



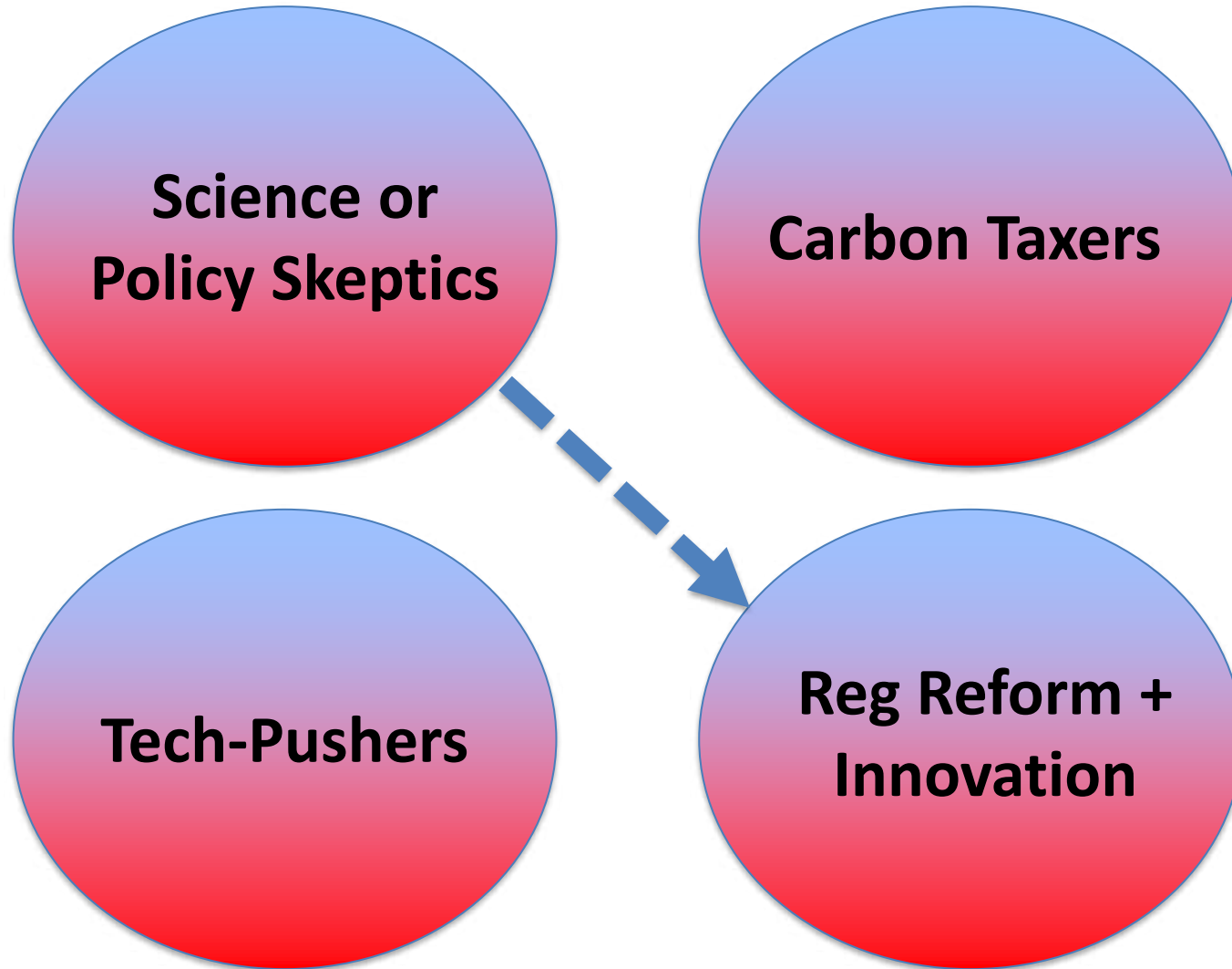
Free markets. Real solutions.

