2EX 840

Perhach, William

From: Marlo Lewis [mlewis@cei.org]

Sent: Friday, October 24, 2003 4:02 PM

To: Marlo Lewis

Cc: Global Warming

Subject: Another CEI Supplemental Comment on the Administration's "transferable credits" initiative

C|E|I competitive enterprise institute

Lewis Letter to DOE
Op-Eds & Articles
by Marlo Lewis, Jr.

October 23, 2003

Mrs. Jean Vernet
U.S. Department of Energy
Office of Policy and International Affairs
Office of Electricity and Natural Gas Analysis
PI-23, Attention: Voluntary Reporting Supplemental Comment

Dear Mrs. Vernet:

I am pleased to submit another supplemental comment on the Bush administration's plan to "enhance" the Voluntary Reporting of Greenhouse Gases Program (VRGGP).

Once again, I write in the hope of persuading the administration not to transform the VRGGP into a pre-regulatory credit for early reductions program. Transferable credits would create the institutional framework and lobbying incentives for Kyoto-style carbon cap-and-trade schemes—policies President Bush rightly opposes.

The current issue of *The Weekly Standard* (October 27, 2003) carries an article entitled "Inside the Bush Greenhouse," by William F. Pedersen. Although I strongly disagree with his central thesis—that Bush should endorse "a modest mandatory greenhouse control program"—Pedersen correctly sees that the Administration is unwittingly building the legal and political setup for such regulation.

Pederson's remarks on the administration's policy of "[e]ncouraging companies to register emission reductions by suggesting those reductions will have value in the future" are worth quoting at length:

> The administration's call for voluntary emission reductions and its supporting regulations make sense only on the assumption that the government will impose mandatory controls fairly soon. Who would participate in a "voluntary" reduction program except to stave off a mandatory one? Similarly, company-by-company greenhouse emissions accounts are not needed for general debate on greenhouse policy. Why develop them except as a step toward mandatory controls? Finally, who would participate in a program to register reductions so as not to be "disadvantaged under a future regulatory program" unless they believed such a program was coming?
>
> Since the prospect of a mandatory program powers the present "voluntary" emissions reduction programs, those programs will stop running if the prospect recedes. Indeed, either the success or the failure of the voluntary efforts will strengthen the demand for a mandatory program. To the extent the initiatives succeed, they will create both the accounting infrastructure such a program would need and a constituency for it in the form of companies that have already made reductions. Failure will even more directly bolster the demand for stronger measures.

Like Sen. Lieberman, Environmental Defense, and the Pew Center on Global Climate Change, Pedersen sees that a crediting system would "create both the accounting infrastructure" for carbon regulation "and a constituency for it in the form of companies that have already made reductions."

As I have explained in previous comments, transferable credits are assets that mature and attain full market value only under a carbon cap. That is because, although many companies would like to sell carbon credits, especially for emissions they would reduce (or avoid) anyway in the normal course of doing business, hardly anyone will buy credits unless forced to do so by a cap.

Consider the embarrassingly low opening bids at the Chicago Climate Exchange (CCE). At the first auction, the exchange's 22 member companies and municipalities "paid an average of less than $1 for the right to emit one ton of CO_2," according to the Greenwire news service (10/03/2003). Why? "Without regulation and governmentally imposed sanctions, the early evidence ... is that the American business community is not very interested in a voluntary greenhouse gas cap-and-trade program," explained Ethan Hodel, former CCE senior vice president for sales and marketing. No cap, no demand for credits. Were it not for the risk that Congress may cap carbon in the future, the "bid" price for credits today would be zero.

A cap would instantly create demand, boosting credit prices by orders of magnitude. Indeed, according to Energy Information Administration analyses, carbon credits would sell for $50-$122 per ton under Sen. Jeffords's Clean Power Act, $79-$221 per ton under Sens. McCain and Lieberman's Climate Stewardship Act, and for $67-$348 per ton under the Kyoto Protocol. Clearly, credit holders must lobby for "regulation and governmentally imposed sanctions" if they want to turn "voluntary" reductions into real money.

The Department of Energy is several months behind schedule in issuing its proposal to "enhance" the VRGGP. I can only hope the delay reflects an epiphany that the initiative as originally conceived is incompatible with the President's pro-growth economic policies and inimical to the public interest in affordable energy.

Sincerely,

Marlo Lewis, Jr., Ph.D.
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