

Cows, Commons and Carbon

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You, my regular reader, will remember that it was just a couple of columns ago that I talked about my farm cred. And here I am again in this column talking about cows. But stay with me.

I do some mentoring and tutoring in the DC public school system. This past spring I was handed a curriculum on sustainability. So one night I sat around the table with my four 8th graders and pulled a bunch of little cow figurines out of my pocket and set them on top of a green folder I had spread out to represent a park (or town common where I come from).

You know where I was headed - to demonstrate the "tragedy of the commons," where individual users acting independently and according to their own self-interest by letting their cows graze on a town commons for free behave contrary to the common good of all users of that place by depleting it through their collective action (to the point where there is no more grass for anyone's cows). The kids got the idea pretty quickly.

Here is a more current and practical example. As someone who has put on a lot of events over the years and continues to do so, you quickly learn that there is a big difference between putting on a free event and one that has a registration cost. When an event is free, everyone signs up. But when it comes time for the event to take place, people who have nothing invested (e.g. a registration fee) are very likely to blow it off. There is no cost to them in doing so.

Air emissions are like that. Everyone owns the air, and therefore no one person has individual skin in the game, i.e. the incentive to pay to keep it clean if no one else is paying. In the case of carbon, which is a pollutant that knows no geographic boundaries and which builds up in the atmosphere for decades until its impact is revealed, the "free rider" syndrome really kicks in, including with respect to impacting the future.

So why not a price on carbon, so that there are no free riders on the carbon train? Why not have a price signal that reflects how much carbon is associated with the action that someone is taking, so that everyone is collectively addressing a collective challenge?

That is what the rest of the world seems to be asking - and answering. In fact, when I am in meetings about carbon pricing here in DC that include multi-national companies, they bring that up. They point out that with a carbon price we would actually be moving to be in synch with our trading partners and other markets. For that reason, many of the multi-nationals would actually like to see carbon pricing in the U.S.

Yesterday, Canada announced the intention to put in place federal-level carbon pricing. That will likely happen given that four of its provinces (notably including energy-intense Alberta), representing 80% of its carbon emissions, already have carbon pricing.

Now don't get me wrong. Designing carbon pricing is not easy. I have been involved in tax policymaking and it can be extremely difficult and challenging. There's nothing like money being at stake to bring out the fight in everyone. Pricing policy can be designed in a way to hit a given company or sector hard, or to leave it unscathed. But paying the money is only one side of the equation. Figuring out where the money raised by a carbon price goes is often where things really get serious.

In our electricity sector, designing taxes or other pricing policy aimed at energy is especially challenging. That's because of how intricately regulated our utilities and other companies are at both the federal and state level. And unlike other energy sectors that look at carbon pricing as something that if put in place would avoid something worse in the way of regulation, in our sector we already have a lot of regulation, including something called the Clean Power Plan. But the CPP is not the end of the carbon discussion and our sector has to pay attention to, and at some point, get involved in, the pricing discussion.

Some in our space might say electricity has already anted up on carbon. But carbon pricing will be about all types of energy and it will include electricity, so it behooves us to make sure advocates and proponents of carbon pricing - not to mention policymakers - understand how we are structured and governed. That is what I do when I am in a meeting on carbon pricing. I talk about how different from other energy sectors electricity is due to the types of regulations it already faces.

So is carbon pricing coming? Yes, in my opinion. And the latest sign is that a couple of weeks ago the House of Representatives passed a resolution against a carbon tax, even though there was no proposal in the House to put such a tax in place. My read is that the House leadership sees it on the horizon and did a pre-emptive strike.

So whatever you think of carbon pricing and how it might affect your business, I think it is time to talk about how to manage the issue, not prevent it from happening. I am already helping some electricity sector companies that are thinking that way, so it is not too soon.

Everyone owns the town common, and so there is basic appeal to a policy where everyone collectively pays to protect it so we can all take our kids for a walk on it. We probably should get on with it.

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