

SUMMARY OF SEI ROUNDTABLE: “IMPLICATIONS OF STATE CLIMATE CHANGE POLICIES FOR THE UTILITY SECTOR”

Friday, September 24, 2004, 12:00-2:00

Committee Room

U.S. Senate Committee on Commerce, Science & Transportation

On September 24, 2004, the Sustainable Energy Institute convened a panel of federal and state officials, as well as utility sector and non-profit representatives, to share their views on state climate change regulations and their implications for the utility sector. Panelists included:

- Franz Litz, Regional Greenhouse Gas Strategy Coordinator at the New York State Department of Environmental Conservation and Chair of the Regional Greenhouse Gas Initiative;
- Josh Bushinsky, States Solutions Fellow at the Pew Center on Global Climate Change;
- Michael Bradley, Executive Director of the Clean Energy Group and President of M J Bradley & Associates;
- Brent Dorsey, Director of Corporate Environmental Programs, Entergy Corporation;
- John Shanahan, Majority Counsel of the Senate Environment and Public Works Committee; and
- Alexandra Teitz, Minority Counsel of the House Committee on Government Reform.

Alan Miller, SEI Board Member and Global Environmental Facility Coordinator (GEF) at the International Finance Corporation (IFC), moderated the discussion. Franz Litz initiated the panel discussion with a brief presentation on various Northeastern states' actions to establish a regional cap-and-trade program, known as the Regional Greenhouse Gas Initiative (RGGI), and specifically described the various steps the state of New York has taken to become one of the least carbon-intensive states on a per-capita basis. These steps include a renewable energy portfolio goal of 25% by 2013, tax incentives for hybrid vehicles, and the RGGI. Building upon previous regional cooperation on air pollution, Litz noted that RGGI includes nine Mid-Atlantic and Northeastern states (with two more observing) working to implement a cap-and-trade program for CO₂ emissions by 2005. According to Litz, the initiative has created a regional greenhouse gas registry and is actively consulting with stakeholders while developing models to design a viable cap-and-trade program for the utility sector. In particular, RGGI is working to create an offset credits mechanism, whereby companies can earn emission allowances by partaking in carbon-reduction activities. Litz described this as an important development in climate change regulation.

Josh Bushinsky of the Pew Center on Global Climate Change provided a broader overview of current state efforts to combat climate change. According to Bushinsky, policy tools such as renewable energy mandates, net metering, public benefit funds, green pricing, and regional initiatives have been used in recent years to reduced greenhouse gas emissions from utilities. While these policies have spurred research and investment in new energy technologies and served as testing grounds for future policy, Bushinsky noted that the emergence of diverse state regulations may prove burdensome on utility companies operating in numerous states. He also added that the absence of federal regulation combined with the long capital-planning cycles faced by utilities make investment decisions less efficient: Companies cannot maximize investments today without knowing the future policy regime they will be operating under. Bushinsky therefore concluded that the enforcement of federal regulations regarding GHGs would not only be beneficial to the environment, but to the utility sector as well.

The discussion then shifted gears to the views of the utility sector. Michael Bradley of the Clean Energy Group (CEG), a coalition of eight electric generating and electric distribution companies, expressed the industry perspective that momentum is building towards support for federal regulation of GHG emissions. Responding to shareholders' demand for climate change risk management, state regulations to reduce CO₂ emissions, state litigation against the electric generating sector, and growing public concern

regarding climate change, Bradley noted that many power companies are cutting their GHG emissions even in the absence of federal regulation. He also emphasized that the industry prefers a multi-pollutant approach to simply just regulating GHGs, which would be cost effective and provide the certainty needed for investment planning. Knowing that state environmental policies have an established history of influencing national policy, Bradley reported that many members of the CEG have been actively involved in state and regional climate change efforts, including RGGI. Bradley stressed that these state and regional efforts should ultimately be stepping stones towards federal action to address climate change in the U.S. According to Bradley, a broad geographical cross section of electric generating companies which are members of CEG, including Calpine Corporation and PG&E, support the Clean Air Planning Act (CAPA), a comprehensive, four-pollutant plan sponsored by Senator Tom Carper (D-DE), Lincoln Chafee (RI), and Judd Gregg (NH) which seeks to stabilize emissions at 2001 levels by 2013.

Brent Dorsey, Director of Corporate Environmental Programs at Entergy, provided Entergy's particular perspective on the emergent patchwork of state climate change policies and the company's approach towards GHG emissions reductions. Throughout his presentation, Dorsey maintained the view that diversified energy portfolios not only provide utilities the opportunity to reduce GHG emissions, but are also smart business practice, which reduce the cost risk of future regulation. Dorsey reported that Entergy was the first U.S. utility to commit to capping its GHG emissions, setting a goal to stabilize its emissions at the 2000 level through 2005. According to Dorsey, Entergy has established 36 internal programs to increase efficiency. These efforts, combined with innovative offsets credit programs such as injecting captured CO₂ into previously inextractable oil deposits, have allowed Entergy to beat its emissions goal by 18%. Referring to the current environment of patchwork regulation and increased litigation, Dorsey noted that Entergy hopes that state efforts like RGGI will serve as templates for a more universal approach. Overall, Entergy believes that an effective GHG federal policy would establish a reasonable cap on GHG emissions, equitably distribute emission allowances, create tradeable credits which allow market forces to determine the most efficient fuel mix, and provide offset mechanisms that will allow for industry growth in a sustainable manner.

