

Ferguson: Energy Matters

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Cap'n Trade – Get Real

A few days ago, Governor Schwarzenegger endorsed Cap'n Trade. No, it's not a new breakfast cereal - it's the latest regulatory fad for dealing with thorny problems like global warming. The official name is "cap and trade." Unfortunately, the emphasis is on the "trade" rather than the "cap" - even among environmentalists who should know better.

Rather than requiring utilities to burn less coal and use more solar power, for example, Cap'n Trade says simply, "emit less carbon dioxide." That's the "cap" part. The rationale for this indirect approach is the hope that the utilities will figure out that to emit less carbon dioxide, they must burn less coal and use more solar power. But if they can figure out how to make the reductions in a different and cheaper way, they are allowed to do so.

Moreover, Cap'n Trade allows utilities and other businesses to meet their requirements jointly. If one reduces emissions more than required, it is allowed to sell the credit for the excess reductions to another. That's the "trade" part. The theory is that the "market" in emissions reduction credits ensures that the cap will be met with the most economical reduction measures.

Cap'n Trade has had a checkered past, but that's a story for another column. Nevertheless, the big-time environmental groups are touting this nostrum as a solution to the world's problems. Their enthusiasm is misguided.

All Mother Nature cares about is the cap. To limit global warming, carbon dioxide emissions must decrease. Nature cares nothing about the trading of credits and other bureaucratic machinations going on behind the scenes. My advice to

environmentalists is to focus on lowering emissions rather than on the wheeling and dealing that occurs on the market trading floors.

California has adopted an aggressive goal - greenhouse gas emissions (primarily carbon dioxide) are supposed to return to 1990 levels by 2020, despite a growing population and the related increase in electricity, transportation, housing, business, and all the rest. Not only is the state somehow going to keep pollution from growing, it has promised reductions from current levels. This will require real changes, not merely trading pieces of paper. But let's discuss trading pieces of paper.

Cap'n Trade isn't magic. Everyone cannot expect to meet their requirements by buying cheap credits in the market. If no one reduces emissions by more than the required amount, there aren't any credits to trade.

Assuming that the trading scheme isn't a complete scam, in order to have anything to trade, a polluter first must reduce carbon dioxide emissions by more than the required amount.

To reduce carbon dioxide from electricity generation, California utilities will have to markedly improve the efficiency of existing power plants and meet all new load from nonfossil sources such as wind, solar, geothermal, or (heaven forbid) nuclear power.

To reduce carbon dioxide from the transportation sector, fuel efficiency must jump dramatically, nonfossil fuels such as hydrogen must be made available, and alternative modes of transportation must be developed. This is all within the next 14 years, according to recently passed (and highly touted) legislation.

Enormous amounts of time and energy will be spent developing a scam-proof mechanism for trading emissions credits.

Let's focus our effort on what must happen in the real world to limit global warming.

Cap'n Trade is merely a sideshow that may be useful if by some miracle some businesses and sectors manage to do more than is required. Cap'n Trade is a diversion from what needs to be done.

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