Trading pollutants

Sacramento's experiment to clean up an air most foul

illustration by Karen Fulk

By Peter Asmus

The debate over how best to clean up the nation's polluted air has focused on California's much-maligned southland and the South Coast Air Quality Management District's shift to a market-based approach.

Bascially that approach allows those who produce pollutants to trade pollution "credits" back and forth. For example, two businesses operate in the same general area, and both spew the same volume of pollutants into the air. But Business One has the ability to reduce its pollutants below the required level by installing an scrubber. It would cost Business Two a great deal of money to reduce its pollutants to a similar level. But for a lesser amount of money, Two can help pay for One's scrubber. Thus, One and Two between them meet air-quality standards, even though the amount of pollutants from Two has not been reduced.

If the truth be known, however, Sacramento is ahead of the curve in developing a viable market-based system. The state capital is working to prove the validity of air-pollution markets in a region with an even more vexing air-quality problem than smoggy Los Angeles because there are few large sources of pollution.

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Perhaps the most noteworthy difference between Los Angeles and Sacramento is the role business played in the development of air-pollution rules. In the southland, regulations were developed in a vacuum, and then adjusted after complaints from industry about costs. Sacramento, however, involved the business community early on. In 1986 the local Chamber of Commerce formed a partnership with the American Lung Association to collaborate on progressive air-quality rule development.

Sacramento's air quality ranks in the nation's bottom 10. While Los Angeles, home of the nation's deadliest air, has close to 2000 major industrial sites, Sacramento has fewer than 100. Sacramento also is about to undergo a major power-plant construction program to supply the power once provided by the Rancho Seco nuclear facility, closed by a vote of the people. Utilities serving Los Angeles, however, still have plenty of power, although much of it comes from old, polluting fossil fuel.

These differences between Sacramento and Los Angeles have forced the capital's utility and air-quality regulators to come up with radical responses to address small-scale polluters such as city buses. Los Angeles should take heed.

The federal Clean Air Act requires all new power plants that emit pollutants in a region that does not meet federal air-quality standards to not add to the overall pollution count. Every ton of pollutant that spews out from a new facility must be "offset" by cleaning up an existing ton of local pollution. How, then, does a market-driven approach respond?

Pollution market advocates argue that instead of mandating specific controls on every source of local air pollution, regulators should set goals. Firms then may figure out among themselves the best way to meet these standards. This creates incentives for developing the most cost-effective solutions.

In Sacramento, for instance, one "market value" of nitrogen oxides (NOx) — a contributor to urban smog and the Number One air pollutant problem in California — was set in a proposed transaction between two area utilities: Sacramento Municipal Utility District (SMUD) and Pacific Gas and Electric (PG&E). SMUD would pay PG&E $7.28 million for air pollution "credits" to be developed at PG&E's Brannan Island natural gas compressor station, located near Rio Vista in the Sacramento Delta. SMUD had negotiated a $28,000 price for every ton of NOx eliminated by installing better pollution-control equipment, paid for by SMUD ratepayers, that will make the PG&E plant less polluting.

Under rules adopted by the Sacramento Metropolitan Air Quality Management District (SMAQMD), if such credits (often referred to as "offsets") are developed 15 to 50 miles away from the new source of pollution, the owner of the new power plant — in this case, SMUD — is required to purchase *twice* as many offsets to compensate for the localized air-quality deterioration. In other words, twice the amount of regional air pollution must be cleaned-up to allow the construction of a new power plant.

SMUD's true cost, then, is double the PG&E purchase price, or $56,000 per ton of NOx. Josh Margolis of AER*X, a Menlo Park firm specializing in air-pollution trades, insists such a transaction is still "a good deal for everybody." He estimated that SMUD's costs without the use of PG&E's pollution credits may have totaled more than $150,000 per reduced ton of NOx.

Emission trades have occurred in the Los Angeles area but typically have involved shut-down plants selling pollution credits to those that remain active. Labor unions have criticized such deals because of increases in unemployment. Transactions on the scale of the proposed SMUD-PG&E deal, which would help facilitate a net increase of over 60 permanent and 60 temporary local management and construction jobs, have been few and far between.

SMUD has since lined up other companies that may be able to provide a better value for its offset money in the infant air-pollution marketplace. Among them are Swanson's Cleaners, a Unocal facility in Walnut Grove, Grace Industries — a fish farm located on the Sacramento River — and a Formica laminating plant in Rocklin. SMUD is keeping price figures under wraps this time.

There is an even more dramatic example of how Sacramento is attacking the air-pollution problem through development of new pollution credit markets. SMUD, in conjunction with the regional transit system, hopes to help develop a new electric trolley that will not only augment an existing light-rail network but also help clean up the air.

Under a new precedent-setting rule, scheduled to be approved by Sacramento's air-quality management district this year, SMUD will be able to quantify the air pollution reduced by the use of this electric trolley when compared to existing diesel buses and apply them as "offsets" to its proposed power plants. The eyes of regulators across the nation are watching to see if the utility's plan passes federal and state regulatory muster. No doubt this proposal, if successful, could accelerate efforts to use electric mass transit as an aid in achieving air quality and energy supply goals in Los Angeles.

Air pollution markets are not a panacea. But Sacramento's experiments demonstrate that the potential benefits of a market approach appear to outweigh the risks of failure.