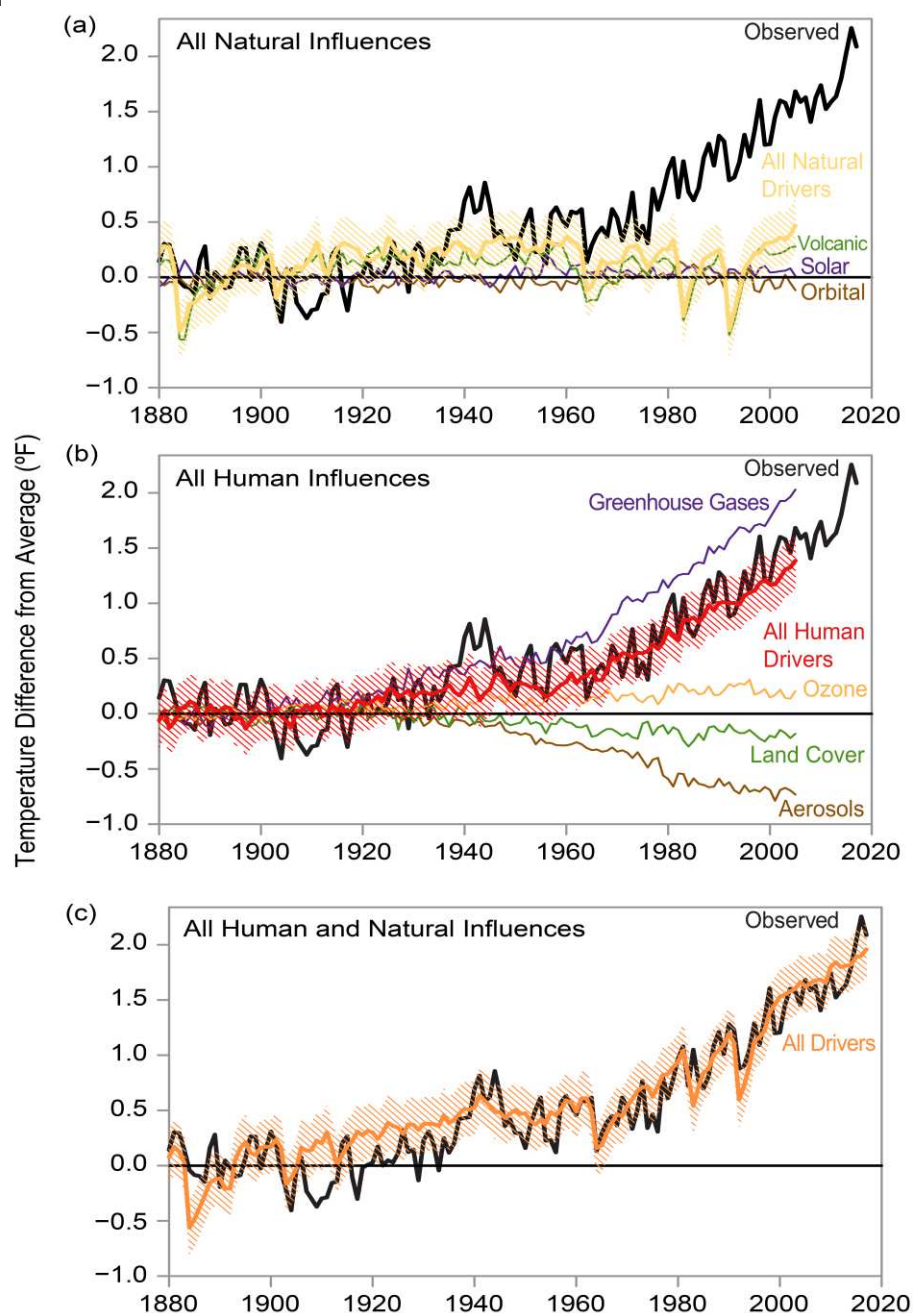
A Free Market Strategy on Climate Change: Electricity Reform Components

Electricity Customer Alliance
April 21, 2020

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Director, Energy & Environmental Policy**

The “Right” Way on Climate?





