

## **The Great Climate Debate: Golf vs. Tennis**

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It's a turbulent world; politics, policies and purposes are in a state of flux. Accordingly, in these turbulent times the keys to success are vision and the insights to implement that vision. On energy and climate, WeberJohnson offers you that insight...like clarifying the other great climate debate: golf vs. tennis!

I believe the accumulated emissions of greenhouse gases in the atmosphere from human burning of fossil fuels is already having or is likely to have an affect on the Earth's climate. It is therefore important to adopt thoughtful, deliberate and economic measures in concert with all the nations of the world to reduce GHG emissions to prevent potentially very adverse consequences.

But what type of measures and how? This is what I call the "Great Tennis vs. Golf" debate. There are those that seem to believe that addressing GHGs is like tennis...adjust the same tool (or racquet) to hit the emissions. The racquet in this case is "cap and trade." Unfortunately, while I support adopting cap and trade for GHGs in some situations and for some types of emitters, it is not the right approach every situation or every emitter. Poorly designed and inappropriately applied, a cap and trade program can be inefficient, uneconomic and ineffective.

Hence, it is this appreciation of the cap and trade's limitations that led me to conclude that addressing GHGs is more like golf than tennis. While both are great sports (which I play poorly), addressing GHGs is more like golf than tennis. Every tennis court in the world is the same...except for the surface: clay, grass or hard...but they have the same dimensions. While in golf each hole is different and each course is different...posing different challenges to the golfer...like the emissions of GHGs.

Although there are relatively few coal plants in the country (about 600 or so), these installed coal plants produce electricity very cheaply and it is very unlikely that the cap will impose GHGs costs so high that newer or cleaner (in the case of natural gas) but more expensive alternatives would be an economic replacement...an alternative to new coal plants, possibly; but not as a replacement of the installed coal plants which produce electricity at under 5cents per kilowatt-hour versus over 10 cents for new. In short, for a cap and trade program to affect the GHGs from these installed coal plants, the imposed costs would have to be very, very high; so high that closing down is cheaper than buying credits from elsewhere. I doubt the political balancing process will impose such a high cost...it hasn't yet in the other places that are pushing forward on cap and trade programs.

Thus, what is likely to occur is that the cap and trade program will impose higher costs on the generator that will be passed on to consumers, which may affect overall demand but not the emissions from the facility. The result: higher energy costs but minimal reductions in GHGs.

Since the cap and trade is an unsuitable tool for reducing GHGs from installed coal plants, there is a need to think of an alternative. A different club, if you will.

I suggest that the installed coal plants should have their own program and certainly be exempted from any cap and trade program as a result. In my program, when a coal plant turns 50 years old it would be decommissioned, and between now and then the owner/operator of the exempted coal plant will work with their utility regulators to begin collecting money and putting it in escrow on the utility's books for the sole purpose of replacing the energy from that facility (sort of like a pension fund) when it is decommissioned.

The result of this alternative to cap and trade would be an orderly and economic phase out of the installed coal plants and replacement with inevitably cleaner facilities a significant environmental improvement...even if they are replaced with new coal plants. Ratepayers would be no worse off than if they were included in the cap and trade program and are likely to be much better off because the escrow collection would be equal to or less than the associated carbon costs of a cap. Plus, that money will become down payments for the replacement facilities, reducing their costs and lowering the rate impacts instead of being "redistributed" through government programs. Knowing the end-of-life timing for their electricity generating facilities will prevent very expensive life extending improvements. The result: manageable electricity costs and significant GHGs reductions from the electricity sector...something that probably will not happen under a cap and trade.

In these turbulent times, creative insights and ideas will become the path of success. WeberJohnson has the energy and climate skills, experience and commitment to work with you to find this path.