

## **We See the Forest - What about the Trees?**

### **Climate Change Policy Details are Critical to Success**

By Gary A. Long

In 2008, as the realities of climate change become increasingly clear, New Hampshire is preparing to implement two public policy initiatives that have far-reaching implications for the electric utility industry and consumers. Both of these policies—Renewable Portfolio Standard (RPS) legislation and the Regional Greenhouse Gas Initiative (RGGI)—aim to reduce carbon dioxide emissions from the electricity generation sector and lessen our dependence on fossil fuels. The continuing discussion in 2008 is not whether these policies are necessary, but rather, how best to ensure that RPS and RGGI achieve their intended results for our state and the region.

#### **Renewable Portfolio Standards**

New Hampshire's RPS requires electric utilities and energy suppliers to meet a percentage of their customers' load with renewable resources. Establishing the RPS was an important achievement for our state in 2007; however, it was only the first step. Much work remains to be done to ensure that New Hampshire can realize the aggressive renewable energy goals prescribed by the new RPS law. This challenge is complicated by the fact that, since the region operates as a single wholesale electricity market, utilities and energy suppliers throughout New England will be competing with New Hampshire for the same limited resources to meet their own RPS requirements.

In fact, if you combine all of these requirements, it becomes clear that the region will be severely challenged to achieve its RPS obligations if it relies solely on New England's own resources. Contributing factors include a finite supply of sustainable wood fuel, the difficulty of siting wind farms, and the technological and economic limitations associated with photovoltaic and tidal power sources.

Given these restrictions, utilities are beginning to look to Canada as a potential resource to help meet the region's RPS (and RGGI) policy objectives. Importing large amounts of renewable and carbon-free energy from Canada will require significant investments in transmission infrastructure, as well as a concerted effort among all New England states, but it may be the one option available that can produce the sizeable amount of green energy that our policies require.

Regulated utilities, too, could contribute to the solution. PSNH's Northern Wood Power Project, which converted a coal-fired boiler at Schiller Station to burn carbon-neutral wood fuel, has been more than an environmental success for our state; through the regulated model, it has also provided significant economic benefits to our customers. If allowed by the State, PSNH is ready and willing to develop more regulated resources to help New Hampshire meet its RPS obligations.

#### **The Regional Greenhouse Gas Initiative**

Another important policy initiative in 2008 is RGGI, an agreement among ten Northeastern states to achieve a 10 percent reduction in carbon dioxide emissions from power plants by 2018 using a cap-and-trade approach. Although the overarching parameters are consistent in all ten states, each has the opportunity to customize their RGGI design to best fit their state's needs. In 2008, policymakers will decide how RGGI will work in New Hampshire. The outcome of this new legislation will have major ramifications for the electric utility industry, consumers, and the future of our state.

One aspect that warrants consideration in the proposed RGGI design is the “100 percent auction” approach for selling the carbon allowances that a power plant must acquire in order to legally produce electricity. Under the proposed design, a buyer doesn’t have to be a power producer to bid on the state’s allotted allowances; any interested party can participate. This approach is expected to lead to the development of a secondary market, wherein a carbon “broker” could purchase credits and then: resell them to the power producers that need them to operate; resell them to a party that wants to be “carbon neutral” in their operations, but that doesn’t require the credits to operate; or, retire the credits permanently.

Since RGGI clearly has the potential to restrict the production of electricity—a resource that customers rely on to fulfill basic needs—great care must be taken in the policy design. If past experience with unregulated wholesale electricity markets is any indication, the market for carbon credits will be complicated, and we will need to design safeguards up-front to ensure carbon reduction objectives are met without prompting unintended consequences that could significantly impact the price or supply of electricity.

As with most statewide policy initiatives, success lies in working with the impacted parties to ensure an objective understanding of the potential outcomes. In the case of RPS and RGGI, we must also clearly understand how these regional policies will impact New Hampshire’s businesses and consumers.

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