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Cap-and-trade plan puts a price tag on pollution

By RICK MONTGOMERY

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 1 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