



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

AUG 13 2003

OFFICE OF CONGRESSIONAL AND
INTERGOVERNMENTAL RELATIONS

The Honorable Thomas H. Allen
U.S. House of Representatives
Washington, DC 20515

Dear Congressman Allen:

Thank you for your letter of July 31, 2003, regarding the President's statement in his State of the Union Address calling on Congress to enact the Clear Skies Initiative. You indicated your belief that the statement was untrue.

Your characterization of that statement as untrue indicates a fundamental lack of understanding of the Clear Skies Act and how a cap-and-trade system works. Clear Skies mandates a cap on emissions 15 years from now. The Act mandates power plant emission reductions, which will be 70% below year 2000 levels. The emission reductions will be achieved through a trading program that creates a strong incentive for companies to reduce emissions earlier, further, and sooner than they would under the Clean Air Act. We expect emission reductions to start immediately once Clear Skies is enacted because of this incentive, as this concept was debated more than 10 years ago when Congress considered the Acid Rain Program. The success of the Acid Rain Trading Program is proven. This is one of the advantages of a cap-and-trade program: immediate reductions and immediate benefits. This is well known and was included in your letter as a footnote.

Clear Skies builds on the Acid Rain program by further reducing national sulfur dioxide emissions to 70% below where emissions are today. New programs are created for nitrogen oxides and mercury, representing the first ever national caps on power plant nitrogen oxide and mercury emissions. The strength of a cap-and-trade program is the certainty that these 70% reductions will be achieved, and sustained into the future.

The cap-and-trade program under Clear Skies places an emissions cap that is 70% below today's levels and goes into place in 2018. However, in cap-and-trade programs, sources can over-comply in early years, resulting in significant early reductions, and then use those banked emissions later. Therefore, banking provides early human health and environmental benefits but also results in extending the time until the cap is reached. The cap ensures that the required reductions will be achieved as all the banked allowances are used.

For example, you indicated in your letter that emissions reductions would fall approximately 945,000 tons short of a 70% reduction in one particular year. This statement misses entirely the millions of tons of reductions Clear Skies starts to achieve once it is enacted by Congress. The 945,000 tons indicated represents reductions that were achieved earlier, and banked for use in the future when emissions are significantly lower than where they are today.

The balance of early benefits and the extended time frame, which occurs using a cost-effective trading and banking mechanism, was both known and understood when the President's State of the Union Address was being prepared. The ability of Clear Skies to achieve significant early reductions and ensure that the environmental target will be achieved when the program is fully implemented is why we believe Clear Skies is a far superior way to help solve this nation's pressing air quality problems.

Again, thank you for your letter. EPA looks forward to working with you to finalize multi-pollutant legislation. If you have further questions, please contact me or your staff may contact Michele McKeever in my office at (202) 564-3688.

Sincerely,

A handwritten signature in black ink that reads "Ed Krenik". The signature is written in a cursive, slightly slanted style.

Edward D. Krenik
Associate Administrator