

Support grows for price collar in Senate bill

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Political momentum is building for the inclusion of a price collar in the Senate's cap-and-trade bill.

As Senate committee leaders draft a comprehensive energy and climate bill before their late-September deadline, support for the inclusion of price controls on emission permits has grown.

Senator Barbara Boxer, who will steer a climate bill through Senate, said last week the environment committee she chairs is considering including price collars in its draft.

The inclusion of both a floor and ceiling price on greenhouse gas allowances as a cost-containment mechanism would signal a slight departure from the approach taken by the House.

The Waxman-Markey bill, which passed on the House floor in June, uses a strategic allowance reserve as a central cost-containment mechanism for the cap-and-trade system it creates.

The bill sets a \$10 price floor to prevent allowances prices from falling too low.

Alternatively, if a trigger price of \$28 is hit in 2012, an auction of 1 per cent of allowances kept in a strategic reserve would be held to prevent prices from going too high.

After 2012, the legislation sets a price trigger at 60 per cent above a 36-month moving average of allowance trade prices.

Legislative agenda

According to Paul Bledsoe, director of communications and strategy for the National Commission on Energy Policy (NCEP), the House bill's allowance reserve is similar in concept to a price collar.

In the Senate, Bledsoe expects there to be strong support for a price collar because previous legislative proposals have had a strong focus on stamping out price volatility.

Attempts at restricting price volatility have long been a part of the Senates legislative agenda, Bledsoe told Point Carbon News.

Bledsoe's NCEP, a bipartisan group, released a report last month calling for the Senate to adopt price collars or to strengthen the provisions of the House's strategic allowance reserve.

NCEP was influential in 2007, when Democrat Jeff Bingaman, former Republican (now-Democrat) Arlen Specter and Republican Lisa Murkowski proposed a bipartisan cap-and-trade bill that featured a \$12 "safety valve."

The Lieberman-Warner bill, which cleared the Senate environment committee, but died on the Senate floor last year, had a price floor and a variation of a reserve allowance mechanism.

New developments

But this time around, Bledsoe said the US is faced with new economic developments that have made a price collar more attractive as a carbon market cost-containment mechanism.

The economic downturn has increased interest in having (price) certainty in the early years of the programme, Bledsoe said.

He pointed to two different US government analyses of the costs of cap-and-trade in the US, which came out with widely different carbon price projections.

The disparity between those price projections suggests precisely the need in the early years for some price certainty that a price collar is likely to address, he said.

The EIA, the statistics unit of the Department of Energy pegged carbon prices at around \$20 in 2012 and \$32 in 2020.

Meanwhile, the Environmental Protection Agency (EPA) projected the price of allowances would be \$13 in 2015 and \$16 in 2020.

Price collar plus

Joseph Romm, senior fellow at the Center for American Progress, said he anticipates a Senate bill will replace the House's reserve provision with a form of a price collar because nobody understood the reserve concept.

Romm proposed a simple fix to the Waxman-Markey reserve proposal in his blog, Climate Progress, by keeping the bill's \$10 price floor and using the \$28 reserve trigger price as a ceiling in 2012.

He added that these prices should rise by 5 per cent plus inflation each year thereafter.

This modified price collar would appeal to both the moderate Democratic senators who have not yet pledged support for a bill, and progressives who are concerned about diluting the environmental impact of the bill with price controls.

Fence-sitting senators and industries can legitimately see it as achieving stronger cost-containment protection than their analysis suggests the House bill now provides, including protection against speculators running the permit price up, Romm said on his blog.

Environmental groups and the political left, meanwhile, can see price collars as achieving "better environmental outcomes" than their analysis of Waxman-Markey shows, he said.

Moderate Democrats, such as Michigan's Debbie Stabenow, have raised the issue of price collars recently and said they may be more effective to containing carbon market costs than distributing free allowances to emitters.

Stabenow sits on the energy, finance and agriculture committees three of five committees with jurisdiction over the Senate's climate and energy bill.

Free market

Meanwhile, carbon market participants are eyeing developments on Capitol Hill, concerned about the growing support for strong controls on carbon prices and over-the-counter trading.

There is a political impetus to providing regulations because of the events of the last six months, said Alexandra Galin, policy and working groups manager at the Carbon Markets and Investors Association.

The trade group's members hope that the Senate will allow the market to "function organically" when it drafts its legislation, she said.

We support free markets, and this (price collar) and the OTC derivatives ban is very detrimental in the long term, depending on how long they plan to keep this collar, Galin said.

At the same time it would undermine the efficacy of the market and the role of the market in assisting the emission-reduction process.

Linkage

Other market participants may also be concerned that the inclusion of price floors and caps will prevent a future US carbon market from linking up with other global markets.

But NCEP's Bledsoe said he does not anticipate there would be much allowance trading between the US and the EU in the early years of a US carbon market.

Linkage will likely occur through offsets because like the Waxman-Markey bill the Senate bill is likely to allow emitters to use a generous amount of domestic and international carbon credits, he said.

Though linked emissions trading systems would be positive for the US, Bledsoe said the US first has to ensure its own programme functions properly.

If we are not able to synch with the European market for a period of time that's alright as long as we can get our market rules right and build market confidence, he said.

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