It's a gradualist approach, and that's as much a political decision as a technical one. "One of our primary goals was to create a market and a structured, transparent environment," said Jonathon Schrag, executive director of RGGI, which administers the program for the states. "The auction in September went off without a hitch, and that sends a strong signal to market participants that the states have done their homework and put in place a robust system for administering and delivering on the process they've laid out."

Schrag believes RGGI can serve as a model for a federal program, which most people agree is the only viable long-term approach. According to Peter Iwanowicz, director of the Climate Change Office of New York's Department of Environmental Conservation, RGGI is already serving to inform and encourage the debate on the federal level. "I've heard members of the House Energy and Commerce staff as well as people at the House Committee on Global Warming quote RGGI as a model. The European Union stated directly in testimony before Congress that the reason it was opting for auctioning under the next phase of their scheme is because of RGGI."

RGGI isn't the only organization that's taking an auction approach to limiting greenhouse gas emissions in the United States. The Western Climate Initiative, which targets industrial plants as well as power companies, and the Midwest Greenhouse Gas Accord are already building on RGGI's design and analytical expertise. In all, 24 states are working on some form of cap-and-trade program to limit carbon emissions. The Pew Center's Judi Greenwald expects the new administration to be a major force in furthering these state efforts and building on them to develop a federal cap-and-trade program. "This is the kind of issue that needs executive leadership. It's not just one department; it's the energy department, the environment department, the agricultural and transportation and housing departments. Everyone needs to get into the act, so you need strong executive leadership," said Greenwald. "You often get this kind of policy experimentation on the state level, and that really helps form and carry federal policy. It's a laboratory run by the states, and so far, the results are extremely positive."

[GUEST OPINION]

Cap-and-Trade Is Bad

A STEALTH TAX ON ENERGY

BY THOMAS PYLE

BARACK OBAMA AND HIS TEAM HAVE MADE it clear that a cap-and-trade system will be an important tool for the new administration to provide green jobs and reduce the nation's greenhouse-gas emissions. But the real purpose of cap-and-trade is to increase the cost of energy. The European experience shows that countries lose their enthusiasm once they experience the actual costs of these programs. Implementing cap-and-trade now would kick the U.S. economy while it's already down.

On the surface, cap-and-trade sounds like a straightforward procedure to reduce total greenhouse-gas emissions. In consultation with scientists and economists, the federal government picks annual quotas for total emissions and then issues a corresponding number of permits. Parties are then free to trade their permits at prices determined on a market.

Theoretically, cap-and-trade achieves emissions reduction goals in an efficient way. If the government has picked the right cap, then the induced price of permits leads firms to internalize the alleged cost of greenhouse-gas emissions. Because the permits are tradable, emissions reductions occur in those sectors where they are most affordable. This lowers the total cost of compliance compared to a top-down government plan, and it's why proponents call cap-and-trade a market solution.

Cap-and-trade sounds pleasant in theory, but in practice it has been a failure. Europe has the largest cap-and-trade system in the world, and instead of leading to a decrease in emissions, Phase I, between 2005 and 2007, led to a 1.9 percent increase in greenhouse-gas emissions. What's worse, electricity bills in much of Europe have substantially increased because of cap-and-trade policies.

The failure of the emission trading scheme to lower emissions is understandable when we consider the incentives facing politicians. Politicians want to talk a good game on climate, but they do not want to impose massive pain on citizens or businesses. As a result, politicians in Europe installed a lenient cap, which resulted in increasing emissions.

After Phase I failed to even modestly reduce emissions in Europe, countries are not keen to impose the substantial costs that cap-and-trade would require. The German chancellor's chief spokesman recently declared, "We've got to prevent companies from being threatened by climate protection requirements."

European proponents of the Kyoto Protocol like to talk about emission reductions achieved since 1990. This is because the economic collapse of Eastern Europe led to dramatic greenhouse-gas emission reductions in Europe as a whole. But when we consider the greenhouse-gas emissions from industrial economies in Europe, we see that the Kyoto Protocol has not yielded any reductions. According to recently released data from the UN Framework Convention on Climate Change, from 1990 to 2006 greenhouse-gas emissions are up by 15.2 percent in Austria, 18.5 percent in Germany, 24.4 percent in Greece, 25.5 percent in Ireland, 9.9 percent in Italy, 6.2 percent in Japan, 28.5 percent in New Zealand, 37.6 percent in Portugal, and 49.5 percent in Spain. France's emissions have decreased by 4 percent, and the UK's emissions have decreased by 15.9 percent. Note that over the same period, U.S. greenhouse-gas emissions increased 14.7 percent. Even though it rejected the Kyoto Protocol, the United States has done better than many countries that signed on to the commitment.

Thomas Pyle

NewsFlash

WOLF CREEK RENEWED

The Nuclear Regulatory Commission has agreed to extend the operating license of the Wolf Creek nuclear power plant in Kansas by two decades until 2045, according to the *Associated Press.*

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Ironically, in practice, cap-and-trade would not even give Americans the benefits of a more stable climate. Even on the climate models' own terms, cap-and-trade programs will only avert harmful climate change if they are adopted by all major governments and uniformly enforced for the next several decades. If even a single major emitter refuses to participate, or if some governments agree to a treaty but then look the other way as their politically connected industries cheat, then the efforts of the other participants to limit their own emissions are largely moot.

The details of cap-and-trade become complicated, but in the final analysis it is a stealth tax on energy. Wherever these schemes to limit greenhouse gases have been tried, they have failed. This is the reality. Cap-and-trade may look good on paper, but in practice it will impose massive costs for dubious environmental gain. Cap-and-trade is the last thing the U.S. economy needs in the midst of a serious recession, or any other time for that matter.

Thomas Pyle is president of the Institute for Energy Research.

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24-25	NERC Standards: Complexities, Compliance and CIP Irvine, Calif.	QL: E19340
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