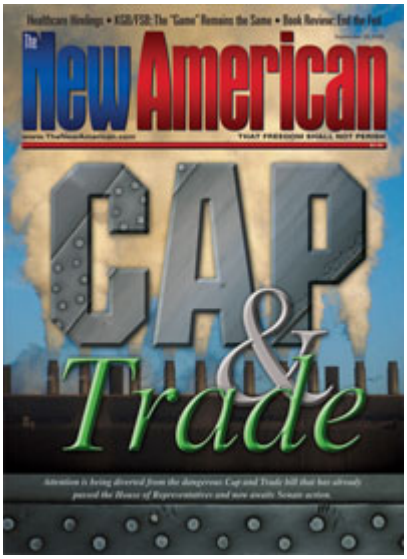
Written by **Ed Hiserodt** on September 17, 2009

Cap and Trade



At 3:47 a.m. on June 26, the Rules Committee reported out the 1,100-page American Clean Energy and Security Act of 2009 for debate in the House of Representatives. Later in the day, its sponsor — Henry Waxman (D-Calif.), chairman of the House Committee on Energy and Commerce — added a "managers' amendment" traditionally employed to clean up technical errors. But in this instance, the amendment was 300 pages of changes that modified the language of dozens of sections of the original document.

The resolution (H. Res. 587) that provided for consideration of the bill — sponsored by Rules Committee member Doris Matsui (D-Calif.) — provided for "3 hours of debate with 2 and one half hours to be equally divided and controlled by the chair and ranking minority member of the Committee on Energy and Commerce and 30 minutes to be equally divided and controlled by the chair and ranking minority member of the Committee on Ways and Means." Let's see now… three hours of debate on a bill that now exceeds 1,400 pages? Why that's a dawdling 7.7 seconds per page. One wonders why Republicans and a handful of Democrats would accuse Speaker Pelosi of bulldozer tactics.

Consider the following exchange between Texas Republican Pete Sessions and the aforementioned Doris Matsui, and keep in mind that, yes, this is the United States House of Representatives, not the Politburo:

> Mr. SESSIONS: At the very top, Madam Speaker, I would like to ask unanimous consent to the gentlewoman from California [Matsui] if we could extend the time of debate. I am inundated with the amount of requests and would like to ask that we extend it 30 minutes, extending both sides an additional 15 minutes.

The SPEAKER pro tempore: Is there objection to the request of the gentleman from Texas?

Ms. MATSUI: No, we will not agree to that. We object.

The SPEAKER pro tempore: The objection is heard.

Mr. SESSIONS: You do object. I would like to ask the gentlewoman if we could extend the time on both sides by 5 minutes then.

Ms. MATSUI: We object. There are 3 hours on the bill.

Mr. SESSIONS: I would like to see if we could extend by 1 minute this debate on both sides.

Ms. MATSUI: We object.

Like a thief in the night, H.R. 2454, the American Clean Energy and Security Act of 2009, passed by a vote of 219–212, virtually ignored by a news media that was in a state of shock over the death of pop singer Michael Jackson. While there is widespread concern over the various government-sponsored healthcare proposals under consideration, most Americans have little idea what cap-and-trade

legislation is all about. Let's take a look:

• The proposed law would put a government-established limit on the emission of carbon dioxide and other minor "greenhouse gases" by industry and consumers. (Water vapor represents about 95 percent of greenhouse gases, though obviously limiting water vapor is not part of the bill.) The bill is based on the unsubstantiated theory that greenhouse gases, in particular carbon dioxide, are causing catastrophic warming of the planet, even though computer models of the "warmers" show that the proposed reduction of CO_2 would only reduce the predicted temperature rise by a fraction of one degree Fahrenheit by the end of this century. None of the 22 computer models used for alarmist claims of future warming predicted the cooling experienced by the Earth over the last nine years, as shown by satellite temperature readings and a network of bathythermograph buoys.
• The proposed law would radically change the relationship between commerce and the political class. With political control over the allocation of energy resources, businesses and individuals would be dominated by politicians. To survive, businessmen would have to "contribute" to campaigns of political bosses, giving the erstwhile extortionists increasingly large campaign war chests. Opposition candidates need not apply.

• Political decisions about energy matters would be taken from those who have expertise in those fields and given to environmental advocates whose primary goal is not a vibrant, industrial economy and an increasing standard of living, but a return to the energy-consumption rates of 1867.

