

FERC may have a dimmer, Democratic-flavored view of the five new LNG projects either sitting at FERC as 2009 opens, or expected to be proposed. Two of the projects that have already filed construction applications with FERC are in Oregon. The Jordan Cove project involves an LNG import terminal to be located in the International Port of Coos Bay in Oregon and a 230-mile Pacific Connector pipeline to be built by Williams. The Oregon LNG project is comprised of a terminal at the mouth of the Columbia River that would send out its gas on a 117-mile pipeline nearly parallel to the Palomar pipeline.

With regard to the bigger, stand-alone pipelines, while everyone agrees there is plenty of conventional and, increasingly, unconventional shale gas to move west, the question is whether Democrats in Congress will force FERC to develop some sort of master plan – an energy version of an industrial policy – for interstate pipelines. That is what the Natural Gas Strategy Act would do. It is sponsored by Reps. Tim Bishop (D-N.Y.) and Elijah E. Cummings (D-Md.). “Placement of natural gas infrastructure should not be run like a deli counter, where it’s ‘first come, first served,’” said Bishop, vice chair of the House Coast Guard and Maritime Transportation Subcommittee.

The pipeline industry strongly opposes the bill. “There is no need for an expanded regulatory role to determine which pipelines will be winners and losers by examining or comparing competing pipeline projects or by attempting to anticipate a host of economic and regulatory contingencies that are outside the control of the commission,” said Claire Burum, senior vice president of regulatory and government affairs, NiSource Gas Transmission & Storage. She appeared on behalf of the industry at a FERC natural gas infrastructure conference in November.

Carbon on the Block

INDUSTRY WATCHES RGGI

BY RICHARD SCHLESINGER

▶ ALL OF A SUDDEN, CARBON EMISSIONS HAD A REAL price, not as high as environmentalists would like, perhaps, but a real price nonetheless. Last September, the Regional Greenhouse Gas Initiative, RGGI, pronounced “reggie” for short, held its first auction of carbon-emission allowances, the first such auction of its kind, and the fact that it went off without a hitch and generated a positive price was seen as significant developments in the war against global climate change. The auction drew intense interest from governments here and in Europe.

RGGI is a 10-state consortium in the Northeast that agreed to cooperatively regulate greenhouse gases using a cap-and-trade program. The European Union has had a cap-and-trade program to limit greenhouse gases in place since 2005, but RGGI’s structure is fundamentally different. Under the EU program, emissions permits were grandfathered and given away to power generators. The result: little if any reduction in emissions, but windfall profits for power companies, who simply tweaked their operations and sold the permits they got for free to others. RGGI allocates permits by state, and compliance entities, defined as fossil fuel-fired electric power plants of 25 megawatts capacity or greater, must purchase them, either at auction or on the secondary market.

The very existence of RGGI is something of a political coup. It grew out of New York Gov. George Pataki’s decision to set up a cap-and-trade program for power plants and invite other Northeast states to join. Getting the power companies on board was simply a matter of convincing them that the states were serious. Faced with the inevitable, power entities opted to cooperate in the design phase of the program.

The states insisted on certain features. Allocations would be auctioned, not distributed, and a floor price and a cap on total emissions would be determined. Power companies were initially opposed to the auction format, but since most participate in electricity market auctions, they contributed positively to the auction design, and the decision to hold frequent auctions – four times per year – is largely a result of input from the power companies. Judi Greenwald, vice president of innovative solutions at the Pew Center on Global Climate Change, was on the original resource panel the governors convened to design the program. She cites as a key question how open to make the auctions. The decision, opposed by the power companies but supported by economists, was to open the auctions to noncompliance entities, which might buy allowances now and sell them later. “If you don’t like that, you call it speculating; if you do, you say it helps the market function



more efficiently," said Greenwald. The limited experience of the first precompliance auction suggests the decision was a good one. There were at least four bids for every allowance and power companies

bought about 80 percent of them. An active secondary market has developed, with trading on the New York Mercantile Exchange and the Chicago Climate Exchange, where allowances were trading for about a 30 percent premium two months after the September auction.