GHGs Characteristics

- Accumulate (stock)
- Globally mixed
- Domestic emissions influence ($\sim 0.1^\circ \text{C}$)

• “Super Wicked Problem”

Key: lower global abatement costs \rightarrow align w/ domestic self-interest

Economic freedom proponents hesitant in diagnosis

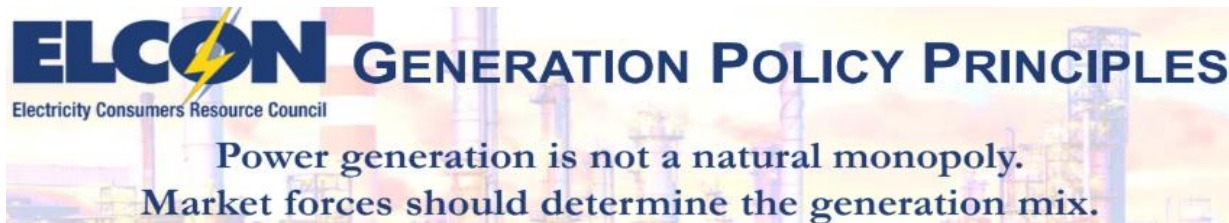
- Diagnosis \neq interventionist prescription
- Many medicines for the disease
- Best medicine: sound economic policy
- Changing climate *propels* case for free, competitive enterprise

A Free Market Climate Strategy

- Advance a sound innovation agenda;
- Reduce regulatory barriers to entry for new technologies;
- Liberate supply chains and liberalize trade;
- Enhance competition, consumer choice and transparency;
- Increase tax efficiency;
- Improve climate risk information;
- Transfer risk management to the private sector; and
- Unwind the subsidy regime.

Electricity Sector

- Pathways
 - Technology improvements
 - Economic system improvements



- Structural regulatory reforms
 - Competitive enterprise
 - Consumer choice
- Incremental regulatory reforms

Climate Benefits of Elec. Competition

Structural Reform Monopoly → Markets

- Rapid platform change
 - Innovative new entry drives emissions cuts long-term
- Plant efficiency gains → reduce fossil burn
- Trading optimization → better renewables integration
- Lower enviro compliance costs
- Green power programs
- Distributed resource participation

“Innovation thrives in a competitive environment; it’s an indulgent luxury in a regulated monopoly.”
- Lynne Kiesling & Dick Munson



CLEAN Future Act

- RTO Expansion
 - Federal “push” vs. bottom-up facilitation
- Right to Clean
- PURPA: competitive procurement vehicle
- Transmission policy overhaul
 - Competition and property rights
 - Utilize existing system & advanced techs
 - Planning & cost allocation
 - Siting
- Improve energy financial market health
- Cooperative federalism

