

# Cap and Innovate

When energy policy is discussed these days, you will likely hear about “cap-and-trade.” But cap-and-trade is no mere term or phrase. It’s the centerpiece of the energy bill that passed the U.S. House of Representatives in late June and a key issue that will be debated in the U.S. Senate this fall. The House energy bill would establish for the first time a nationwide program for curbing the greenhouse gases linked to climate change.

Yet for all the coverage the legislation has received, it’s fair to say that relatively few people have delved into how a cap-and-trade system works. Many might be surprised to learn that the cap-and-trade concept is hardly new, but has been used for years to reduce acid rain-causing pollution at a fraction of the anticipated cost.

Behind cap-and-trade is the simple idea that the market can be a powerful tool for accomplishing environmental goals – indeed, that these goals can be reached with greater certainty and less cost than by imposing new taxes or issuing top-down regulations.

The “cap” part of cap-and-trade sets the overall goal. In the case of the House energy bill, it is an upper limit on greenhouse gas emissions (mainly carbon dioxide).

Over time, the cap gets lower and lower. The House energy bill calls for a 17 percent reduction in greenhouse gas emissions

by the year 2020, and for an 83 percent reduction by 2050.

The “trade” part of cap-and-trade provides businesses with flexibility in reaching carbon-reduction goals. Companies covered under the bill must have a permit,

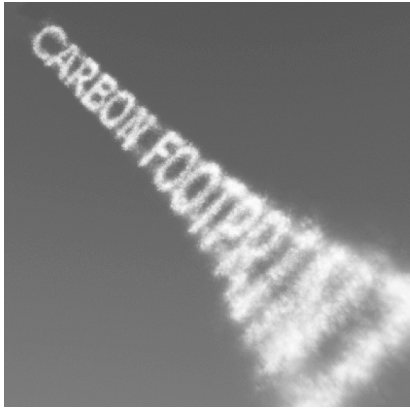
or allowance, for every ton of carbon they emit. Only so many permits are available – and the number of permits gets lower over time to reduce emissions.

The market comes into play because companies can trade the permits. It is expected that the permits will become more valuable as the cap is lowered – creating a powerful incentive for companies to reduce their carbon footprint. Companies that need fewer permits stand to benefit compared to

their peers that have to buy more. And all have a stake in finding the best ways at the least cost to lower emissions.

Finally, cap-and-trade takes the fight against climate change to a new level. Putting a price on carbon is a key to moving energy in a new, green direction that improves the nation’s security, grows the economy and creates jobs. Cap-and-trade could well be called cap-and-innovate.

*What’s your view? Please let us know at [Opinion@PSEG.com](mailto:Opinion@PSEG.com).*



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