The biggest controversy has centered on the number of allowances issued and the emissions cap. Milo Sjardin, head of the North America division of New Carbon Finance,

believes the cap was set far too high. "It's more than the market needs, prices will remain low and the market won't really reduce emissions,"

Sjardin said. Phil Giudice, the commissioner of the Massachusetts Department of Energy Resources noted the allocation is based on an analysis based on data from 2000 and 2004 and that there were also political considerations in establishing the annual target of 188 million tons. Since emissions depend on so many factors, including weather, economic activity and the price of fossil fuel, precise projections are difficult to make, and RGGI can readjust the target as needed. In the meantime, there's general agreement that the \$3.07 per ton price realized at the first auction is too low to force power plants to make massive shifts. But that's not really the objective; RGGI's goal is to stabilize emissions at current rates for the next six years and then lower them by 2.5 percent by 2014.

Traders work on the floor of the New York Mercantile Exchange. Associated Press Photo

NewsFlash

ERCOT OVER BUDGET

Efforts to update the Texas grid are more than 100 percent over budget and delayed two years, according to a report in the *Fort Worth Star-Telegram*.

The Electric Reliability Council of Texas said the transmission work will cost \$660 million and be completed by the end of 2010. The project is designed to divide transmission into thousands of nodes.

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It's a gradualist approach, and that's as much a political decision as a technical one. "One of our primary goals was to create a market and a structured, transparent environment," said Jonathon Schrag, executive director of RGGI, which administers the program for the states. "The auction in September went off without a hitch, and that sends a strong signal to market participants that the states have done their homework and put in place a robust system for administering and delivering on the process they've laid out."

Schrag believes RGGI can serve as a model for a federal program, which most people agree is the only viable long-term approach. According to Peter Iwanowicz, director of the Climate Change Office of New York's Department of Environmental Conservation, RGGI is already serving to inform and encourage the debate on the federal level. "I've heard members of the House Energy and Commerce staff as well as people at the House Committee on Global Warming quote RGGI as a model. The European Union stated directly in testimony before Congress that the reason it was opting for auctioning under the next phase of their scheme is because of RGGI."

RGGI isn't the only organization that's taking an auction approach to limiting greenhouse gas emissions in the United States. The Western Climate Initiative, which targets industrial plants as well as power companies, and the Midwest Greenhouse Gas Accord are already building on RGGI's design and analytical expertise. In all, 24 states are working on some form of cap-and-trade program to limit carbon emissions. The Pew Center's Judi Greenwald expects the new administration to be a major force in furthering these state efforts and building on them to develop a federal cap-and-trade program. "This is the kind of issue that needs executive leadership. It's not just one department; it's the energy department, the environment department, the agricultural and transportation and housing departments. Everyone needs to get into the act, so you need strong executive leadership," said Greenwald. "You often get this kind of policy experimentation on the state level, and that really helps form and carry federal policy. It's a laboratory run by the states, and so far, the results are extremely positive."

(GUEST OPINION)

Cap-and-Trade Is Bad

A STEALTH TAX ON ENERGY

BY THOMAS PYLE

➤ BARACK OBAMA AND HIS TEAM HAVE MADE it clear that a cap-and-trade system will be an important tool for the new administration to provide green jobs and reduce the nation's greenhouse-gas emissions. But the real purpose of cap-and-trade is to increase the cost of energy. The European experience shows that countries lose their enthusiasm once they experience the actual costs of these programs. Implementing cap-and-trade now would kick the U.S. economy while it's already down.

On the surface, cap-and-trade sounds like a straightforward procedure to reduce total greenhouse-gas emissions. In consultation with scientists and economists, the federal government picks annual quotas for total emissions and then issues a corresponding number of permits. Parties are then free to trade their permits at prices determined on a market.

Theoretically, cap-and-trade achieves emissions reduction goals in an efficient way. If the government has picked the right cap, then the induced price of permits leads firms to internalize the alleged cost of greenhouse-gas emissions. Because the permits are tradable, emissions reductions occur in those sectors where they are most affordable. This lowers the total cost of compliance compared to a top-down government plan, and it's why proponents call cap-and-trade a market solution.

Cap-and-trade sounds pleasant in theory, but in practice it has been a failure. Europe has the largest cap-and-trade system in the world, and instead of leading to a decrease in emissions, Phase I, between 2005 and 2007, led to a 1.9 percent increase in greenhouse-gas emissions. What's worse, electricity bills in much of Europe have substantially increased because of cap-and-trade policies.

The failure of the emission trading scheme to lower emissions is understandable when we consider the incentives facing politicians. Politicians want to talk a good game on climate, but they do not want to impose massive pain on citizens or businesses. As a result,