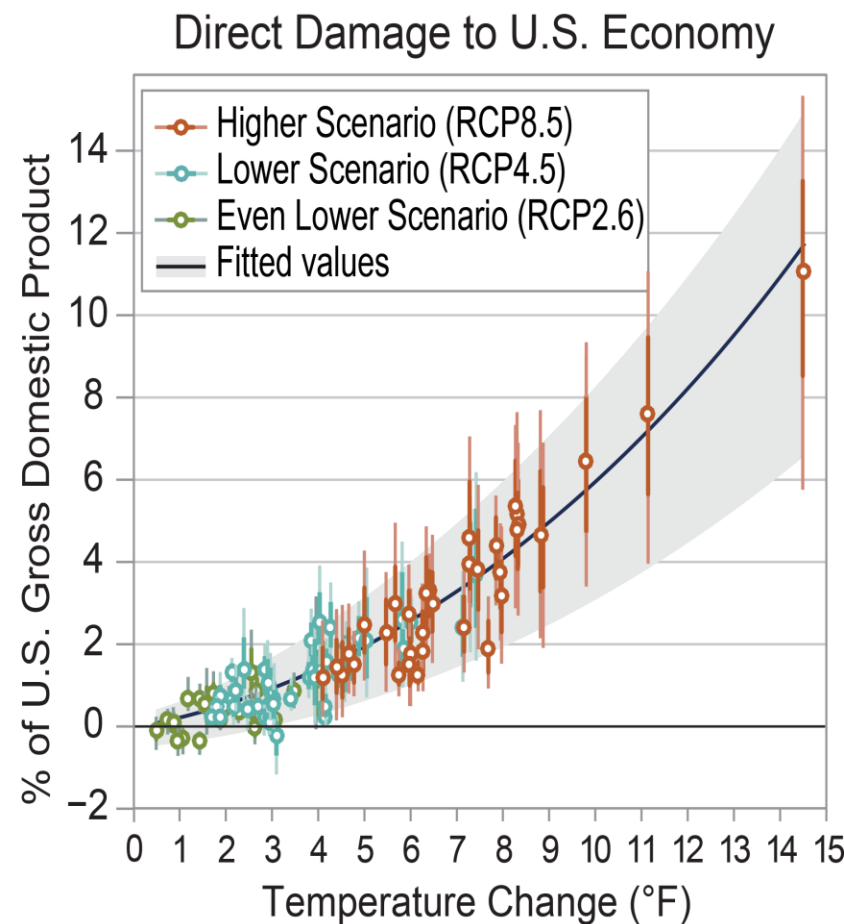
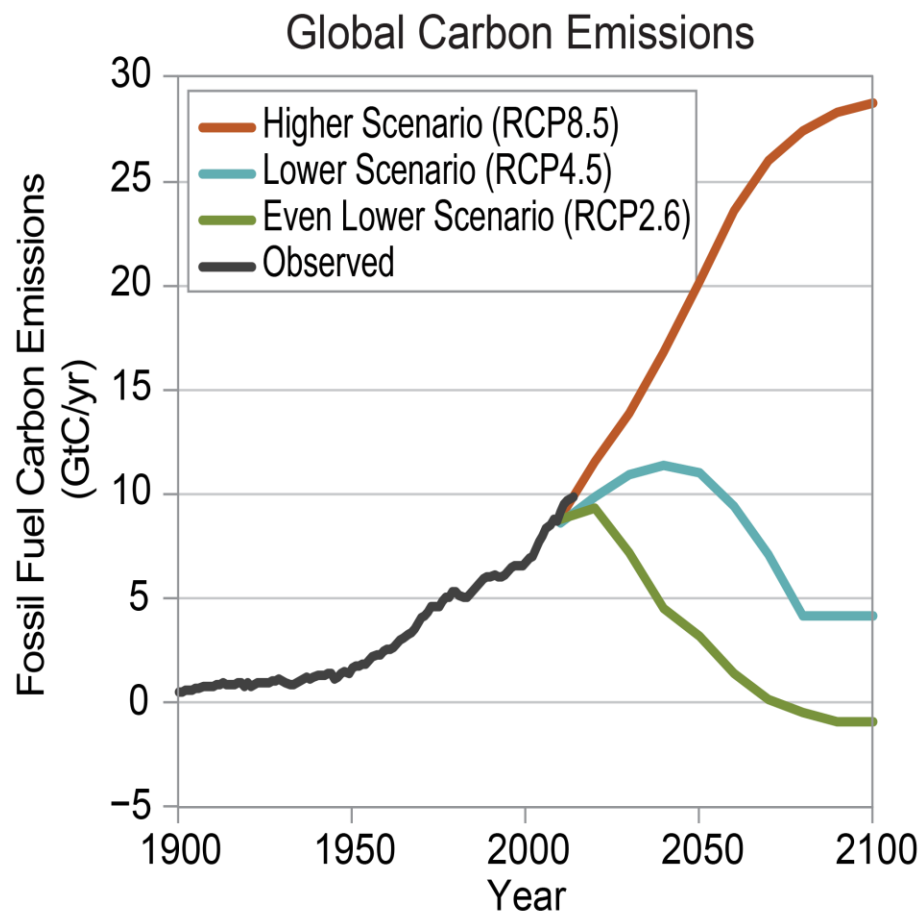
Addendum

