INTERVIEW

Economy, Energy, Environment

Catherine G. Abbott is president and chief executive officer of Columbia Gas Transmission and a longtime observer of the U.S. energy industry. Elected to RFF's board of directors in April 1997, she spoke recently with J. W. Anderson, RFF's journalist in residence.

RFF: How do you see RFF in terms of its capacity to contribute to policymaking?

Abbott: What I think is distinctive about Resources for the Future is that it makes the attempt, as much as is humanly possible, to bring the skills of social science analysis, particularly microeconomic analysis, to very knotty and contentious, often highly politicized, public policy problems.

RFF brings with that a credibility across a wide variety of audiences. I think that stems from the real integrity and seriousness of purpose with which the staff approaches these problems. That distinctiveness allows RFF to play an unusual role in the public policy debate because most organizations, even research organizations, are viewed as having axes to grind.

The organization is very clear about what problems it cannot speak to. On global warming, for example, it is not our comparative advantage to give you an opinion about the science of global warming. But we can tell you whether there are more or less efficient and equitable ways to deal with certain issues.

RFF: What do you think ought to be RFF's priorities in dealing with global warming?

Abbott: I think two things would be helpful. One is a clear assessment of what was achieved and not achieved at Kyoto and what the paths might be for improving upon the basic set of agreements that were arrived at in Kyoto.

We are all aware of the issues of the fast-growing developing nation economies, India and China in particular. If they are outside the envelope of emissions reductions that can be counted and monitored, there is just a giant efficiency loss to the entire world economy. Making that clear, I think, in nonpoliticized terms could really advance the debate.

Second, again within the framework of Kyoto, RFF can ask: Are there better ways to deal with the information uncertainty

problem that could again lead you to more efficient uses of the resources?

It is very important to continue to look for ways to use market mechanisms to effectuate the reductions. We have seen the tremendous efficiency gains available with SO_2 trading allowances compared with what people thought it would cost the economy. Continuing to communicate that set of messages, I think, is very important.

RFF: What do you think will happen in energy markets over the next decade?

Abbott: Starting with the United States, you have a tremendous push toward customer choice. Customer choice has the potential to fundamentally restructure the electricity production system. That in turn could have a very large impact on the traditional mechanisms that we have used to address environmental issues, particularly those related to SO_2 and NO_x and increasingly carbon dioxide, because if a customer has a choice of options, then the supplier no longer can simply pass through the costs of complying with environmental regulations. And so the economic forces addressed by the various issues are being fundamentally changed in ways not yet fully understandable.

Electric utility restructuring also makes it far more difficult to effectuate tax approaches to issues such as reducing carbon emissions—because who will be the tax collector? That was one of the real downfalls in the whole approach to taxing energy consumption. Who is the IRS equivalent? That turns out to be a very knotty and difficult implementation problem and becomes more challenging with a more distributed energy economy, particularly on the electricity side.

I think you are going to see a lot more locally generated, site-specific-generated electricity. You are going to see a lot more end-use devices to shave peaks in periods of usage and get value associated with shaving peaks. That is another form, in effect, of managing the demand curve in ways that we have not seen before.

I suspect that current elasticity models overstate energy demand increases with

the growth of the economy, because there will be far more rewards to reducing at least on-peak energy consumption than we have seen historically. Just as some mistakes were made during the 1970s oil crisis, understating significantly the demand elasticity of energy consumption, I think there may be a structural change that could significantly affect how big the problem might be. RFF has done some nice work on the electricity system, by the way.

When you speak of world markets, the issues are somewhat different. I think you see a tremendous issue for the global economy in places where coal is readily available and cheap and where, for economic growth reasons, countries have not elected to impose significant emissions control technologies. That is a greater threat to the world ecology. Finding market mechanisms to distribute the control technologies and making controls more efficient across the world needs to be a major focus, I think, of international research efforts.

Related to that, I am really excited about some of the biodiversity research that RFF is engaged in, and the collaboration with the Nature Conservancy. I think the pace of economic development, the immense power of the market model, and the expansion of communications that makes a large number of people want a Western lifestyle create an impetus to destroy a lot of critical habitat.

Were there some way to even out preservation mechanisms or burdens across national lines, you might get a very different answer than you are going to get with so much of that development and environmental protection being in the hands of local political leadership under a very different set of economic conditions and challenges than we face in the United States.

RFF: Are we going to have to change what we think of as American lifestyles to reconcile this growth with the environmental values that you are speaking of—preservation of biodiversity?

Abbott: That has been a question in the environmental movement for a long time. What I am drawn to about the work of both Resources for the Future and the Nature Conservancy is the attempt to take a market economy and achieve environmental goals within that economy. That is not to say that individuals might not decide to go for a simpler lifestyle as a matter of ethical choice or moral persuasion. But I find that the element of personal choice imbedded in the U.S. model is very attractive.

I do think the kind of lifestyle you choose as a personal or ethical matter, or what a religious organization might take on as an ethical or moral matter—those are fundamental issues people need to wrestle with and make part of the civic debate, if you will. But I am much more comfortable leaving that to individual choice as opposed to government.

RFF: The Clinton administration is putting great emphasis on technology as a means of accomplishing things on its agenda, particularly reducing carbon dioxide emissions. How likely is it that technological advances are going to create reductions in emissions without other changes in the energy economy?

Abbott: I am not an expert on technological progress, although I did have a chance to observe the whole synthetic fuels effort.

I think one of the things we have learned as a part of the Energy Department's and the Synthetic Fuels Corporation's efforts is that governments just are not very smart at selecting technologies. People can be marvelously inventive if there is money to be made from government support or directives.

There certainly are places where there are market failures and, thoughtfully considered, those are places where I think you need to substitute government intervention. The key is looking for ways to get innovation going, rather than trying to mandate the innovation.

RFF: So the job for the economists at RFF is to give advice on what might work best in a market economy?

Abbott: Yes, I think that is right. Another thing that intrigues me is what other companies are doing. At BP, for example, they are trying to link their brand identity with an environmentally responsible approach. They are trying to distinguish themselves from their competitors in the oil business by their actions on the environmental side. Sharing information about those solutions might have tremendous power. That is a kind of role modeling by private corporations who, for their own reasons, think that this is a smart thing to do.

Once there started to be lists of the twenty-five, fifty, and one hundred best places for women to work, some corporations started competing to get on those lists because they wanted to attract bright, competent, and diverse workforces. That is a market mechanism, if you will.

It is about brand identity and is a market mechanism. Those are powerful forces, particularly for companies involved in retail markets and mass markets where brand identity makes a big difference.

When the public shows its commitment to environmentally responsible behavior in a way that contributes to the corporate bottom line, then the market mechanism will create more environmental responsibility by private companies.