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Waxman Said to Offer Free Permits in Climate Talks (Update3)

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May 7 (Bloomberg) -- U.S. Representative **Henry Waxman**, sponsor of a plan to cut greenhouse-gas emissions, is offering power producers and companies such as steelmakers free pollution permits, said people familiar with the negotiations.

Waxman, the Democratic chairman of the House Energy and Commerce Committee, made the proposal in an effort to win approval in his panel for legislation to establish a carbon-trading program, said the people, who declined to be identified discussing the private talks. The free permits may be worth as much as \$40 billion a year, according to **Mike McKenna**, president of MWR Strategies, a policy consulting firm based in Washington.

Waxman's offer marks a break from President **Barack Obama**'s original proposal to auction off all permits to pay for a middle-class tax cut. Businesses and some lawmakers of both parties opposed the president's approach.

"Polluters should have to pay for the privilege of dumping their stuff into the atmosphere," **Frank O'Donnell**, president of **Clean Air Watch**, a Washington environmental group, said in an interview. "The problem is purely a political one as they try to round up votes in the House Energy and Commerce Committee."

The cap-and-trade legislation proposed by Waxman would require companies to obtain a permit for every ton of carbon dioxide they pump into the atmosphere. In 2012 when the program begins, 4.7 billion permits would be issued, after which they could be traded on a market.

'Significant Consensus'

"There has been significant consensus reached in the last 24 hours," Representative **Jay Inslee**, a Washington Democrat who serves on the committee, said today on a conference call with reporters.

Karen Lightfoot, Waxman's spokeswoman, declined to discuss the talks. Waxman of California, who has pledged to act before Memorial Day on May 25, delayed action on the climate-change measure in a subcommittee this week as negotiations continued.

Obama originally proposed auctioning all permits. He later said some could be given away. A program viewed as too costly for businesses wouldn't be politically viable, he said.

Waxman's draft was silent on how permits would be distributed. Representative **Rick Boucher**, a Democrat who represents Virginia's coal-producing region, was among committee members who said utilities should get free permits for all of their emissions.

The free permits are needed because cutting greenhouse gases will raise electricity prices, **Jeffrey Sterba**, chairman of Albuquerque-based **PNM Resources Inc.**, told the House panel in April. **Michael Morris**, chief

executive officer of **American Electric Power Co.**, the biggest U.S. producer of electricity from coal, said utilities should get all permits for free.

Memorial Day Goal

"The president would still like to see a bill by Memorial Day," Representative **Bart Stupak**, a Michigan Democrat, said in an interview this week. "That's going to be difficult to do."

Under the proposed compromise, about 55 percent of the pollution permits could be given to utilities, refiners and manufacturers, according to McKenna, who added that the specifics may change as the talks continue.

"Much of the debate internally between moderate Democrats in the coal states and the other Democrats on the subcommittee is really with respect to the transition and the allocation of allowances," **Jim Rogers**, chief executive of **Duke Energy Corp.**, said this week on a conference call with analysts.

17% Reduction

A target for emissions reductions would drop to 17 percent by 2020 from Waxman's original proposal of a 20 percent decline, according to a Democrat on his committee who sought changes in the draft bill and declined to be identified. Sponsors of projects to capture and bury carbon emissions from coal plants would get \$10 billion, the lawmaker said.

Mandates for renewable electricity production and energy efficiency improvements remain unresolved, Inslee said. The measure will include requirements that utilities produce a certain amount of power from wind, biomass and solar sources and make efficiency gains, lawmakers and environmental and industry representatives have said.

"Don't expect absolute finality on the bill until the signing ceremony on the South Lawn" of the White House, said Inslee. He said Waxman is "heading" toward getting enough support to get the bill through his committee.

The European Union, operator of the world's largest emissions market, handed out nearly all its permits at no charge when carbon trading began in 2005. The allocation was more than the 11,000 European factories and power plants needed.

The surplus drove down the price for a permit to release a ton of CO2 to as low as 1 euro cent (1.34 U.S. cents) in 2007. That erased the incentive to trim pollution until the EU reduced its annual allocation by 9.4 percent for the years 2008-2012.

Permits' Value

Pollution permits in the U.S. could be worth \$13 to \$17 a ton in the early years of the program, the **U.S. Environmental Protection Agency** said in an analysis of the Waxman bill last month. EU carbon-dioxide allowances for December rose 2.4 percent to 14.95 euros (\$20.11) a metric ton this morning on London's Climate Exchange.

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