Free Market Climate Agenda: Policy Objectives



Source: 21stcentech.com

Domestic Costs From *Global* Emissions



Misaligned Costs and Benefits

- Carbon abatement
 - Costs > benefits
 - Country-level
 - Current generations
 - Benefits > costs
 - Globally
 - Future generations
- Free rider problem
 - Int'l cooperation very difficult (e.g., Paris Accord)

		US	
		Restrict	BAU
China	Restrict	Reduction in emissions sufficient to moderate climate change	US free rides on Chinese emissions cutbacks
	BAU	China free rides on US emissions cutbacks	No reduction in emissions

Source: core-econ.org

Overcoming the Free Rider Problem

- Reduce current cost-benefit gap
- Key: lower *global* abatement costs!!!
 - Align econ self-interest w/ GHG cuts
- Contrasts with:
 - Prevailing proposals (e.g., Green New Deal)
 - Cost-heavy and domestic-only emissions focus

Green New Deal Costs

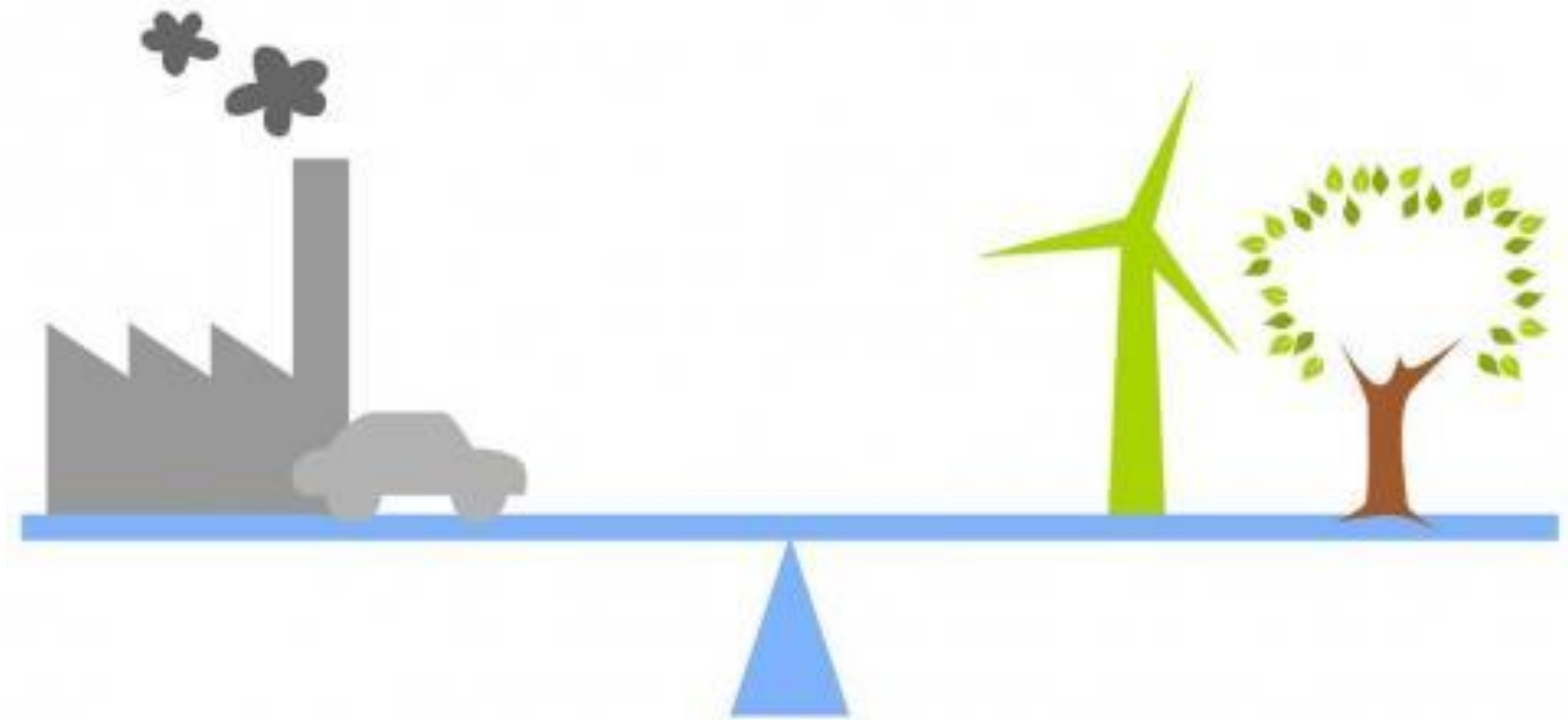
- \$5 trillion: electric grid
- \$2 trillion: transportation
- \$3 trillion: green housing

