

Week 9 Assignment: Power for America: Analyzing provisions in the Kerry-Lieberman climate bill

due in section Monday May 24 or Tuesday May 25, 2010

Name: _____ **ID:** _____

TA: _____ **Section date/time:** _____

Senators John Kerry (D-Mass.) and Joe Lieberman (I-Conn.) released their long-delayed proposed energy bill on May 12th. The overarching objective of the bill is to reduce greenhouse gas emissions relative to 2005 levels. The targets are ambitious: 17% reductions by 2020, 42% reductions by 2030, and more than 80% reductions by 2050.

The legislation includes a broad range of provisions encompassing most aspects of the American economy. The heart of the bill is a modified cap-and-trade plan. If things were simple, all emissions allowances would be sold at auction, and the government would then use the auction revenues to support green technology development. Of course things aren't simple: power plants, energy-intensive manufacturers, and transportation are all managed separately in the provisions of the bill.

For this week's assignment, we ask you to consider three of these provisions.

- By 2030 power plants and industry will buy all of their emissions permits at auction, but until then they will be allocated some (decreasing) number of free emissions allowances. Give one sensible reason why politicians might want to give power plants and industry free emissions permits. What are the drawbacks to this approach?
- For the power industry, the allocation of free permits is contentious. The legislation proposes that 75% of emissions allowances be allocated based on historic emissions and 25% based on retail sales of electricity (which presumably could change in time). On the other hand, Senator Harkin (D-Iowa) has advocated allocating free permits entirely based on historical emissions, while others [e.g. Senators Feinstein (D-Calif.) and Carper (D-Del.)] favor a 50/50 split. Which components of the power industry are best served by policy that allocates all permits based on historic usage? Will the choice of percentages influence how rapidly greenhouse gas emissions can be reduced?
- Though the bill is essentially a cap-and-trade policy, it has a significant twist. Emissions permit prices are to be determined at auction, but they have specific price ranges that make the minimum permit price \$12 per ton starting in 2013, and the maximum permit price \$25 per ton. These price limits are to be pegged to inflation. Why are the price limits in place and who will benefit from the existence of minimum and maximum carbon pricing?

Please write your response succinctly (250 words or less).

Check out the web site (http://www-pord.ucsd.edu/~sgille/mae124/week9_hw.html) for links to further reading on the bill, and for a list of provisions that might merit consideration in discussion section.