Insurance: the second Oakland firestorm

By Stanley Moss

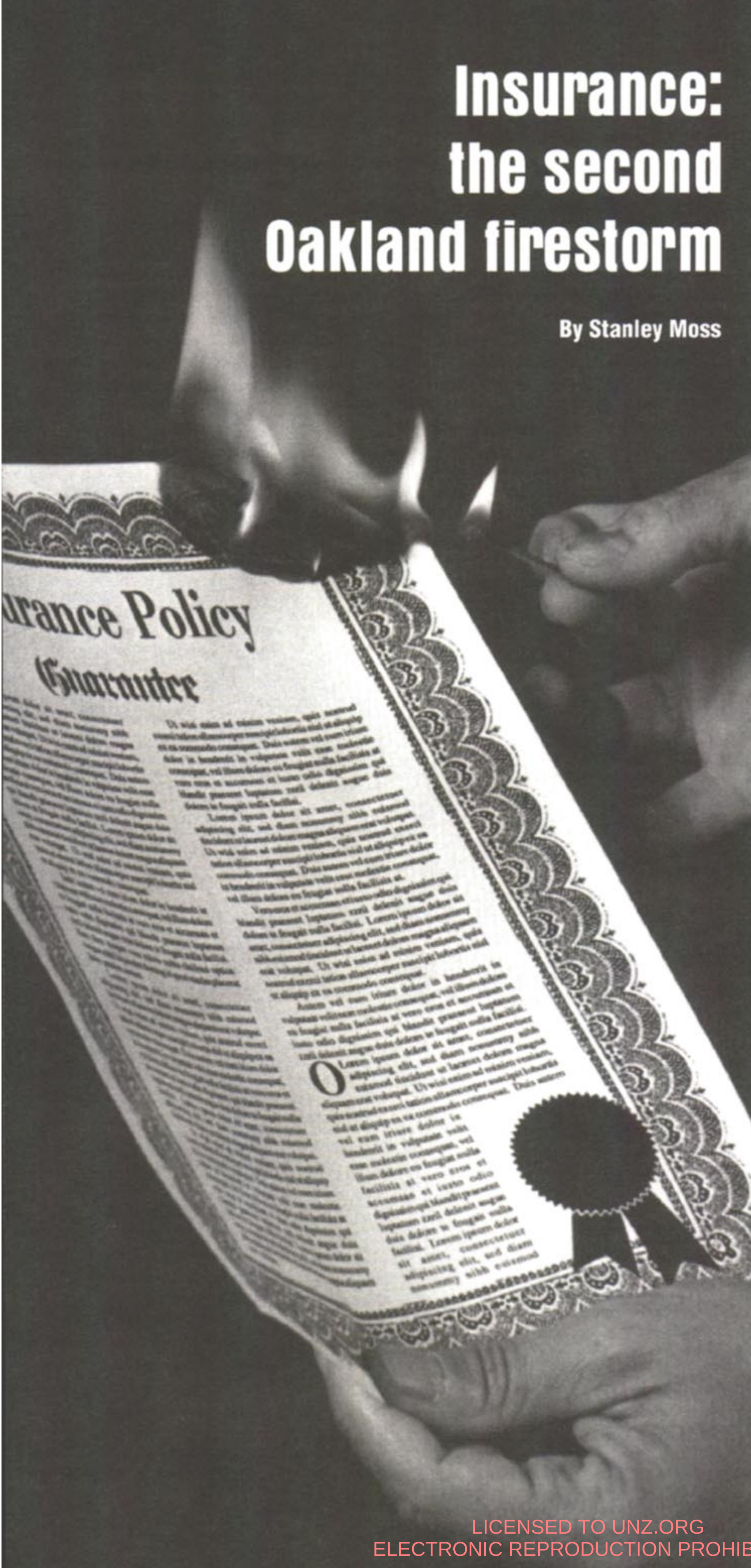

Photo by Rich Pedroncelli

The firestorm that raged through the Berkeley-Oakland Hills on October 20, 1991, pulverized an estimated 3600 homes and 450 apartments, leaving 25 people dead and 150 injured. But it also spawned another kind of horrific firestorm, piling additional trauma on indescribable trauma for already benumbed families, deepening their emotional despair and sense of abandonment. Where only hours before their homes had been a principal source of comfort and peace, now instead they were the subject of bitter controversy that a year later still has fully half and more of these families battling a baffling set of life-disturbing frustrations, despondencies and anger.

This second firestorm centers on insurance and the controversy born out of the entanglement of what homeowners expected their insurance policies would provide in the event of fire and the view insurance companies take of their obligations. The situation is complicated by the perplexing language of insurance policies that leave vital concerns undefined and conceal as much as they reveal.

Ina DeLong, with 22 years of experience as a member of State Farm's Northern California staff, expresses it pithily. "Insurance policies are full of fluffy language."

DeLong says she quit State Farm when she became "disgusted" with how the company handled the claims of families caught in the 1989 Loma Prieta earthquake that devastated much of the Santa Cruz-Watsonville area. At the time, she was disaster supervisor for the company, serving as instructor of adjusters dispatched to settle the claims of insureds. She since has founded United Homeowners, a consumer organization dedicated to providing information and advice to families in their disputes with insurance companies. As a result of her efforts on behalf of families

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