• Business decisions, career decisions, household decisions — virtually every facet of our lives would be affected by the measure just passed by the House. Likewise our foreign relations, tariff considerations, and international commerce would be predicated on measures in the bill.

Inside the Monster

When contemplating the bill, the word "gargantuan" comes to mind. The latest version available from www.govtrack.us/congress has been slashed to a mere 1,428 pages. The table of contents runs to 10 pages, about what a printed copy of the Constitution requires in a normal typeface.

How does one (me) convey to another (you) what an unbelievably confusing, ambiguous, and onerous document H.R. 2454 really is? I counted some terms in the bill hoping it would give you a flavor. Here are a few of them:

• Administrator (means the administrator of the Environmental Protection Agency): mentioned 824 times.

• Greenhouse or greenhouse gases: mentioned 478 times.

• Carbon or carbon dioxide: mentioned 1,360 times.

• Water vapor (over 95 percent of greenhouse gases): not mentioned.

• Congress doesn't say, "If it's not too much trouble, we would appreciate it if you would…" No, their operative word is "shall" — as in "You shall be in compliance." In the Cap and Trade bill, the House directs its underlings 2,445 times that they *shall* do whatever their bosses in the House direct them to do.

Still, your correspondent didn't feel this was nearly enough to show the difficulty in understanding this legislation. Using a random-number generator, five page numbers were selected, of which the following appeared to be the best example of the political-speak verbiage found throughout the bill.

> [From preceding page] (I) The Administrator shall first sell the consumption allowances in the

> secondary pool to any importers of products containing class II, group II substances in [page 979 in its entirety] the amounts requested in their applications for purchase. If the demand for such consumption allowances exceeds supply of such consumption allowances, the Administrator shall develop and utilize criteria for the sale of such consumption allowances among importers of products containing class II, group II substances that may include pro rata shares, historic importation, economic or technical hardship, or other factors deemed relevant by the Administrator.

(II) The Administrator shall next sell any remaining consumption allowances to persons identified in subclauses (II) and (III) of clause (ii) in the amounts requested in their applications for purchase. If the demand for such consumption allowances exceeds remaining supply of such consumption allowances, the Administrator shall develop and utilize criteria for the sale of such consumption allowances among subclauses (II) and (III) applicants that may include pro rata shares, historic use, economic or technical hardship, or [next page] other factors deemed relevant by the Administrator.

Simple, no? Of course it helps to know the difference between a "consumption allowance" and an "emission allowance" or a "carbon equivalent credit." And lest you've forgotten what a class II group II substance is, just refer to your handy desk copy of Title VI of the Clean Air Act (42 U.S.C. 7671) where it is defined as a hydrofluorocarbon.

This passage illustrates one of the problems in comprehending the meaning of the bill: its frequent references to the United States Code, the Code of Federal Regulations, and many other government documents that are difficult for the average citizen to obtain.

Note that the power of the administrator of the EPA seems almost unlimited in his/her capacity to "develop and utilize criteria for the sale of such consumption allowances." But what else would you expect from a bill with a big-government imprimatur on virtually every page?

Cap and Trade

Thankfully, small sections of the bill are less obtuse. For instance, the bill actually tells us on pages 1,018 and 1,019 in almost plain English what "Cap" means in Cap and Trade:

> For purposes of this section, the term "cap and trade program" means a system of greenhouse gas regulation under which a State or political subdivision issues a limited number of tradable instruments in the nature of emission allowances and requires that sources within its jurisdiction surrender such tradable instruments for each unit of greenhouse gases emitted during a compliance period.

No doubt "State" in this context means the United States, as it would be the federal government that would issue these "tradable instruments" — also termed "emission allowances." So where do these allowances come from? From the government printing presses. Where will they go? Obama initially wanted them all to be auctioned to the highest bidders, dooming many energy-intensive businesses. So to "ease the transition" (and get the bill passed) the leftist political and environmental forces that crafted the bill decided on a program reminiscent of the mythical frog put into cold water and cooked as the temperature slowly increased: give away many of the initial allocation allowances and then decrease the "freebies" as the value of the allowances and the transfer of wealth to the feds increases.

