EPA Announces Final Rule on Acid Rain Emission Trading

[EPA press release - March 5, 1993]

EPA today announced a final rule allocating acid rain emission allowances for use after the year 2000 for most power plants in the United States. This rule sets the stage for significant pollution reduction through a market-trading system authorized by The Clean Air Act Amendments of 1990.

To obtain the emission reductions, this rule allocates allowances (each allowance equal to one ton of sulfur dioxide) in varying amounts to over 900 power plants of all sizes. These plants cannot begin using allowances for compliance purposes until after the year 2000.

Today's rule is one of a series of rules implementing the market-based acid rain program required by the 1990 Amendments. The program will cut 1980 utility emissions of sulfur dioxide (SO_2) virtually in half by the year 2010. To preserve the benefits of this reduction, the Clean Air Act provides for a permanent national cap of just under nine million tons on annual SO_2 utility emissions.

Electric utilities account for 70 percent of U.S. emissions of SO_2, which is the major contributor to acid rain.

"This is a very innovative program, where the environment wins because significant acid rain reductions will improve lakes and streams, protect buildings and forests, and cut haze in the air, while the utilities and their ratepayers win because the market approach allows power plants to comply at the lowest possible cost," said EPA Administrator Carol M. Browner. "The rule also encourages energy efficiency improvements, newer pollution control technologies, and the use of lower-sulfur fuels."

Today's rule complements EPA's comprehensive, final acid rain rule for SO_2, published in the Federal Register Jan. 11, 1993. Under the Jan. 11 rule, SO_2 reduction will be accomplished in two phases: Phase I begins in 1995 and affects 110 of the nation's biggest power plants, mostly coal-burning utilities in 21 eastern and midwestern states. The allowance allocations for Phase I are listed in the Jan. 11 rule. Phase II, which begins at the turn of the century, further reduces emissions for the 110 Phase I plants and sets additional restrictions on about 800 smaller plants. Today's rule lists the allowance allocations for Phase II.

EPA is using an innovative market-based allowance system to achieve the required SO_2 emissions reductions. The basic feature of this system is that each utility unit must hold enough allowances to cover its annual SO_2 emissions. Allowances are allocated to existing utility units based on a formula specified in the Clean Air Act (however, no unit is allowed to emit a level of SO_2 emissions that would violate federal atmospheric air quality standards that protect public health).

Allowances, once allocated, are transferrable, allowing market forces to set their price. If a facility reduces its SO_2 emissions below its level of allowances--in other words, does better than it has to under the law--it will have left-over emission credits it can sell to another utility or can bank for future use. Such a system minimizes the cost of complying with the SO_2 reductions necessary to protect our lakes and streams from acid rain.

Today's rule specifies the number of allowances awarded to over 900 power plants in Phase II of the acid rain program, establishes various allowance reserves, and resolves other policy and technical issues. Phase II utilities can now choose their most effective compliance strategy, whether it be holding onto their allowances, reallocating them among their own facilities, or buying and selling them.

In a related issue, the Chicago Board of Trade will conduct EPA's first annual auction of acid rain allowances on March 29. EPA issued final rules in the Federal Register Dec. 17, 1991, setting up yearly auctions and direct sales of 2.8 percent of the total Phase I and Phase II allowances that would otherwise be available to existing utility sources each year. These auctions and direct sales give private citizens, brokers or any utility the chance to buy and sell allowances. An important aspect of the auction and sale is that it will provide an opportunity for new utilities to purchase allowances. New utilities are not automatically allocated allowances under the Clean Air Act. EPA considers this first auction especially important, since it should give utilities a better understanding of the likely market price of allowances.

The direct sale of allowances will begin no later than June 1 of this year. The allowances will go for a price fixed by the Clean Air Act at $1,500 per allowance (adjusted yearly for inflation) on a first-come, first-served basis until no allowances are left to sell. Any allowances that fail to sell will be returned to the existing utility sources from where they originated.

Today's announced rule will appear soon in the Federal Register. In the same Federal Register will be a notice of availability of the National Allowance Data base (NADB) version 2.11, which provides the necessary data used in the allocation of Phase II allowances, along with technical support documents.