

Carbon Pricing, Utility Regulators, and Climate Risk Mitigation



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Key Points for Commissions and Electricity Regulation

- Commissions have a central role in both price and non-price policies
- Commission balancing to achieve the public interest ought to reflect climate risk mitigation goals



Cap-and-Trade, Carbon Price, and Change in Generation Technologies

Will the cap-and-trade price will be enough to bring about adequate changes in generation?

- The answer depends on how high the price is over time
- Portfolio standard policies also work by raising the price of GHG emissions – and have similar political challenges as a stricter cap-and-trade policy
- Price matters, but is not a magic bullet that will bring about significant short-term change at no or very low cost



Price and non-price policies

- Price and non-price policies work together, and *not* in competition
- Generation will respond fairly efficiently to price signals
- End use responds to a mix of price, non-price, and social and cultural norms

Utility regulators tend to focus on price signals to influence generation and non-price policies for end use reductions



Public Benefit and End User Price

Allowance value under Commission regulation can be used to

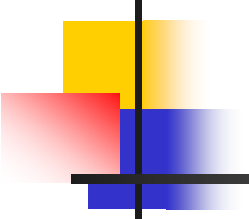
- Reduce end user rates
- Return revenue to end users *not* through rates
- Invest in end user reduction / transmission efficiency / generation changes that benefit end users

Commissions should emphasize the second and third options



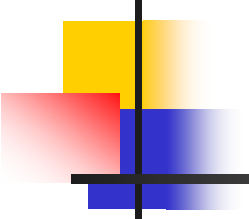
Commissions and Energy Efficiency / Conservation Policies

- Importance of efficiency and accountability
- Challenges of rapid expansion
- Role of utility conservation relative to third parties
- Role of commissions relative to other government actors



This is ***NOT*** like the SO₂ Cap and Trade System

- Post-combustion treatment and marginal fuel-switching will not come close to meeting long term goals
- Generation mix will be strongly affected
- Transmission infrastructure will have to change to accommodate new mix



This is ***NOT*** like the SO₂ Cap and Trade System

- Much great focus on efficient use of electricity
- Need for innovation in regulation of the relationship between generation and end-users

NARUC conference December '09: ***Utilities of the Future: Implications of a Carbon Constrained World***



Public Interest and Commission Regulation

- Commissions have focused on the best tradeoff between rates for end users and system reliability
- Overall economic efficiency has also been a goal of regulators and other analysts
- Meeting public goals for climate risk mitigation will work better if commissions elevate GHG reduction in their determination of the public interest



Key Points

- Find ways to use allowance value under commission control to benefit end users without dampening the price signal
- Play a key role in managing public investment in the efficient use of electricity to ensure effectiveness, efficiency, and accountability
- Recognize clearly that the public interest that commissions serve will include fundamental change in the energy system