Senate Halts Effort to Cap CO2 Emissions

Democrats Forgo Centerpiece of President Obama's Energy Plan, as Cap-and-Trade Fails to Lure Broad Support in Congress

Stephen Power, Wall Street Journal, 7-23-10

Senate Democratic leaders Thursday shelved their effort to cap greenhouse-gas emissions as part of a broad energy bill, putting aside indefinitely a centerpiece of President Barack Obama's ambitious effort to transform the way Americans produce and consume energy.

The proposal would have allowed utilities to trade permits to pollute as they worked to shift away from coal—a concept commonly called "cap and trade."

Senate Majority Leader Harry Reid said Thursday that neither he nor the White House had managed to line up 60 senators to support even a limited proposal seeking to cap carbon-dioxide emissions from electric power companies.

Mr. Reid refused to declare the idea dead. But Thursday's decision called into question when or whether any legislated cap on greenhouse-gas emissions would reach Mr. Obama's desk.

Now, businesses, such as wind-turbine makers, that had bet on a greenhouse-gas provision to make alternatives to coal and oil more cost-competitive must recalculate how long it might take for that to happen.

But industries that opposed congressional action to limit greenhouse-gas emissions still have to reckon with uncertainty over how far the administration may push an effort to do the same thing via the Clean Air Act and the Environmental Protection Agency.

Advocates of the cap-and-trade approach say that making it more expensive to burn coal or oil would encourage investments in new technology that reduces greenhouse-gas emissions and energy consumption, resulting in lower energy costs overall and avoiding the potential long-term toll of climate disruptions on the economy. Some also argue putting a price on carbon can ahelp reduce reliance on foreign oil. Opponents of such legislation dispute this.

Opponents say compelling utilities to pay for emitting carbon dioxide would force them to pass along those costs to consumers in the form of higher prices. Republicans branded a House bill that proposed an economy-wide system for capping carbon dioxide emissions a "job-killing energy tax."

Senate Republicans closed ranks in opposition to even limited use of such mechanisms as the clock ticks down to the November elections.

But a limited cap-and-trade proposal backed by Mr. Reid and the White House also failed to win over a cadre of conservative Democrats from industrial and coal states, who opposed the idea of imposing caps and higher costs on the use of coal and other fossil fuels.

Sen. Harry Reid says he wasn't able to line up enough support for a cap-and-trade bill.

Some also worried that the measure would put U.S. manufacturers at a disadvantage to rivals in China, now the No. 1 consumer of energy according to the International Energy Agency.

China's role in the U.S. debate over climate change cuts both ways. Opponents of capping emissions say enacting such policies would put the U.S. at a competitive disadvantage to China, which has refused to cap its emissions. Advocates of capping emissions say that unless the U.S. puts a price on carbon, it will lose out to China in the race to develop the energy technologies —and jobs—of the 21st century.

Mr. Reid said Democrats will push for more limited energy legislation, aimed at holding BP PLC accountable for the oil spill, providing incentives to the production and purchase of natural-gas vehicles and funding land and water conservation.

The Senate's inaction leaves Mr. Obama's Environmental Protection Agency administrator, Lisa Jackson, in charge of setting federal limits on greenhouse gases. Ms. Jackson has already adopted rules limiting emissions from cars and requiring state regulators to account for such emissions when they issue air-quality permits to large refineries and manufacturing facilities.

The agency's authority to do so is under assault. Business groups have sued, challenging the legality of EPA proposals to regulate greenhouse-gas emissions. And a group of Democrats is pushing legislation to bar the agency for two years from regulating emissions from stationary sources.

Utilities now will be forced to make long-term decisions without knowing how carbon dioxide will be treated, said Mike Morris, chief executive of American Electric Power, Columbus, Ohio.

He said that for the next few years, utilities likely would build gas-fired power plants, which have about half the carbon emissions of plants burning coal. But the cost of nuclear energy will be relatively more costly without a penalty imposed on fossil-fuel use.

Uncertainty over the future price of carbon and what sorts of technology the EPA will require already is having a "chilling effect" on investment in the steel industry, said Thomas Gibson, a former EPA official who now heads the American Iron and Steel Institute.

But other business could be chilled if Washington abandons entirely the idea of raising the price of consuming fossil fuels. Companies trying to develop and sell solar and wind energy technology, energy-conservation systems or electric vehicles have hoped that caps on greenhouse gas emissions would jump-start demand.

These companies will now focus on certain states that have their own clean-energy mandates, such as California, Colorado and New Jersey, said Angiolo Laviziano, chief executive officer of REC Solar Inc., a provider of solar systems in San Luis Obispo, Calif.

Still, the solar industry is growing at the rate of about 40% a year in terms of electrical power installed and is likely to continue to grow, said Ron Kenedi, vice president of Sharp Corp.'s Sharp Solar Energy Solutions Group in Huntington Beach, Calif.

Mr. Reid's decision to pull cap-and-trade from the energy bill could reverberate on Wall Street, where banks and brokerage firms had been anticipating climate legislation that would lead to widespread trading of carbon "credits."

There is already a global carbon-trading market, with the majority of the trading taking place in the regulated European markets. It amounted to $127 billion last year.

It isn't clear how many of the provisions Mr. Reid is promising to include in the narrower energy bill will survive a Senate floor debate. Republicans have objected to Democrats' proposals to eliminate the cap on oil companies' liability for damages related to spills, currently $75 million, saying the proposals, as written, would make offshore drilling unaffordable for all but the largest oil companies and foreign-owned nationalized oil giants. Some business groups are also rallying to defeat the provisions related to natural gas.