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Supportive climate? Environmental bills get cautious reception from business

By Jay Greene

TE Energy Co. and **Ford Motor Co.** are among several large Southeast Michigan companies supporting, in part, federal legislation to reduce greenhouse gas emissions over the next 40 years through a market-based trading system.

The climate bills would foster the sale and swap of pollution permits under a “cap and trade” system that would allow companies to emit only a certain amount of pollution. Credits must be purchased to allow more pollution.

The bills would direct proceeds from those sales to encourage the development of solar, wind and biomass industries nationally and in Michigan.

But business leaders told *Crain's* they want several changes made in the climate bills approved in the **U.S. House** last June and in a **U.S. Senate** environment committee last November before they throw their entire support behind the measures.

That's because the changes

Green energy is a theme at DTE Energy Co. headquarters in Detroit, where Skiles Boyd (left), vice president of environmental management and resources, and Irene Dimitry, director of renewable energy, work on projects including a wind farm in the Thumb.

Photo credit: Nathan Skid/Crain's Detroit Business

WHAT IS ‘CAP AND TRADE'?
At the heart of federal climate change legislation is a “cap and trade” system designed to set limits that would help to reduce the greenhouse gases that power plants, refineries and other factories emit. Under the market-based trade system, companies would need an annual permit for every ton of greenhouse gas they release into the atmosphere. Facilities that don't use all of their permits could trade or sell them to companies that produce more pollution than their permits allow.

CLIMATE BILLS COMPARED

Here are differences between the U.S. House and Senate climate-change bills:

Targets to reduce greenhouse gas
• **House:** 17 percent below 2005 metric ton levels by 2020, 42 percent by 2030 and 83 percent by 2050.
• **Senate:** 20 percent below 2005 levels by 2020, 42 percent by 2030 and 83 percent by 2050.

Pollution permits
• **House:** All but 15 percent would be free in the early years of the program, giving time for industry to comply with the timetable. By 2026, most of the free permits would be sold.
• **Senate:** Some 75 percent would initially be free, with 25 percent sold through auction.

Prices for pollution permits
• **House:** Price “collars” set lower and upper price limits to give companies more investment predictability. Range is $11 per ton to $28 per ton.
• **Senate:** Price ceiling higher over time compared with House. Range is $7 to $21 per ton in 2012, rising each year at 6 percent above inflation.

Alternative energy incentives
• **House:** Would make available $30 billion, through pollution permit sales, for clean-energy technologies, including solar, wind, biomass and thermal. Requires 20 percent of electricity to be generated from renewable energy.
• **Senate:** Similar provisions on funding, but would require only 15 percent renewable energy goal by 2021.

Consumer costs
The Congressional Budget Office estimated that by 2020, under either

also mean higher costs for energy companies and end users; it's just not clear exactly how much.

“We took a position that the House bill moved things along, and we supported it because it made good progress, but it needs significant improvements before this bill would be good for our customers in Michigan and the Midwest,” said Skiles Boyd, DTE's vice president of environmental management and resources.

DTE wants emissions deadlines extended and more generous incentives for tapping alternative energy sources.

“Unfortunately, the Senate environment committee took it in the wrong direction,” Boyd said. “There are other committees in the Senate that (have the opportunity) to make improvements before it reaches the Senate floor.”

It is expected that the Senate will take up climate legislation again this spring after Congress finishes its health care reform bill and other priorities, said U.S. Sen. Debbie Stabenow, D-Lansing.

Stabenow is on three of the five Senate committees — energy and natural resources, finance and agriculture — that are also expected to develop climate legislation.

“For us, (the climate legislation) has three pieces: Jobs, getting off foreign oil dependency and tackling global warming,” Stabenow said.

“Creating jobs is my No. 1 priority. ... We won't pass anything that doesn't have a strong job-creation component.”

Higher costs

Many stakeholders are concerned that the climate bills will raise energy costs for companies that are already struggling.

“We will be opposed to any cap-and-trade mechanism in any bill,” said Charles Owens, director of the Lansing-based **National Federation of Independent Businesses**. “What you are doing is creating an artificial market and forcing people to trade on it to do business. The net effect is increased energy costs that are passed through the energy companies and businesses to consumers.”

Owens said an alternative to cap and trade is to expand nuclear power and carbon-reducing clean-coal technology.

There are varying estimates on the increased energy costs that would be a byproduct of cap and trade.

Household cost increase estimates range from $7 to $15 per household per month, according to the **U.S. Congressional Budget Office**. The conservative **Heritage Foundation** estimates $150 per month in higher energy costs based on the belief that the legislation would greatly alter the price structure of the industry.

But proponents argue the bills could create incentives that could create 37,000 to 42,000 net jobs in Michigan and increase the state's net gross domestic product by $2 billion over the next 10 years. That's according to a study on the climate bills co-authored by the **University of Illinois**.

Mike Langford, president of the **Utility Workers Union of America**, said the bills will create jobs in manufacturing to weatherize and retrofit homes and businesses. The UWUA, which also represents workers in the nuclear, coal, solar and wind industries, is a Washington, D.C.-based affiliate of the **AFL-CIO**.

“The House bill needs to take on the look that it is about job creation to help move it along,” Langford said.

But U.S. Rep. Mike Rogers, R-Howell, said regulation of greenhouse gases will raise energy prices and further crimp the state's economy, raising unemployment further. Mark Neisler, global climate change specialist with the Ann Arbor-based **Michigan League of Conservation Voters**, said energy costs will rise but argued job creation is worth it.

