

The Role of Commission Regulation in GHG Reduction



Andy Keeler

John Glenn School of Public
Affairs

The Ohio State University



Three Main Points

1. State regulators have an essential part in GHG mitigation policy that is complementary to federal carbon pricing
2. State regulators will have to act under uncertainty and in a forward-looking way
3. Regulation that takes GHG reduction seriously requires a change in the way that regulators define the public interest



Key Commission regulatory decisions

- Demand-side management / energy efficiency programs
- Generation incentives and disincentives (complementary to federal carbon pricing)
- Transmission and Distribution



Key Commission regulatory decisions

- Regulatory treatment of alternative compliance strategies
- Use of allowance revenue from a federal program
- Exploration of new pricing / cost recovery models



Commission Emphasis – supply side and demand side

- The effect of a carbon price (from a tax or a cap) is widely thought to be effective in transmitting incentives to energy production technology choice
 - Actions depend on the magnitude of the price signal
 - States may wish to add incentives for particular technologies (RPSs, FITs, subsidies, etc.)



Commission Emphasis – supply side and demand side

- The effect on demand side behavior is characterized by a much wider range of opinion
 - The role of price in demand-side reduction is not zero, and is likely to become more important as prices rise and information for end users gets better
 - Widespread agreement that public EE programs have been and can be effective

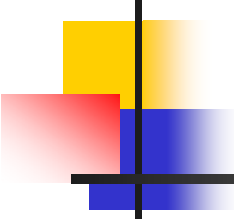


Allowance Value, Consumer Protection, and Commission Decisions

Commissions may have some discretion
over how to use allowance value

- Rate relief
- Transfers to ratepayers
- Energy efficiency investments

Economic efficiency case for protecting
consumers through means **other than
rate relief**



Revenue Use, the Price Signal, and Overall Efficiency

- Using revenue for cost-effective energy efficiency reduces demand, lowers allowance prices, and increases economic efficiency
- Using revenue to hold rates down by reducing revenue requirements dampens energy efficiency, puts more reduction burden on generation, and decreases economic efficiency



Policy Uncertainty and Commission Decisions

- While it is highly likely that some form of carbon pricing will come from the federal government
 - Business desire for certainty
 - EPA CAA regulation
 - It is a necessary part of an effective response to climate change risk
- The timing, extent, and magnitude of the price signal could remain uncertain for 2,4, or more years



Policy Uncertainty and Commission Decisions

- Model Results (EPRI, PNL, others) increasingly find that the timing for beginning expansion of nuclear, coal/CCS, and renewables is critical
- Commissions face tough questions in acting until federal policy is certain (or actually implemented)



Decisions about Generation

- Is it prudent to choose generation as if there will be a carbon price in the future?
- Is it justifiable to guarantee or partially guarantee cost recovery for low-carbon generation if federal policy is delayed or never happens?
- Does uncertainty justify waiting to build new generation (particularly nuclear and CCS coal)?



Decisions about Generation

- Possible diversion of state and national interests in waiting to start new construction
- Commission stances on this issue will have significant influences on financing new generation.



Decisions about Energy Efficiency Programs

- Should a carbon price (and what carbon price?) be factored in to the decision about break-even points for EE programs?
- Uncertainty increases the value of EE in buying time for new generation decisions



How should commissions factor in future federal policy

- Resource Planning Processes
- Advance cost recovery decisions
 - An explicit carbon price / carbon adder
 - A range of carbon prices / carbon adders
 - Target levels of generation and emissions
 - Setting a portfolio of technologies



Uncertainty and NAAQS Policy Development

- It is highly likely that electricity generation will continue to be called upon for reductions in SO_x , NO_x , and mercury
- Lowest-cost ways of meeting new requirements will be different
 - if CO_2 is considered (less coal, more renewables, nuclear, and EE, less gas in the long run)
 - If CO_2 is **not** considered (more post-combustion controls on coal and gas)



EPA Regulatory Processes for GHGs

- Technology-based standards (NSR)
- Reporting procedures
- Mobile source regulation could increase electricity demand
- Possibility of some kind of cap-and-trade through a regulatory process

Strengthening and Expansion of State Programs



- The RGGI states and California (WCI) processes will continue
 - Exacerbate regional electricity price differences
 - Likely to increase interstate leakage



Regulators and the Public Interest

- Utility regulation has historically focused on protecting end users from high rates due to market power, and on reliability
- Environmental regulation (CAA, CWA) have been viewed as external constraints to the above goals
- Climate change is different – it requires a transformation of electricity generation and major changes in electricity use



Regulators and the Public Interest

- Weak version – the handwriting is on the wall – prudent regulation requires anticipating that electricity generation and use will be governed by drastic reductions in GHGs, and that these reductions will drive medium- and long-term cost and reliability impacts



Regulators and the Public Interest

- Strong version – the public interest requires an effective response to climate change risk, and utility regulators are an essential part of efficiently implementing this response