Most favored are the electric utilities that would, if this bill is passed by the Senate in its present form, receive 43.75 percent of the emission allowances for 2012 and 2013 when the bill goes into effect — notably after the next presidential election. These would fall to zero by 2030, requiring suppliers of

electrical energy to fight it out to get the increasingly scarce (and more expensive) allowances.

Oil refineries would not be so lucky, receiving a minuscule two percent of the free allowances. Lion Oil, a relatively small refinery in Arkansas, would have to shell out $180 million in the first five years of the program for emission allowances. With average annual profits of $13 million over the past 23 years, the refinery would either have to go out of business in a time when refinery capacity is often an energy bottleneck, or dramatically raise prices to the wholesale petroleum market. Thomas P. Golembeski, a spokesman for Sunoco, states, "In its current form, the legislation will likely increase the cost of domestic refining so much that it will be cheaper to import gasoline, diesel, and other products from overseas," as opposed to refining crude oil here.

Each year (the bill refers to calendar years as "vintage years"), each source of CO_2 emissions — virtually every business — must get new emission allowances. But there won't be as many of them in each successive year, as the purpose of the cap is allegedly to decrease greenhouse-gas emissions. In a growing economy, the need for energy is constantly increasing, but the bill decreases the caps on emissions and decreases the emission allocations. Obama's proposal is to reduce U.S. emissions to 14 percent below 2005 levels by 2020, and 83 percent below by 2050. This is about the same per capita "carbon footprint" as Americans had in 1867. Hence, the supply of emission allocations is restricted at the same time the demand is increasing, making the value of the "carbon credits" increase. At this point the political forces that have influence over who can obtain energy are now the de facto rulers of our economy.

If the "Cap" in Cap and Trade weren't bad enough, the "Trade" section would probably be even more devastating to our economy, as the "traders" are going to milk this cash cow until the proverbial udders dry up. And it is our cash.

Just imagine a world where all productive entities must have emission allowances to operate. Where will they get them? The same place you get Treasury Bills today: not from the government, but from a bank that brokers them. Same for allowances, and brokers like Goldman Sachs can't wait — "We have a bargain on credits from a bicycle factory in Albania that's shutting down. Only $97 per ton of CO_2 equivalent." There will be millions of buyers and millions of sellers, with the brokers in on every mandated transaction. No wonder Al Gore is said to be on the verge of becoming the first "global-warming billionaire."[1]

You may remember the late Ken Lay, president of now-defunct Enron and a strong proponent of the catastrophic global-warming theory. Did he want to *save the planet*? Not at all. He wanted to trade "carbon credits." And there are not going to be any carbon credits to trade unless the politicians force them on American society.

Let us look for a moment at what our economy would look like if Cap and Trade becomes law.

1. Every business would have to obtain emission allocations to use energy for whatever reason — not only for releasing CO_2 from smokestacks and using energy for production purposes, but for gasoline for vehicles, propane for space heaters, and any other source of energy. Controlling these allowances would take a huge bureaucracy: to determine allocations, track energy inputs, insure that credits are surrendered when used, etc.

2. It is unclear from the bill at what stage in the energy system the emission allotments would be required. For gasoline, would the driller/source buy the emissions permit, or would it be the refiner, the

wholesaler, the retailer, or the consumer? Initially it would probably be “up the line” at the refinery level. But as shortages were created, those “down the line” would have their usage curbed, since the refineries would have to ration to the wholesalers, the wholesalers would ration to the retailers, and the retailers would see to it that you and your family weren’t using more than your share.

3. Such rationing would not be limited to motor fuels, but would also apply to electrical utilities, natural-gas utilities, bakeries, breweries — virtually all manufacturers. Obama warned us in the campaign that we would see a “skyrocketing” increase in electricity prices from coal-fired plants (which currently supply just over 50 percent of our nation’s electricity). When the generating plants reach their limit for emission allocations (which are constantly decreasing), then they must buy more credits and pass the increased costs on. You will most certainly have a decreasing allocation from the electric company, and pay more — provided you’re allowed to exceed your kilowatt-hour allotment.

4. The bill refers to *rebates* of the cost of the emission allocations or carbon credits. Who gets them? See if you can tell from this passage from page 1,092:

> Subpart 1 — Emission Allowance Rebate Program. SEC. 763. ELIGIBLE INDUSTRIAL SECTORS. (a) LIST.— (1) INITIAL LIST.—Not later than June 30, 2011, the Administrator shall publish in the Federal Register a list of eligible industrial sectors pursuant to subsection (b). Such list shall include the amount of the emission allowance rebate per unit of production that shall be provided to entities in each eligible industrial sector in the following two calendar years pursuant to section 764.

