



History

<http://www.epa.gov/history/topics/caa90/04.htm>
Last updated on Thursday, September 10th, 2009.

You are here: [EPA Home](#) [History](#) [Topics](#) [Clean Air Act of 1990](#) [New EPA Rule Gives Every American Right to Buy and Sell Acid Rain Emissions](#)

New EPA Rule Gives Every American Right to Buy and Sell Acid Rain Emissions

[EPA press release - December 5, 1991]

The U.S. Environmental Protection Agency today issued a rule for the auctions and direct sales of rights to emit sulfur dioxide (SO₂). This is the first final rule under the acid rain provisions of the new Clean Air Act, and also marks the first time the Agency has ever allowed the buying and selling of emission rights.

"This innovative concept of buying and selling emission rights to achieve reductions in acid rain was originally proposed by President Bush in June 1989 and incorporated by Congress in the new Clean Air Act," said EPA Administrator William K. Reilly. "It reflects this Administration's belief in using the proven power of American free market principles to create a healthy and productive environment for all our citizens."

"The auctions and sales will also help guarantee economic growth by providing newer and cleaner electric utilities with the emission rights they need to begin operation," added William G. Rosenberg, EPA Assistant Administrator for Air and Radiation. "We are also requesting proposals from organizations interested in administering the auctions and direct sales without charge to EPA or participants."

Any private citizen, broker, utility or environmental group may acquire EPA's allowances from auctions and direct sales and as a result, allowances will be bought, sold or banked just like other commodities. EPA is encouraged by the fact that a number of utilities have already begun discussions among themselves for allowance trades. In July the Chicago Board of Trade expressed its interest in developing a "futures" market in allowances, and has submitted a proposal to the Commodities Futures Trading Commission.

Commenting on the Board of Trade announcement, Reilly said, "This is a strong, early indication that a sophisticated, self-sustaining private market for acid rain emission allowances is developing."

The auction and direct sale concept is an outgrowth of the innovative emission allowance program under the acid rain provisions of the new Act. This program mandates a 10 million ton reduction of SO₂ emissions from 1980 levels by the year 2000. This cut will be accomplished in two phases: Phase I for the biggest plants, beginning in 1995; Phase II for smaller plants beginning in 2000.

The centerpiece of the acid rain program is an innovative market-based trading system of SO₂ "allowances." An allowance gives affected sources (mainly existing electric power plants) the right to emit one ton of SO₂ per year. A plant's total annual SO₂ emissions cannot exceed its allowances, and only EPA can create an allowance. Existing SO₂ sources (110 plants in Phase I, about 700 more units in Phase II), will receive allowance allocations from EPA based on their emission rates and previous level of coal, oil or other fuel use. (The new

Act also mandates significant nitrogen dioxide reduction to control acid rain, but this program will probably not use allowances.)

Allowances are transferable, allowing market forces to determine their price. If a source reduces its SO₂ emissions more than required, it will have left-over allowances it can sell to another utility or bank for its future use. By providing for such transactions, total emission reductions will be achieved in the most cost-effective manner, and the utility industry will have the flexibility to choose among various options for reducing emissions.

The final auction and sale rules announced today are distinct from the proposed acid rain trading, permit and monitoring rules announced by EPA Oct. 29, which basically provided allowances to 110 existing electric utilities.

As part of the allowance program, the Act requires EPA to set aside, for EPA-sponsored auctions and direct sales, up to 2.8 percent of the total allowances that would otherwise be available to existing utility sources each year. Total allowances otherwise available amount to about 5.7 million annually in Phase I and 8.9 million each year in Phase II.

EPA expects these auctions and sales to stimulate the allowance trading market, establishing an initial market price early in the program. The auctions and sales will also provide allowances to new utilities, which are not automatically entitled to any allowances under the new Act as are existing facilities. In addition, the program gives new independent power producers priority in the direct sale purchases.

The Agency will begin auctions and sales in 1993 and continue them each year thereafter. The allowances will be sold on an "advance" basis (that is, they can be traded but not used for compliance for seven years) and "spot" basis (they can be used for compliance immediately). For Phase I, 150,000 spot and 100,000 advance allowances will be available annually for auctions and 25,000 advance allowance will be available yearly for direct sales; for Phase II, 100,000 spot and 100,000 advance allowances will be available yearly for direct sales.

The proceeds EPA collects from the auctions and sales of the allowances will be returned to the utilities from which the allowances were drawn.

EPA will hold the auctions each year no later than March 31, beginning in 1993. Participants will send EPA sealed bids specifying the number of allowances they want to buy and the price they are offering to pay. EPA will sell the allowances on the basis of bid price, starting with the highest bid and continuing until all allowances are sold. EPA may not set a minimum price on these allowances. After EPA's allowances have been auctioned, private holders of allowances may sell their allowances on the basis of bid price. Utilities may specify a minimum price for allowances they offer for auction.

The direct sale will begin no later than June first of each year and will continue until all available allowances are sold or until the last day on which allowances may be transferred for purposes of compliance with the law. The direct sale is open to anyone, whether private citizen, utility or speculator. EPA will sell allowances at a fixed price of \$1,500 per allowance (adjusted yearly for inflation), on a first-come, first-served basis until no allowances are left to sell. Unsold allowances will go into the auction reserve account and be offered for sale at the next auction.

New independent power producers with written guarantees from EPA get the first opportunity to purchase allowances at the direct sale. In order to obtain these guarantees from EPA, the

independent power producers must meet a number of criteria spelled out in the Act and in this rule. EPA will award guarantees to independent power producers on a first-come, first-served basis. EPA guarantees will secure the right of independent power producers to purchase a yearly amount of allowances for the life of a new unit. EPA intends written guarantees to help independent power producers secure financing for new projects by assuring lenders that new independent power projects have access to allowances needed.

Independent power producers tend to be small independent wholesalers of electric power to traditional utilities. They generally do not provide electricity directly to residential customers.

The final auction and sales rule will appear soon in the Federal Register. In a separate Federal Register notice appearing the same day, the Agency is also giving notice of its intent to delegate authority to a public or private institution to administer the auctions and sales. EPA will accept proposals from interested organizations.

Written public comments on the delegation of authority must be received by Feb. 21, 1992. A public hearing will be held Jan. 13, 1992, at EPA Headquarters in Washington, D.C.