Source: American Action Forum

Traps to Avoid

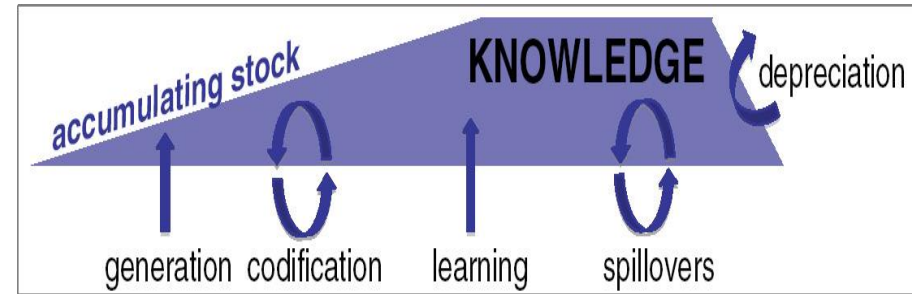
- “Conservative” vs. “liberal” technologies
 - Fuels/techs don’t carry political labels
 - Camps differ on role of gov’t in economy
- Technophilia Trap
 - Overstatement of tech solution (shiny object)
 - Understatement of economic system
- Planning Bias
 - Ex ante illusion: overconfident prognosticators
 - Avoid pre-determining outcomes
 - Healthy markets → unforeseen success

Free Market Climate Agenda: Policy Arenas



Innovation Policy

- Overcome R&D spillovers
 - Firms cannot capture full R&D benefit
- Target upstream
 - E.g., ARPA-E
- National Labs Reform
 - DOE micromanagement → contractor accountability
 - DOE office reform to spur lab coordination
 - Better incentives for “lab to market”



Source: Wilson & Grubler 2013

Regulation in New Context

- Investors + Consumers + Civil Society
- Policy key: unlock private capital flows
- Coercive state unneeded to change behavior

 The New York Times

BlackRock C.E.O. Larry Fink: Climate Crisis Will Reshape Finance

"The evidence on climate risk is compelling investors to reassess core ...
BlackRock's funds out of companies that contribute to climate change, ...
Jan 14, 2020

 Pensions & Investments

Barclays sets goal of net zero emissions financed by 2050

The As You Sow statement continued, "In contrast to J.P. Morgan, peer ...
the climate alignment of their lending portfolios against Paris goals.
7 hours ago

