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## Cap-and-trade can help fight global warming

BY DAVID YARNOLD

The Public Utilities Commission's recent proposal to use a cap-and-trade system to fight global warming pollution from utilities has triggered alarms that ill-conceived policies might lead to price gouging and brownouts.

Those are reasonable concerns. A poorly designed cap-and-trade system could lead to a steep rise in utility bills and worsening pollution in largely poor communities. However, a well-designed cap-and-trade system would ensure that Californians avoid these problems while reducing global warming pollution.

The real benefits of a cap on pollution linked with a market-based solution is that it will unleash innovation, provide new revenue streams for the state and ultimately be a boon to the state's economy. But it is critical that we get it right.

The cap-and-trade has been one of our greatest U.S. environmental success stories because it provides incentives for polluters to find innovative, low-cost ways to reduce emissions. This formula curbed acid rain because it created bottom-line incentives that cleaned the air and reduced sulfur dioxide emissions from power plants faster than anticipated and at a quarter of the predicted cost.

Cap-and-trade puts a hard legal limit on pollution from large industries, including electric utilities, oil refineries and cement manufacturers, holding them responsible for cleaning up their act. All three presidential candidates have said they prefer this method for addressing global warming - for good reason.

Critics of such a system point to the RECLAIM program adopted in the early 1990s by the South Coast Air Quality Management District as a tarnished example of the failures of cap-and-trade. That's about half-right. That program was designed to slash two dangerous air pollutants - nitrogen oxides and sulfur dioxide - by 60 percent and 70 percent respectively, by the year 2003. Unfortunately, that agency set the cap too high for these emissions, gave away too many allowances for free and had penalties that were too lax. It also allowed emitters to claim credits for scrapping old cars, an offset that was questionable if not fallacious. The district has learned from its mistakes and is now making real progress. In fact, despite initial design flaws, by 2004 the RECLAIM program had reduced nitrogen oxides emissions by 60 percent and sulfur dioxide emissions by 50 percent.

Potential "gaming" of the system is also generating serious concern, as it should. This is the time to get the rules right. There are two types of possible abuse: price gouging through market manipulation and claiming falsely that power imported from other Western states is clean. We can safeguard against market manipulation - the scourge of California's power crisis of 2000 - by avoiding a concentration of buying or selling among a few market actors.

In designing a program that will meet the goals of AB 32, the state needs to set an aggressive, airtight cap that declines over time and distributes carbon allowances in an equitable manner that does not generate windfall profits for polluters. It must prohibit any trades that worsen air quality, particularly in low-income communities of color already disproportionately burdened by toxic air pollution.

An emissions allowance system can create a multibillion-dollar annual fund that can be used for a variety of community benefits: It can flow back into poor communities that are victimized by polluters; it can seed new technologies; it can fund tax credits for renewable energy sources; or it can fund public transit and other amenities shared by all Californians.

Most important, this market approach is more promising than the alternatives because it sets a clear path toward achieving the ultimate goal of reducing greenhouse gas emissions to 80 percent below 1990 levels by 2050. A carbon tax offers no such guarantee.

California's contribution is vital in fighting this global problem. California is again showing the nation the way; since the passage of AB 32, Congress has moved further toward enacting a national cap-and-trade system than ever before.

This state faces potentially dire consequences from global warming. Californians can expect droughts, a rise in sea level that could spoil our magnificent beaches and further damage of our delicate delta ecosystem, and an increase in the number of wildfires that will ravage our suburbs in the hills. The Public Utilities Commission is taking a bold step in helping address this threat as part of the landmark AB 32 legislation, and it deserves the support of all Californians.

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