

The Impact of Cap and Trade

These days when monthly utility bills arrive, the consumer grits their teeth and hopes for the best, but the price may become painfully unaffordable if Congress agrees on a cap and trade law. The phrase “cap and trade” is on equal footing with “tax and regulation,” due to its imposition on the free market. President Barack Obama is politicking for a cap and trade program, which will reduce carbon dioxide emissions for future generations; a forward-looking, responsible Presidential maneuver. Unfortunately, some of the costs associated with his plan will filter down negatively to the everyday consumer, some national locations being affected more than others. From the array of plans being discussed, one of the plans, the “American Clean Energy and Security Act of 2009” passed in the House of Representatives on June 26, 2009, but has yet to pass in Senate.

The goal of the ACESA is to reduce U.S. carbon dioxide emission levels by 80% in the year 2050, using 2005 levels as a bench mark. Since more than half of the homes in the U.S. rely on electricity from the coal-burning sources, Virginia being no exception, the cap and trade plan seems rather ambitious. For a cap and trade plan to work, companies who emit higher levels of greenhouse gases during the energy creating process, will be required to purchase more “energy credits” at the price set by the “free market” of competing energy companies. Companies that emit less carbon dioxide will have a surplus of energy credits which they can sell to less-efficient companies; inherently encouraging the use of cleaner energy producing methods. It has become apparent that the companies that are forced to buy more “energy credits” will pass their rising overhead cost to the consumers, ultimately raising utility bills.

Consumers will not remain the only market affected by the realization of a cap and trade program. As members of Radford University’s Student Managed Investment Portfolio Organization, our Energy & Utilities analysts research and monitor changes in government policy, which could affect the organization’s portfolio. Our group is positioned to emerge unscathed from any implementation of a cap and trade system, and perhaps stand to benefit from a cap and trade program, while other companies will be detrimentally impacted by the proposed government parameters. For example, many companies will find it easier to lower emission levels below the required limit than others, but making these changes may present an enormous energy efficiency battle. In an effort to avoid continuous barter on increasingly volatile prices for current inefficient practices, some companies will forcibly expend revenue to reposition themselves as competitors in the energy market.

Hopefully, the mere threat of a cap and trade program allows improvident energy and utility companies to expedite plans for emission restructuring; duly rewarding our planet, government, and our wallet. Even meager consumers can do their part to combat the change by reducing their carbon footprint. Becoming proactive and discovering alternative ways to be more efficient with our energy usage, will ultimately help the environment and afford lower utility bills.