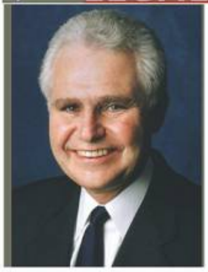

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Carbon-neutral status shouldn't be for sale

By Steven F. Greenwald and Jeffrey P. Gray

While elected officials in Washington debate the politics of climate change, state legislators and regulators have been busy putting in place programs to reduce greenhouse gas emissions. For the most part, the goals of the programs reflect desired changes to power supply and consumption: increasing the efficiency of electricity generation and delivery, using less fossil fuels and more renewable resources, making end users' appliances less energy-wasteful and shifting their use to off-peak periods, and basic conservation practices—turning off unneeded lights and resetting the thermostats of air conditioners and space-heating systems.

Of the new programs, one type is unique because it represents an indirect approach to mitigating climate change. Such programs solicit electricity consumers to buy carbon credits to offset the CO_2 emissions associated with their own consumption and thus make themselves "carbon-neutral."

Recently, the California Public Utilities Commission authorized Pacific Gas and Electric Co. (PG&E) to implement "ClimateSmart," advertised by the utility as "an innovative voluntary program that will provide customers the option to neutralize greenhouse gas emissions associated with their energy use." If an individual or business agrees to pay a small surcharge on its monthly electricity bill (to be used to fund other emissions-reducing programs), PG&E promises to designate the ClimateSmart participant "climate-neutral."

To be successful, greenhouse gas emission reduction programs require both macro (government and corporate) and micro (individual and family) support. Does allowing electricity users to buy carbon-neutral status represent an effective and cost-effective approach to climate change, or is it a distracting and wasteful placebo?

Personal spending or personal action

Recent years have seen more governments fail to adequately provide critical services in education, security, health, and transportation. To fill the gap, those with the financial means have taken to purchasing private alternatives to public services: building private schools, neighborhood security systems, and for-profit toll roads. However, experience suggests that society as a whole benefits more if dollars are directed at improving governmental services, rather than at eschewing them.

The sale of carbon-neutral status similarly suboptimizes efforts to combat climate change on a coordinated basis. Committing public funds to technology research is more likely to produce the desired results than soliciting dollars from end users to make them feel greener. Some fear that users may misconstrue their purchase of carbon-neutral status as permission to forsake their personal responsibility to address climate change directly by consuming less electricity and gasoline. Carbon-neutral status shouldn't be for sale. It should be reserved for those who replace their incandescent light bulbs with compact fluorescents and abandon their giant SUVs.

Markets offer bigger bang for the buck

Promoting purchases of personal carbon credits as necessary for funding research into reducing greenhouse gas emissions is based on a false predicate. The rewards that capitalism offers entrepreneurs are sufficient incentives to attract the funds needed to develop generating technologies and alternative fuels that emit less CO_2. Who doesn't expect the developer(s) of the first reliable power plant equivalent of the Prius hybrid car to become rich? The decision by regulators to authorize sales of personal carbon credits cannot be defended on economic grounds.

In fact, those regulators (and the utilities and self-styled consumer advocates whispering in their ears) are actually impeding badly needed investment in research and development of greener power generation and delivery techniques. These groups continue to favor regulatory policies based on the anachronistic notion that the century-old "cost-plus" model still works.

Short-term demand-response programs that require years to implement, and incentives that richly reward utility investments in infrastructure (rather than in increasing plant efficiency) by making them risk-free are two examples of flawed public policies that deter additional private funding into green power development. The considerable time that regulators spend tinkering with carbon-credit purchase programs would be better spent overhauling antiquated rate systems that limit independents' opportunities to build more-efficient power plants by allowing utilities to recover the sunk costs and depreciation of less-efficient facilities. The rewards of successful competition should be enough to encourage development of cost-effective solutions to climate change; soliciting voluntary contributions from ratepayers should not be necessary.

An unnecessary distraction

Experience teaches that utility forays into areas beyond their core competency (offering cable TV or Internet access, buying and selling real estate, and manufacturing products ranging from plastics to potato chips) are less successful than similar initiatives undertaken by nonregulated entities. If a utility's diversification plan fails, its rate payers inevitably foot the bill. Programs like PG&E's ClimateSmart that sell personal carbon offsets help utilities portray themselves as "green," but they are unlikely to effect the behavioral changes needed to curb CO_2 emissions.

Programs that encourage consumers to buy carbon-neutral status are reminiscent of schemes that promise weight loss with no need to eat less or exercise more. Carbon neutrality at the individual and societal levels cannot be for sale—tangible actions are necessary. ■

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