than coal - like natural gas, wind power or solar energy.

An oil producer might ramp up research on biofuels.

### **But what about Jane's Cement Plant, which can't easily trim the emissions it produces?**

Jane could search the world for a project that foils climate change, such as reforestation or investment in wind farming, for an offset option.

Under most cap-and-trade plans, companies can earn offset credits that let them exceed carbon allowances. But if Jane, for example, writes a check to save the rain forests, she'll need to prove that her contribution will offset the damage of those emissions not covered by her permits.

### **Will the first batch of permits be sold or given away by federal regulators?**

Obama wants companies to pay from the start at auctions. Industry would prefer Round 1 to be free - enabling companies to post hefty returns if they play the market right and adopt cleaner practices.

If the government auctions off pollution permits, proceeds could go into research of alternative fuels, assistance to low-income families needing to weatherize, and the creation of what Obama foresees as millions of green jobs.

### **Who plays?**

Congressional proposals center on large, "upstream" energy producers and deliverers: Electric companies, oil refineries, tanker docks, maybe railroads and steel mills.

Many farmers want to play. Under voluntary programs that already trade carbon emissions, growers can get a nice check from their Farm Bureau if they adopt environmentally friendly practices such as no-till planting.

But a cap-and-trade bill pushed through a committee by Democrat Reps. Henry Waxman and Edward Markey left farm groups wondering if they had any role at all.

"Downstream" users of fossil fuels - including the gas station operator or any family that likes air conditioning - would be left out of the marketplace of permits.

They'll just pay the energy bills, which would almost certainly climb.

"If our production costs go up," said Floyd Gilzow of the Missouri Public Utility Alliance, "it's not like we (municipal utilities) have a big pot to draw from other than the ratepayers."

### **How did the idea evolve?**

The first emissions trading market was established by Congress in 1990 to curb sulfur dioxide releases, a primary cause of acid rain.

The legislation worked - U.S. sulfur dioxide emissions have been cut in half through the use of scrubbers and other pollution controls.

So Democrats and environmental groups that once favored taxing emissions warmed up to potential marketplace solutions.

"We're trying to be compassionate" to business, said Joe Spease, who examines global-warming issues for the Kansas Sierra Club. "George W. Bush would be proud."

But scientists say carbon dioxide is far trickier than sulfur dioxide to clean out of a smokestack. Nobody has yet found an affordable way to do it and then store away the stuff.

### **What does cap and trade cost taxpayers?**

Until Congress agrees on a framework - *if* it can, given the multiplicity of options - the federal cost is unclear.

More regulators would be needed to keep companies honest about emissions and to monitor exchange markets. Think in terms of a hybrid of the Securities and Exchange Commission and the Environmental Protection Agency - neither the most trusted of institutions at the moment.

### **Wouldn't stopping global warming be worth it?**

Whoa! Not so fast.

The big question, economically, isn't what cap and trade costs taxpayers, but what it would cost energy consumers - that's all of us - and whether a fragile economy needs it now.

According to the U.S. Energy Information Administration, a cap-and-trade bill introduced last year in the Senate would add anywhere between \$30 and \$325 to average annual household energy costs by 2020.

The EPA estimates an extra \$98 to \$140 per year. A Congressional Budget Office expert recently figured the average cost at \$1,600 per year.

"The point is we really don't know how much it would cost," said Jerry Taylor at the libertarian-leaning Cato Institute, who attacks the proposals for having "optimistic scenarios and dodgy data."

### **What about the problem of the whole world heating up?**

Taylor said if cap and trade hit its goal and U.S. carbon emissions fell 80 percent by 2050, the effect on global warming would be a fraction of one degree Fahrenheit. "Can you even put a price tag on a probability that small to measure?"

Sure you can - and we must, said Spease of the Sierra Club.

"What drives me crazy is that business interests aren't talking about the economic damage if nothing is done," he said.

A 2006 study by British economist Nicholas Stern projected between 1 percent and 2 percent of global gross domestic product would have to be spent to avoid climate change at its worst - but failing to do so could drive down the GDP by 20 percent by century's end.

### **Is anyone else capping and trading CO<sub>2</sub> emissions?**

Yes, even here in America.

Ten Northeast states from Maine to Maryland in January launched the first mandatory exchange system for large polluters, the Regional Greenhouse Gas Initiative.

States set their own caps, affecting 233 plants. Proceeds from the auction of pollution allowances are being invested mainly in efficiency programs and in wind and solar energy.

Many experts point to the European Union Emission Trading System, which took effect at the start of 2005.

Environmentalists are widely critical of the initial caps as too generous and thus leading to little if any overall emissions reductions yet.

Energy producers and traders in Europe have been whipsawed by wildly fluctuating market prices and rule changes during the system's baby steps.

### **China? India?**

Their emissions are not capped, a big concern to cap-and-trade critics who note that most greenhouse gases are a global, not local, threat.

Proponents say the Chinese and Indian governments will adopt their own systems if we do so first.

As for the United States, "one day sooner or later there's going to be a need for this" and companies have begun to prepare, said Rafael Marques of the Chicago Climate Exchange.

It started trading greenhouse gas allowances in 2003 with 13 founding companies on a voluntary but legally binding basis. It now serves more than 400 companies and farm groups worldwide.

"A lot of them were winners in the trading," Marques said. "They knew they had the ability to cut emissions and found a way to make money out of it."

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**LOAD-DATE:** May 31, 2009