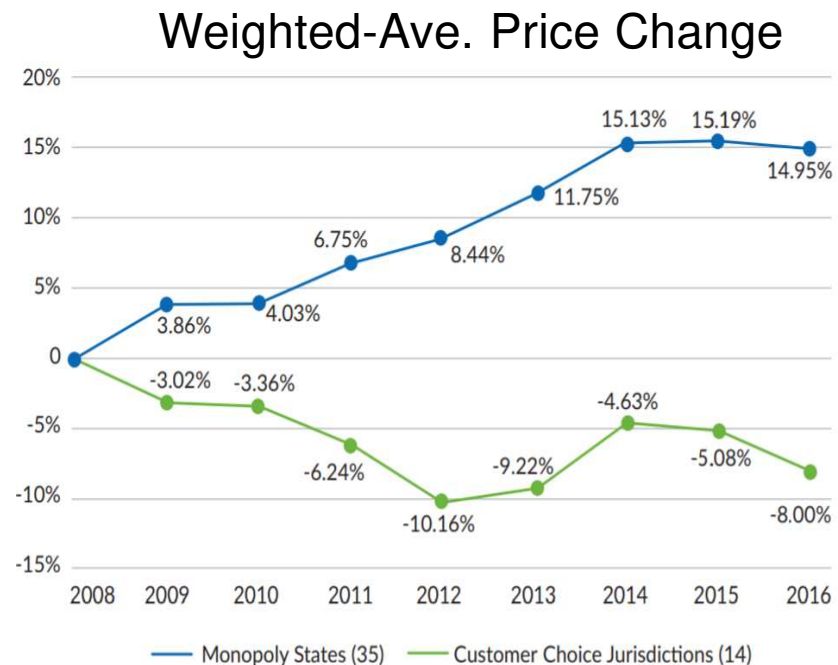
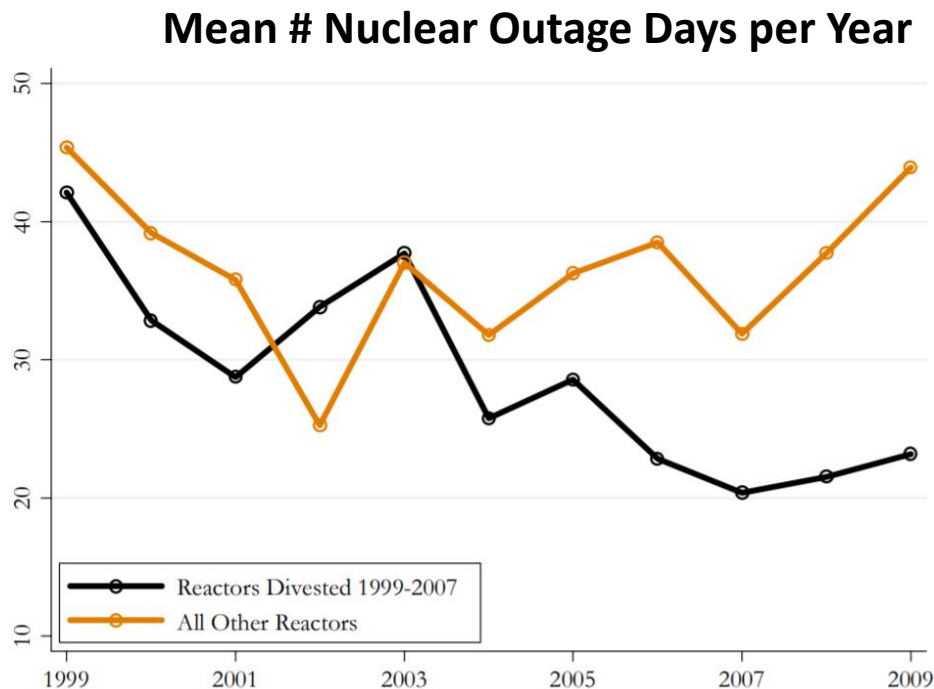


Structural Reform: Electricity Case

- Cost of service regulation (“natural monopoly”)
 - Covers much electricity generation and backbone of transmission & distribution
 - Encourages companies to increase costs, stifle capital productivity and undermines productive innovation
 - Unproductive innovation (e.g., megaproject boondoggles)
- Remedy:
 - Introduce competition
 - Grant consumers choice & expand markets
 - Core of corporate clean energy push

Monopolies vs. Competition

- Competition yields consumer participation and cost-cutting supplier innovation



Incremental Reform: Industrial Case

- Increasing domestic costs → emissions relocate overseas
- “best system” is markets not static regs
- Key: drive clean comparative advantage
 - Better information
 - Lowers transactions costs
 - Enhance business climate



THE ROLE OF DIGITALIZATION
IN DRIVING DEMAND FOR
INDUSTRIAL DECARBONIZATION
MARCH 2020

Adaptation: Insurance Policy Case

- BAU distorts climate risk management
- Policy fixes:
 - Privatize risk
 - Cut subsidies for bad behavior
 - Improve gov't transparency
 - Better climate risk info



Free markets. Real solutions.

R STREET POLICY STUDY NO. 195
February 2020

**DO NO HARM:
MANAGING RETREAT BY
ENDING NEW SUBSIDIES**

By R.J. Lehmann