A Changing U.S. Climate
Public Utilities Fortnightly
February 2005

ABSTRACT

A number of U.S. utilities are voluntarily reducing their greenhouse gas (GHG) emissions and calling for GHG regulation at the federal level. While still a minority within the industry, large electric generators such as AEP and Cinergy have recently announced support for a federal approach to controlling GHG emissions. These utilities are motivated by a variety of factors, including shareholder resolutions, state litigation, pressure from insurance companies, public scrutiny, and the emerging patchwork of GHG regulation at the state level. State-level policies in particular are, and will continue to be, a driving force behind industry support of federal GHG legislation by:

- creating a clearer picture of future federal regulation, thus reducing investment uncertainty;
- increasing demand for emission reduction credits, thereby making emissions markets more efficient and less risky;
- shortening the time period in which utilities expect federal action, thus making investments in cleaner technologies more valuable in the short term; and
- Encouraging companies operating in carbon-constrained -- and mostly deregulated -- states to push for federal carbon controls.

Certain limitations could arise from the current state of regulation. A "leakage," the tendency of companies to move power generation to states with more lenient emission requirements, could result from the current patchwork of state regulation. In addition, the regional nature of energy markets could also present a challenge to state policymakers who set out to design effective policy. Nevertheless, action is likely to remain at the state level for the time being. The prospects for federal movement on climate change policy may depend on the actions of influential state governors like Arnold Schwarzenegger of California and George Pataki of New York.
