

6. REGULATION: Obama gets Southern allies on carbon auctions (03/02/2009)

Evan Lehmann, E&E reporter

Six hundred economists want utilities to quit carbon cold turkey.

The economists, lined up by the Southern Alliance for Clean Energy, an environmental group centered in coal country, reveal a deepening rift between environmental groups as some are striking an accord with power and car companies in an effort to give consumers and sectors a softer landing in a future marked by rising climate costs.

That would be done by giving emitters some free permits to release carbon dioxide, in the beginning, to avoid "price shocks" like rising electricity costs. That camp sees the weaning period as a key factor in getting industry -- and some members of Congress -- to support a future cap-and-trade system.

"Why would they want to do that?" asked Franklin Fisher, an economist with the Massachusetts Institute of Technology who disagrees with that concept. "The utilities have a responsibility to clean up their own pollution."

That illustrates a competing viewpoint to the soft landing: Make utilities and other corporations contributing to rising levels of greenhouse gases begin paying for carbon permits -- or allowances -- at the outset of new regulations.

The clash of the two approaches could grow into a very large and messy fight as Congress begins designing legislation meant to fulfill President Obama's pledge to reduce emissions 80 percent by 2050. Obama revealed his preference last week when he released a budget blueprint calling on Congress to design a cap-and-trade system that makes industries buy all of their allowances from the start.

Industries would bid on allowances in auctions, which could raise \$645.7 billion between 2012 and 2019, Obama's plan predicts.

Making industry pay 'is going to be costly'

Selling all the allowances from the start is a key factor in establishing a cap-and-trade system, according to a statement that the Southern Alliance for Clean Energy plans to release today at an event on Capitol Hill.

It's designed to carry a key message: Every dollar given to polluters is one less that might be used to alleviate more expensive energy for consumers.

Making industry pay for its emissions "is going to be costly," acknowledged Charles Schultze, an economist with the Brookings Institution and a signatory of the statement.

"It's going to hit the poor about four times as much as the rich, percentagewise," he added. "If you auction it off and pass the money back in the form of tax rebates, you can neutralize that."

One study Schultze pointed to shows that the poorest Americans could see an increase of 2 percent in annual income because of the rebates. The wealthiest people would see a slight decrease, less than 1 percent. But that could change depending on auction revenue and the amount that is set aside for consumers rather than used for renewable energy and efficiency programs.

'Call it a carbon tax'

But while supporters of auctioning off 100 percent of allowances hope that the notion of sending streams of revenue back to states and households will be a potent political tool in Congress, others are less convinced.

The current financial stumble worldwide could make it difficult to pass what looks like -- or is -- a new carbon tax on industries, which would then pass it along to consumers. Imposing all-out auctions at the beginning could make it even more unpalatable for opponents.

"Let's just be honest and call it a carbon tax that will increase taxes on all Americans who drive a car, who have a job, who turn on a light switch, pure and simple," House Minority Leader John Boehner (R-Ohio) said last week.

To help neutralize those assertions, some environmental groups are backing a plan that would give industry a portion of the allowances for free.

Groups like the Natural Resources Defense Council, the Environmental Defense Fund and the Nature Conservancy teamed up with a host of industrial leaders, like Duke Energy Corp., General Motors Corp. and ConocoPhillips Co., to promote a plan that would give perhaps 40 percent of the allowances to some industries for free. Eventually, the corporations would have to buy all of their permits to emit carbon dioxide.

The report, issued by the U.S. Climate Action Partnership, says "a significant portion of free allowances should be initially distributed to capped entities and economic sectors particularly disadvantaged by the secondary price effects of a cap."

One enviro 'frustrates' another

That could alleviate the risk of regulated companies moving to countries that don't cap carbon, the report says, and it could mean that consumers are hit with smaller hikes in their utility bills.

"Any bill that calls for a full or large auction initially would only drive up the cost of the program beyond that needed to reduce emissions and could hurt public support for such measures," warns Steve Higginbottom, a spokesman for Southern Co., a major electricity provider.

But Stephen Smith, executive director of the Southern Alliance for Clean Energy, said he believes it's time utilities begin paying for their emissions -- all of them.

"We need to hold the line on 100 percent auction because it's the economically right thing to do," Smith said in an interview.

He says other environmental groups "have not stuck with the president," referring to those associated with the U.S. Climate Action Partnership.

"That frustrates us, because I believe that is thinking from five or six years ago," he added. "That's the kind of deal that I think you would cut under the Bush administration and before we had seen more history of why 100 percent auction is so important."

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