A different set of concerns regarding state climate change policy were expressed by John Shanahan, Majority Counsel of the Senate Environment and Public Works Committee, chaired by James Inhofe [R-OK]. Citing recent studies, Shanahan contended that current increases in global temperatures, extreme weather events, and changes in glacial formations are all within normal variation, thus concluding that scientific consensus supporting the existence of human-induced climate change does not exist at this time. Shanahan also noted that the costs of implementing current climate change policy such as the Kyoto Protocol are exorbitant. Finally, he commented that even if such policies were implemented, their effect on global temperatures would be negligible. For these reasons, Shanahan proposed that resources be spent combating other environmental challenges.

In contrast, Alexandra Teitz, Minority Counsel at the House Committee on Government Reform, applauded the states for their regulatory efforts to address climate change in light of federal inaction. She described the history of state environmental policies acting as catalysts for federal legislation. As the United States is no longer participating in the Kyoto Protocol and current federal regulation has neglected to address climate change, Teitz maintained that state efforts to combat climate change have served as laboratories for future policy and can drive technological advances in the field of renewable energy and carbon control. Teitz also noted that state policies help create the political climate necessary for action at the federal level.

Alan Miller, SEI Executive Board Member and GEF Coordinator at the IFC, opened the discussion amongst panel members with the following topics, allowing panelists to respond as they wished:

- The relationship between state litigation against the utility sector and state policies being pursued to reduce GHG emissions;
- The relationship between state initiatives to address climate change and the energy bill pending in Congress; and
- The potential impact of climate change regulation, in particular with respect to developing renewable energy.

The discussion that followed focused primarily on the costs and benefits of state climate change regulation, specifically as they relate to renewables. Litz and Bushinsky contended that policies promoting renewable energy usage have benefits that extend beyond reducing GHG emissions: these policies promote diversification of energy sources and are important steps towards energy independence. Bushinsky also noted that early action by states generates incentives for the development of new technologies, which can be exported in the future. He added that state climate change policies create the opportunity for the development of “tradable currencies” which can be exchanged domestically and internationally, and which in turn also incentivize new technologies.

Bradley commented that in looking at the possible costs of implementing CAPA, CEG developed various models, which showed that the projected increase in retail electric costs would be minimal: The cost increase of switching from three-pollutant (SO₂, NO_x, and Mercury) to four-pollutant control (including CO₂) would only be 5% across the country. Dorsey noted that even in the absence of regulation or scientific consensus regarding climate change, companies are leading the way and taking steps to reduce their GHG emissions, which are in turn being rewarded in the marketplace. Dorsey emphasized that a clean energy future will require long-term solutions. To accomplish this clean energy future, near term costs may be required to achieve future rewards.

In regards to climate change policy at the federal level, Shanahan cited the recent vote on the McCain – Lieberman bill (S-139), which was defeated 43-55 in October 2003, to illustrate that current political consensus is against GHG regulation. Bradley commented that a national approach for reducing carbon emissions is preferable to a states’ initiative such as RGGI, which cannot be perfect due to the nature of the electricity market. In addition, he suggested that climate change policy need not be a drastic action; rather, it should be undertaken as if it were a “marathon,” establishing a sustainable pace over a long period of time while maintaining the flexibility needed to face unknown circumstances ahead.

Upon Miller opening the discussion to the audience, Tim Profeta, Legislative Counsel for the Environment for Senator Joseph Lieberman (D-CT), asked the panelists to give their experience regarding the costs of GHG reduction measures. Dorsey and Bradley responded that as long as energy portfolios are diversified and the opportunity for offset credits exists, cost impacts are modest. Bradley also noted that the economic impact of the McCain-Lieberman bill would have been very low for the utility sector. Litz added that a cost analysis report used to launch RGGI showed very modest economic impacts for the state of New York. Michael Koss of Daimler Chrysler shared that in its response to customer behavior, business has been leading government action, setting goals and targets that go beyond current regulatory policy.

Neil Numark of SEI’s executive board asked the panelists the extent to which progressive approaches towards reducing GHG emissions, like those of Entergy and DaimlerChrysler, are being adopted throughout U.S. industry. Bradley replied that most utility companies view federal action as inevitable, and ask not *if* but rather *when* regulation will be established. Shanahan stated that the industry by and large opposes GHG caps, noting that Edison Electric Institute (EEI), the trade association for shareholder-owned electric companies in the U.S., opposes McCain-Lieberman. Dorsey responded that regardless of their stance on specific regulatory proposals, many utilities are acting to manage the risk of climate change. Teitz commented that it is important to acknowledge the progress that has been made in climate

change policy in the last decade: ten years ago companies were against any action on climate change, whereas today many are acting to reduce emissions. On a final note, Yvonne McIntyre of Calpine Corporation commented on the need for a national climate change program to provide the industry with the certainty it requires.