It would appear that the administrator (of the EPA) would have great latitude as to whom to reward, and whom to punish.

5. All businesses would be required to purchase emission allocations and could sell them if they did not use their allotment. The Agriculture Department has told concerned farmers that it would be “a wash” for the first several years of the program, but later on they could cash in on unused allotments. So if you plant trees and don’t use tractor fuel, you could then sell your carbon credits. So what if the food supply decreases and predictable price increases lead to starvation, particularly in the poorer countries. Hey, we’re saving the planet, aren’t we?

Your Cost Under Cap and Trade

Both weather and climate are considered to be chaotic, as they are characterized by non-linear models with a high sensitivity to unknown initial conditions. The effect of Cap and Trade falls into this same category. The dozens, if not hundreds, of vagaries in the bill, along with the unknown reaction by multiple sets of producers and consumers, make the costs of the bill very difficult to estimate. In an attempt to do so, though, let’s consider what is probably the most significant cost factor: the cost of an emission allowance for a ton of CO_2, or the tax thereon — there being no real difference here in the long run.[2]

While some government sources estimate this cost as low as $15 per ton, we can rest assured that competition for allotments will drive up this price soon after the initial clampdown on energy availability occurs in 2012. Indeed, Wikipedia — not known for agreement with climate-warming skeptics — uses a figure of $100 per ton of CO_2 to look into the future of carbon taxes.

Using $100/ton and information from the Energy Information Agency (EIA), we can estimate what this will cost the average family of four when any rebates run out, as we’re all paying the bill for supposedly

slowing climate change.

Our hypothetical family has two cars. One is a sedan Dad drives to work that gets 22 miles per gallon (mpg). He drives 14,000 miles per year. Our soccer mom drives an SUV that gets 15 mpg and she drives 10,000 miles per year, including taking the vehicle on a vacation trip. He uses 667 gallons of gasoline per year, and she uses 636. Twenty pounds of CO_2 are generated for each gallon of gasoline burned. With a tax of $100 per ton of CO_2, the increase in price for gasoline would be $1 per gallon, or $1,303 for this family.

Their suburban home is heated by natural gas. Latest figures from the EIA indicate that the average gas user spends $866 per year. Natural-gas prices are apt to go wild at any time, but a reasonable estimate for a home is $10 per thousand cubic feet (MCF). (The gas company uses dekatherms as a basis, but this is very close to an MCF.) Under a $100 CO_2 tax/emission cost, the price increase for one MCF of natural gas would be $6.03. The increase in the natural-gas cost for this family would be $519.

The average U.S. electric customer uses about 12,000 kilowatt-hours (kWh) of electricity per year — except for Al Gore who used 221,000 kWh in 2006, the last figures we are privy to. Our family of four would use something on the order of 20,000 kWh, as the 12,000 kWh average includes many smaller residences and apartments with less than a family of four. If our family were fortunate enough to have electricity generated by nuclear power or hydroelectric power, there would be no carbon credits needed. But over half of U.S. power is generated by coal-fired plants, so let's go with those as a power source. (Natural-gas generating plants have penalties too, but they are about one-half those of coal plants.)

Our normal electric bill for 20,000 kWh at $.08 per/kWh would be $1,600 per year. But the surcharge for CO_2 emission would be $.11 per kWh, resulting in a $3,800 bill — just the kind of skyrocketing bill that the campaigning Obama mockingly predicted.

This doesn't count the increase in the price of virtually every consumer product the family buys, since all products have some degree of energy content. All in all we are in the range of thousands of dollars per year for an average family. And for what purpose?

Green Jobs

You may have seen Nancy Pelosi jumping up and down like a junior high-school cheerleader and shouting "Jobs, jobs, jobs!" when she promoted Cap and Trade on the House floor. Wasn't the bill about saving the planet, not a jobs bill? Maybe if there had been more than three hours of debate allowed by the Democratic majority, some light would have been shed on this jobs business — beyond the claim that these won't be just any jobs, but will be "good, green jobs." Of course, according to Obama's campaign promise when in Dearborn, Michigan, last year, they are also to be "union jobs."

