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Greenhouse Gasses: Going Once, Twice

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10 Northeastern States Hold Nation's First Sale Of Pollution Credits Aimed At Curbing Global Warming



(AP)

(AP) Greenhouse gas is on the auction block as 10 northeastern states hold the nation's first sale of pollution credits aimed at curbing global warming.

Environmental groups, energy producers, and government leaders will be watching closely as the Regional Greenhouse Gas Initiative sells carbon credits in the first of a series of quarterly online auctions. The cap-and-trade greenhouse gas reduction program, which aims to hold carbon dioxide emissions steady through 2014 and then gradually reduce them, is widely viewed as a model for future programs

around the globe.

"With the leadership vacuum in Washington, it has fallen to the states to take the lead on combating climate change," said Richard Revesz, dean of the New York University School of Law and an expert on environmental law.

In July 2003, then-New York Gov. George Pataki brought together nine other governors to develop a regional strategy to limit carbon dioxide emissions from power plants. The bipartisan action followed President Bush's rejection of greenhouse gas reduction goals set under a 1997 United Nations protocol reached in Kyoto, Japan.

Governors in Connecticut, Delaware, Maine, Maryland, Massachusetts, New Jersey, New Hampshire, Rhode Island, and Vermont joined Pataki in the coalition known as RGGI, or "Reggie." Other regional greenhouse gas coalitions, such as the Western Climate Initiative and the Midwestern Greenhouse Gas Accord, are in earlier stages of development.

Both John McCain and Barack Obama support cap-and-trade programs to reduce greenhouse gas emissions, seen as key contributors to global warming.

The approach is patterned after the acid rain-reducing program targeting sulfur dioxide that began with a New York law in 1984 and was expanded nationally with amendments to the Clean Air Act in 1990.

RGGI caps the total amount of carbon that power plants in the 10-state region can pump out of their smokestacks at the current level - 188 million tons. Electric power generators must pay for allowances covering the amount of carbon they emit and RGGI will provide a market-based auction and trading system where the generators can buy, sell and trade the emissions allowances.

The initiative will gradually reduce carbon going into the atmosphere by lowering the cap in several steps, until it is 10 percent below the current level in 2018. During that 10-year span, businesses will have to reduce their emissions. Those that can't, because of cost or technical hurdles, can buy allowances from companies that have achieved cleaner emissions.

Companies have a financial incentive to curb emissions because they won't have to buy as many credits and because they can sell any they don't need. The price of credits is likely to rise as the cap is lowered. That gives companies more incentive to curb emissions sooner rather than later so they can buy and use credits at a lower price and sell them at a profit.

In addition, generators can make up for a small percentage of their emissions by purchasing narrowly defined carbon offsets, such as investing in energy-efficient building technology or planting trees to absorb carbon from the atmosphere.

The overall goal is to give utilities an economic incentive, rather than a regulatory mandate, to burn less coal, fuel oil and natural gas, while at the same time making carbon-free energy alternatives such as wind and solar power more economically attractive.

While power plants account for only a third of the carbon dioxide generated in the region, they're the easiest source to regulate because their emissions are already monitored in other pollution programs, said Peter Iwanowicz, director of the state Department of Environmental Conservation's Climate Change Office.

Eventually, the program may be expanded to include sources such as industry and transportation, Iwanowicz said.

Some business and utility leaders have urged the states to hold off until a national plan is developed.

The Business Council of New York State warns that the regional plan could harm the power supply and system reliability while increasing energy prices that are already 52 percent higher than the national average for commercial customers.

Research conducted by RGGI projects the typical New York residential customer will see an increase of 78 cents per month. But the Independent Power Producers of New York, an industry group, says the cost assumptions used by RGGI are outdated and inaccurate.

Not all energy generators oppose the plan.

"We're very much in favor of a national cap-and-trade system for reducing carbon emissions because we believe climate change is real and that it requires a national, and really international, solution," said Don McCloskey, environmental policy manager for Public Service Enterprise Group, a power generator in Newark, N.J.

While other carbon-curtailling programs have been proposed, including a carbon tax, McCloskey said PSEG supports cap-and-trade because it allows companies to use their ingenuity and knowledge of markets to achieve environmental goals.

He noted that while steep price increases were predicted when a similar program was launched to curb acid rain-causing sulfur dioxide emissions, the worst fears didn't come to pass.

The three-hour auction will be conducted online among previously approved bidders. At the end, bids in the system will be used to determine a clearing price based on supply versus demand. The minimum clearing price is set at \$1.86 per ton for the first auction.

The big question is what the clearing price will end up being. In Europe, carbon trading has hit electric ratepayers hard, with carbon allowances selling for as high as \$48 a ton at auction. RGGI has put plans in place to prevent the price from rising above \$10 a ton.

Proceeds of the auctions are to be invested in programs to increase energy efficiency, support non-carbon-generating renewable energy sources such as wind and solar, and develop carbon abatement technologies.

Peter Cramton, a professor at the University of Maryland with a research focus on emissions auctions, said the RGGI program is a good basis for a national cap-and-trade program. But he said a national program should include all sources of carbon emissions, from automobiles to industries.

The auction isn't limited to electricity generators. Investors or public interest groups also may participate.

For the first auction, only one public interest group has registered in hopes of buying carbon credits and

taking them out of circulation, Iwanowicz said.

"We want to purchase and retire some allowances," said John Sheehan, spokesman for the Adirondack Council, a group dedicated to preserving the wilderness character of the 6-million-acre Adirondack Park. "We set a goal of 1,000 tons initially."

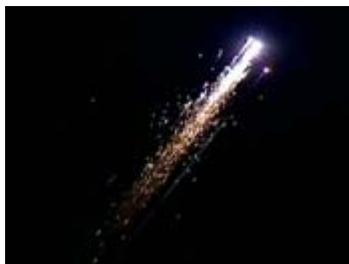
Carbon dioxide emissions are of concern in the Adirondacks, Sheehan said, because global warming could transform the region's fragile boreal ecosystem to a temperate zone similar to Richmond, Va.

Results of the auction will be released Monday, pending review by an independent monitor.

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