



## A Short Primer on Cap and Trade

### **What is “cap and trade?”**

A favorite strategy for reducing greenhouse gas emissions, under a “cap-and-trade” approach a maximum emission level for an industry – a “cap” -- is set. The cap is reduced over time. Below the cap is a quantity of emissions that are allowed. These are allowances.

Under this approach, companies that have reductions greater than their cap, have excess emission allowances. These allowances can be sold to another company that hasn’t made as much progress in reducing its emissions and is still exceeding its cap. That’s the trade.

### **How are allowances distributed?**

There are basically two schools of thought.

Some have suggested that all the allowances be auctioned by the government to companies that currently produce the emissions. People who favor this approach say that companies that emit greenhouse gases should pay for that privilege.

The other approach, favored by DTE Energy, would distribute the bulk of the allowances to companies free of charge and reducing the amount of “free” allowances over time.

### **What’s wrong with auctioning all of the allowances?**

It’s terribly unfair to the customers of utilities who depend on coal to generate much of electricity. In effect utilities and their customers would be paying twice – once to purchase the necessary allowances to continue to generate the electricity that their customers require and again in investing in new, programs, equipment and technologies to reduce their emissions to comply with the law.

### **How much would this approach cost?**

It’s been estimated that Detroit Edison customers alone could pay up to \$800 million more per year. That’s an increase of hundreds of dollars each year. That money would be siphoned out of the state. Worse, the additional dollars spent would produce no environmental benefit.

### **What would happen to the money used to purchase the allowances?**

There have been many suggestions. Some suggest using it to help low-income families pay their increased energy bills. Some have suggested using it to invest in renewable energy development. Some have suggested it be used to help provide health care.

### **Why does DTE Energy support allocating the allowances?**

An allocation would enable us to begin investing immediately – right here in Michigan – in efforts to reduce our greenhouse gas emissions. With our state’s economy continuing to struggle, we don’t need to send any more of our customers’ hard-earned money out of state. Very simply, we believe this is a more prudent, more cost-effective approach.

### **Has “cap and trade” been used before?**

Yes. The approach has been extremely successful in reducing total emissions of sulfur dioxide and nitrogen oxide in the federal acid rain program, which was created as part of the Clean Air Act amendments of 1990.