When promoting "green" jobs, environmentalists always picture happy workers building or installing solar panels or looking proudly at a new windmill. On occasion there will be someone with a caulk-gun insulating a building under renovation or someone planting a tree. Though many Americans believe that wind and solar power are to be our energy salvation, few understand anything at all about our energy-distribution system. Solar arrays don't work very well at night, and windmills aren't of much use unless the wind is blowing at a relatively brisk rate. (Most don't develop rated output until the wind speed reaches 29 mph.) Electric consumers, however, have the expectation that even on calm nights their lights and air conditioners will work. And street lights, traffic lights, hospitals, police stations, and many commercial and industrial concerns that operate around-the-clock ought to function too. Because they

generate electricity only intermittently, wind and solar installations have not replaced a single power plant and, unless an efficient way to store massive amounts of electrical energy is discovered, will not do so. The "renewable energy sources" so often praised by politicians and a fawning media would not exist except for massive subsidies. It might be better for the country if these green jobs were digging holes and then filling them back in. At least valuable resources wouldn't be wasted on puny, unreliable sources of overpriced electrical energy.

Also, something seems askew in the green employment figures. If someone already has a job, quits, and gets a new, green, union job, has the unemployment level changed? It would seem logical under the plan being promoted that only those people who are now unemployed would benefit significantly by this "jobs bill," but then there's the little matter of skill sets. Do we expect the unemployed secretary to work on wind turbines some 20 stories off the ground? Are assembly-line supervisors in Detroit going to make good solar-panel erectors in the California desert? What about the flipper from a Burger Palace?

It's more likely that "green jobs" refers to new jobs in the massive bureaucracies necessary to issue emission allocations and police the energy used by all American businesses, and, doubtlessly soon, American households. (The equipment is already in limited use in the U.K. to monitor household electrical usage.) The Energy Police would not only have to monitor use, but also ascertain that the credits being sold were from bona fide "renewable" sources or determine that the originator wasn't really cheating on that end of the transaction — a daunting task even for a massive bureaucracy. But wait, there's more.

During the campaign, recall Obama said that we have to create "a civilian national security force" that would be as strong as the current army. Yes, the green shirts! Now where have we heard of a young, charismatic leader dressing up his supporters in colored shirts and establishing a National Socialist government? Hyperbole? I hope so.

Fighting Back

Whatever the totality of the danger of this legislation, its potential for harm has been picked up by some groups — notably the U.S. Chamber of Commerce. For years the U.S. Chamber has not been much of a champion for individual liberty and limited government. However on August 25, 2009, the chamber requested that the Environmental Protection Agency hold a rare public hearing on the scientific evidence for man-made climate change. If, as expected, the EPA denies the request, the chamber promises to take the fight to federal court.

Of course, the EPA says this is a "waste of time" and that any lawsuit would be "frivolous."

As its vehicle in this fight, the chamber created the Alliance for Clear Climate Economics and Science Solutions (ACCESS), which is to insure that any regulation of greenhouse gases using existing environmental laws not harm the economy or American jobs, be based on sound science, and allow for public review of all underlying data and scientific analysis. Both the chamber and its alliance deserve our cheers and support for taking this stand.

Finally, tireless Senator James Inhofe of Oklahoma intends to get to the bottom of the EPA's suppression of its own researcher's report, a report that clearly showed that CO_2 was definitely *not* the forcing agent for a warming planet. Researcher Alan Carlin's courageous blockbuster presents data showing that both solar activity and (possibly related) Pacific decadal oscillations were far more likely causes of the rise in global temperature that started at the end of the Little Ice Age in the late 1800s and continues today.

Cap and Trade is without a doubt one of the worst dangers facing our country — one that would bring our Republic to its knees in a matter of a few years if implemented. In comparison with Obama's proposed socialized medical plan that is now being fought tooth and nail by the general public, the health plan has the dangers of an aspirin overdose, while Cap and Trade is straight cyanide.

[1] Generation Investment Management, chaired by Al Gore and established by him and David Blood, former chief of Goldman Sachs' asset management fund, now holds 16 million shares of Camco International Limited, which has one of the world's largest carbon credit portfolios.

[2] Some allocations and credits are based on tons of CO_2 (or CO_2 equivalent for other gases), while others are based on tons of carbon emitted. To convert between the values, 44 pounds of CO_2 is equivalent to 12 pounds of carbon.