How Investor-Owned Utilities Can be Induced to Support Reforms to Mitigate Climate Change

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Legislators interested in adopting effective climate policy should bring investor-owned utility companies to the negotiating table. Environmental-minded legislators too often avoid working with these powerful actors because they tend to be villainized by certain grassroots constituencies whose political support they depend on. To be sure, investor-owned utilities are profit-maximizing firms that rely on non-renewable sources to supply energy to millions of households and businesses. And they do often successfully lobby against environmental priorities rather than for them. But under certain circumstances, investor-owned utilities can become critical backers of effective and sustainable climate policies, and in such cases the resources they bring to bear help rather than hurt environmental agendas. To gain their support, lawmakers should invite them into conversations about policy design, which they have done to the benefit of the environment in states that have restructured their electricity sectors and/or provided investor-owned utilities with a clear financial stake in climate change mitigation by decoupling their revenues from the sheer amount of energy they sell.

Electricity Sector Restructuring

So far, seventeen states — many of them national leaders on climate policy have "restructured" their electricity sector. Though the details of these policies vary significantly by state (and do matter in terms of achieving the right balance between economic and environmental objectives), most require that investor-owned utilities greatly reduce, or even eliminate, their stake in fossil fuel generation. Many restructuring programs offer incentives to the investor-owned utilities. For example, investor-owned utilities in the most politically progressive states were offered handsome compensation for relinquishing their electricity generating assets. At a time when investor-owned utilities were facing the significant risk of declining revenues as environmental and cost-conscious consumers pushed for alternative sources of energy production, some of their executives welcomed restructuring policies because they allowed them to retire certain assets that savvy investors already knew were becoming less profitable.

Although high electricity prices, not concerns about climate change, were the primary, initial driver of restructuring in most states, these measures have had the added benefit of furthering state efforts to deal with climate change over the years. Not only was restructuring legislation often used as a vehicle for instituting public benefit funds designated for climate change mitigation purposes, but also, by reducing the financial stakes of investor-owned utilities in more polluting forms of electricity generation, restructuring has largely neutralized their opposition to clean energy requirements at a time when the prices of renewable technologies are becoming increasingly competitive. In addition, by introducing competition into the electricity generation market, restructuring policies can give environmentally conscious customers greater influence over who supplies their energy. In states that have restructured, consumers' willingness to voluntarily pay slightly higher prices for cleaner energy, coupled with state subsidies, has allowed renewable electricity generation to grow exponentially.

Decoupling Utility Revenues from Energy Sales

Twenty states have adopted policies that decouple investor-owned utilities' revenues raised from the amounts of energy they sell. Because revenues were already highly regulated, this decoupling was relatively straightforward. Decoupling prevents investor-owned utilities from being financially penalized when their customers choose to conserve energy, whether by weatherizing their homes or adjusting their thermostats. Investor-owned utilities have been enthusiastic proponents of decoupling, especially in states where the public is concerned about climate change. Decoupling has brought together environmental groups and investor-owned utilities to mobilize their respective political resources to advance climate measures in politically progressive states. And by removing incentives that motivate these utility companies to strongly oppose steps toward energy efficiency, future reforms become much more politically feasible.

Giving Companies a Financial Stake in Climate Change Reforms

States can also take measures that go beyond simply neutralizing the opposition of utility companies to climate-friendly policies. In Massachusetts, for example, utilities are often on the front lines of lobbying *for* policies that create incentives for residential and commercial customers to use *less* energy. This willingness of companies to have consumers buy less of what they produce is the deliberate result of an unlikely but highly strategic political coalition that brought together environmental groups, utility companies, for-profit energy efficiency service providers, and the state's most powerful lawmakers to enact the Green Communities Act in 2008. Passed unanimously by the Massachusetts legislature, this law requires that investor-owned utilities pursue "all cost-effective energy efficiency" — specifically by avoiding every kilowatt-hour of energy consumption for which it costs less to eliminate usage than to increase supply. Beyond just requiring such steps by investor-owned utilities, the Green Communities Act gives them performance-based financial incentives to meet efficiency goals. Due to the effects of this Act and complementary policies, the American Council for an Energy Efficient Economy has ranked Massachusetts first among all fifty states in energy efficiency for five consecutive years.

Pathways Forward

States do not have to adopt *all* of these policies, but nearly half of states have not yet taken *any* steps along these lines, and to make progress against climate change, they must start somewhere. The bottom line is that climate change mitigation requires efforts by all stakeholders, not just environmental groups. Investor-owned utilities are powerful political actors well-positioned to stand in the way of climate policies: they have highly paid and well-connected lobbyists, they outspend environmental groups in political campaigns, and everyone — including environmentalists — depends on them for keeping the lights on. Given these companies' power, it is a wise strategy to adopt policies that convert them from opponents to allies. Of course, it is important to ensure that the costs of transitioning to a clean energy economy are not borne by consumers alone. Public utility commissions must be accountable to consumers rather than serving as pawns of those they regulate. That being said, bringing investor-owned utilities to the table to advance climate legislation is not only possible; it is necessary. The narrative that utilities must be villainized to advance effective climate policies is a false one.