

4. POLICY: House climate bill works in cost containment (04/01/2009)

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A plan for reining in the costs of carbon on a future cap-and-trade market presented in House Democrats' [draft climate legislation](#) yesterday could face close scrutiny in the face of alternative options.

The bill presented by Reps. Henry Waxman of California and Ed Markey of Massachusetts directs U.S. EPA to create a "strategic reserve" of about 2.5 billion carbon allowances, which would account for approximately a third of U.S. annual emissions today.

The reserve would act as a "cushion" in case carbon prices rise faster than expected or reach unexpectedly high levels at auction, according to the bill's summary. The agency would fill the reserve by skimming small percentages of allowances off the top of the total number allotted each year and replenish it by purchasing new offsets with auction proceeds.

The proposal is similar to one proposed by the U.S. Climate Action Partnership, a coalition of business groups that has advocated for a cap-and-trade plan, and echoes one crafted by Reps. John Dingell (D-Mich.) and Rick Boucher (D-Va.) last fall.

For capped industries, cost containment is one of the most important aspects of any climate bill. "We are concerned about very volatility and price. A lack of certainty in the market makes it very difficult for us to plan," said Kyle Isakower, director of policy analysis for the American Petroleum Institute, an oil and natural gas industry trade group.

But the idea of using a strategic reserve to fill that role will likely be questioned as the debate heats up. Yesterday, analysts just began to sift through the 648-page text of the draft legislation.

"While we think this is certainly one viable option, we also think there are other ways to do it," said Marty Spitzer, director of legislative affairs for the Center for Clean Air Policy (CCAP).

One proposal, which CCAP has advocated, is to employ "training wheels" during the first eight years of cap and trade that would allow an independent board to forecast and maintain an average annual carbon price. More than 20 House Democrats, led by Reps. Lloyd Doggett (D-Texas) and Jim Cooper (D-Tenn.), introduced legislation that adopted such an approach last week ([E&E Daily](#), March 24).

Under the Waxman-Markey bill, in the first year of cap-and-trade, EPA would be allowed to delve into the strategic reserve pot if the price of carbon reaches twice what EPA had forecast.

"That still creates a fair amount of room for that price to vary," said Spitzer.

Jeff Holmstead, an industry attorney who headed EPA's air office under President George W. Bush, questioned the agency's ability to effectively control the cost of allowances using a strategic reserve.

"It puts EPA in a very awkward position of trying to control costs by controlling the supply of allowances," said Holmstead. "They say, 'Buy low and sell high,' and of course nobody can do that. That's what this bill suggests that EPA would be able to do."

Some industries have previously called for an absolute ceiling on the price of carbon allowances, a so-called "safety valve" that would inject far more certainty about the future costs of carbon.

Although noting he had not yet examined the bill in depth, Holmstead said, "There's really nothing that I can see in the bill that's an effective cost containment measure."