

Cap-and-trade is still alive in New England. Is it working?

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Remember cap-and-trade? Back in 2010, Democrats in Congress had a proposal to set a nationwide limit on U.S. greenhouse-gas emissions and let businesses trade pollution permits. But [the climate bill died](#), and cap-and-trade mostly vanished from discussion.

Except in the Northeast. For the past decade, ten states stretching from Maine to Maryland have been experimenting with their own modest cap on carbon pollution from electric power plants. And, this week, the Regional Greenhouse Gas Initiative (RGGI) [announced](#) that it would continue to cut emissions by tightening the cap between now and 2020.

So how effective has the RGGI program been? It depends on how you look at things. The top-line news is encouraging: Carbon-dioxide emissions from power plants in the Northeast [have fallen very sharply](#) since the plan was first devised — from 188 million tons of carbon-dioxide in 2005 to 91 million tons in 2012.*

Yet a good chunk of that drop was driven by the recession, which bit into electricity demand, as well as by the fact that power plants across the country have been swapping out coal for cheaper natural gas, which reduces carbon emissions. In fact, power-plant emissions in the Northeast have been falling much, *much* faster than the cap requires: Emissions are currently 45 percent below the RGGI cap of 165 million tons for 2013.

That means that power plants don't have to do much to comply with the existing cap — they're already sitting well below the limit. As a result, permits to emit carbon-dioxide are extremely plentiful and cheap, costing just \$1.93 per ton of carbon. If you're an electric utility, there's little incentive to invest in efficiency or renewable power to avoid the cost of buying up pollution permits.

The flip side to this, though, is that the RGGI cap-and-trade program hasn't driven up electricity prices. Quite the opposite: A recent analysis [found](#) that electricity bills have fallen 10 percent across the region since 2009. (Strangely enough, the same business groups that once warned that RGGI would send power bills soaring [are now complaining](#) that carbon permits are too cheap.)

The program has also been quite lucrative for the states involved, which have raised about \$912 million since 2009 from auctioning off pollution permits. States have used that money in different ways. Many have set up programs to improve energy efficiency. Before it withdrew from the program in 2011, New Jersey pocketed about \$75 million to shore up its budget and

spent another \$27 million on renewable energy.

And what comes next? On Thursday, RGGI [announced a proposal](#) (pdf) to ratchet down its overall emissions cap between now and 2020 in an attempt to force power plants to make further reductions. Assuming that the nine still-participating states approve this plan, here's what things will look like, [courtesy of the Boston Globe](#):

A tighter cap means fewer pollution permits will be available. That will likely drive up the cost of emitting carbon-dioxide to as high as \$10 per ton. That will give electric utilities a greater incentive to cut their emissions.

On the flip side, the tighter cap will also drive up the cost of electricity, though RGGI expects that this increase will be small (customers will see less than a 1 percent increase in their bills). And if permits are more expensive, that will give states more revenue to invest in, say, energy-efficiency programs to help cushion the impact.

But how much carbon-dioxide will this actually cut in the grand scheme of things? Not much. Between now and 2020, the new RGGI scheme is hoping to cut annual emissions by about 13 million tons. That's about 0.06 of *all* power plant emissions in the United States last year. A rounding error.

Ultimately, RGGI might best be thought of less as a solution to climate change and more of a revenue-raiser for the Northeast. It's also an experiment of sorts — a way for policymakers to figure out what works and what doesn't in climate policy.

The *Journal of Economic Perspectives* recently [featured a paper](#) (pdf) looking at some of the lessons from RGGI, including little things that the program did well (auctioning off permits, setting a price floor) and not so well (there's still some concern about RGGI's program for carbon offsets, which has rarely been used). If cap-and-trade ever does make a comeback, either in the United States or elsewhere, legislators might want to take a closer look at some of these wonky details.

* The current RGGI states are: Connecticut, Delaware, Maine, Maryland, Massachusetts, New Hampshire, New York, Rhode Island and Vermont. Note that New Jersey withdrew from the program at the end of 2011, but is still included in these emissions figures.

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