“With any change, there is a little pain up front, and some energy prices will increase, but we need to look 15 to 20 years down the road,” Neisler said. “This policy will create a better environment and spur the startup of a whole lot of companies in Michigan.”

Langford said Congress must act aggressively to create incentives for U.S. businesses to compete internationally. “All the wind turbines at a Texas wind farm were produced in China,” Langford said. “It could have been done in Michigan. We will lose work and jobs unless we do something.”

Business groups have mixed positions on the bills.

With the **U.S. Chamber of Commerce**, the **National Association of Manufacturers** and the National Federation of Independent Businesses firmly opposing the bills, one small-business group in Southeast Michigan is supporting the concept.

The Warren-based **Michigan Professional Business Association** supports the bills if changes are made to give businesses cost breaks and more time to reduce carbon emissions.

“While we support green practices and sustainability, we feel the government needs to provide additional funds to cover the out-of-pocket costs to convert our energy sources or extend the deadline of the compliance to lower the impact on small business,” said Jennifer Kluge, COO of the MPBA.

The **Detroit Regional Chamber** opposes the House bill but could support final legislation if the financial impact on businesses is reduced, said Sarah Hubbard, the chamber's vice president of government relations.

“The business community is aware of issues of climate change and it affects them from a social responsibility standpoint,” Hubbard said. “We are interested in the debate, but we aren't interested in being involved in something that has a negative economic impact to the (business) community.”

Mike Shriberg, policy director with the **Ecology Center**, an Ann Arbor-based environmental group, said once prices for greenhouse emissions are set by cap and trade, the market incentives will change and the alternative energy industry will grow.

“This is a battle between the new economy and old economy, with the old economy supported by the Chamber,” Shriberg said.

An incentive-based system

Many support a cap-and-trade system because it limits overall emissions of heat-trapping gases while allowing utilities, manufacturers and other emitters to trade pollution permits, or allowances; the capitalist system survives.

Bills in the House and Senate would cut greenhouse gas emissions by 17 percent to 20 percent over 2005 levels during the next decade and by more than 80 percent by 2050.

David Skole, a professor of global change science in the forestry department at **Michigan State University**, said cap and trade is the best way to reduce the consequences of global warming due to greenhouse gases.

“Cap and trade is far better than the old 1970s-style command and control approach of forcing everyone to reduce emissions by the same amount,” Skole said.

Skole said the Reagan administration first envisioned a cap and trade system as part of the 1990 Clean Air

Act to reduce sulfur emissions.

“Each year they are allowed less, so this gives them incentives to develop new technology,” Skole said.

Boyd said DTE needs more time to develop clean energy technologies.

DTE wants Congress reduce greenhouse gas level targets from 17 percent or 20 percent to no more than 14 percent by 2020, he said.

“At higher levels, there isn't a lot we can do in that time frame. We would have to purchase credits, and that would increase the cost of business,” Boyd said.

The only way DTE and other utility companies could reduce emissions would be to use more natural gas to generate electricity, Boyd said.

“Reducing supply of gas would increase prices of heating fuel for consumers,” he said.

DTE wants the bills to extend the deadlines and create more generous offsets that would give them more credit for alternative energy generation.

Stabenow said she has introduced an amendment that would expand the types of carbon offsets to give electrical utilities more flexibility in meeting emissions targets.

A carbon offset can be anything that reduces the amount of greenhouse gas emissions. It can include planting trees or reducing farmland erosion. Skole said both bills require the **Environmental Protection Agency** and the **U.S. Department of Agriculture** to create a protocol that measures offsets.

Another issue that concerns DTE and other heavy greenhouse-gas emitters is the danger that the prices of carbon permits could escalate over time due to trade speculators.

Stabenow said it is important for Congress to set a lower and upper limit on the price of pollution permits.

Under the House proposal, companies that generate greenhouse gases above target levels would be required to pay a $13-per-ton tax on emissions.

Stabenow said funding for the renewable-energy projects will come from the sale of pollution permits.

“The House bill uses proceeds from the sale of the allowances to be put into different pots,” Skole said. “Some of the money will go back to industry to invest in renewable fuels, and some will go to businesses and consumers to offset costs of higher energy.”

John Viera, Ford's director of sustainable business strategies, said Ford is concerned with provisions in the House bill that would require automakers to build a majority of their vehicles to run on a blend of gasoline, ethanol and methanol.

“We prefer a more general requirement that gives us flexibility and time to comply,” Viera said.

Ford also is a member of the three-year-old **U.S. Climate Action Partnership** that is promoting the idea that climate legislation is needed. Other members include **General Motors Co.**, **General Electric** and oil companies such as **Shell** and **British Petroleum**.

“We are not concerned about the timetable on carbon reduction, because we are well on our way to reduce greenhouse emissions by 30 percent under 2006 baseline,” Viera said.

Alternative enforcement

Viera said Ford prefers that Congress adopt a bill rather than for states or the EPA to develop policies.

“It is difficult as a business to invest and operate effectively when you have a variety of rules,” he said.

Stabenow said the Obama administration will instruct the EPA to set rules if Congress fails to act.

Boyd hopes Congress will approve a bill this summer.

“It is difficult to set up a market-based system without Congress acting.”

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