

**Opening Remarks**  
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**Symposium on “Environmental Challenges and Opportunities of the Evolving  
North America Electricity Market”**  
*San Diego, California, 29 November 2001*

Good morning. It is a pleasure to welcome you to this symposium on Environmental Challenges and Opportunities of the Evolving North American Electricity Market.

What a timely meeting this is! North American talks to secure reliable energy, the growth in open electricity markets, concerns about air pollution and climate change make this topic a key issue for North America’s well being.

It is not a coincidence that we hold this meeting in California. This state has taken the lead on privatizing electricity markets, facilitating green energy options, and conservation. California’s experience has lessons for jurisdictions that are planning or reviewing restructuring and open competition in electricity markets.

From an environmental perspective, the dramatic fluctuations in supply, demand and costs are profoundly important. To illustrate, following the supply shortages of early this year, California reduced its electricity demand by 12 percent. This has come about in response to high prices, which prompted determined and successful efforts to conserve energy and improve efficiency. In state buildings, energy conservation over a 12-month period jumped 25 percent.

While that might now seem part of the distant past, this state now faces the other extreme, including a glut in electricity and fire-sale prices.

The impacts of such extreme volatility provide challenges not only to electricity regulators, but also for environmental policymakers. It is easier for any kind of planning—be it zoning or environmental regulations or transmission planning—to work in an environment that is predictable and stable.

Yet for those who hanker after the sort of predictability that came with electricity monopolies, we need to remember that static markets can be filled with inefficiencies and flat-out unfair exemptions, and that with open markets comes the possibility of better environmental outcomes. By giving consumers more choice, there is the opportunity for pricing to become more transparent, and with more transparent prices comes the opportunity to internalize environmental externalities.

The prospect of better environmental outcomes from open competition cannot be taken as an article of faith, however. Good environmental outcomes are not automatic, nor do improvements come easily. This is a topic that is ripe for an informed discussion. And this symposium is a good place to start understanding the market changes underway, and

identifying policy opportunities that work with markets and have the potential to shift electricity markets into greener pathways.

In the past decade, trade in electricity has steadily increased in North America. While most of this trade has been between Canada and the United States, there are indications that Mexican electricity exports to the United States, which have been marginal to date, are poised to increase. It is expected that cross border trade in electricity will continue to expand over the coming decade. Investors are already building new plants to serve foreign markets. Examples abound: to the south of us, in Baja California; to the north, in Alberta and Québec.

In the past few months, there has been a great deal of effort at the political and technical levels to secure the foundations of a North American energy market. In April of this year, President Bush, President Fox and Prime Minister Chrétien indicated their resolve to work together, developing common approaches to North American energy markets. Among the driving factors for a closer energy partnership among Canada, Mexico and the United States is energy security.

As the three countries work together to develop this partnership, people are asking whether cross border electricity trade improves or worsens overall environmental quality. With open borders and increasingly mobile capital, will investors look to those jurisdictions with the lowest environmental standards or with lax enforcement? Will regulators, concerned about the potential loss of investment and jobs, feel more reticent about enhancing the environmental performance standards of electricity generators? Or will freer trade lead to wider use of newer and more efficient technologies like combined cycle turbines? Can increased trade in electricity lead to more cooperation among electricity producers and consumers alike in adopting compatible environmental schemes and systems?

Your efforts over these next couple of days represent a critical first step in examining practical solutions to these concerns—ones that can secure environmental and economic benefits as the electricity sector evolves in North America over the coming years.

Let me briefly highlight four areas where increased environmental cooperation in the North American electricity sector can contribute to this end.

- **Cooperation on Renewable Energy:** There is a lot of work that can be done at the North American level in the area of renewable energy. This includes finding ways of increasing trade in capital technologies, sharing lessons from voluntary schemes like green utility pricing initiatives, building cooperation in public policies like incentives and other measures, and building comparable, North America-wide definitions of what is meant by “renewable” energy. Such cooperation could preclude potential trade challenge to green electricity policies that exist in many jurisdictions now.
- **Market-based Approaches:** This past June, the North American environmental ministers who compose the CEC Council agreed to explore market-based approaches to energy efficiency, renewable energy, and carbon sequestration. We have had some

experience in North America with market-based instruments, including some good success in reducing SO<sub>2</sub> emissions through trading. Some of the projections of future emissions from the electricity sector contained in the background reports for this meeting are dramatic and require innovative environmental responses. Next week, the Commission will convene a meeting of experts to look at opportunities for cross-border emissions trading: how they might work, what might the rules be, and what kind of institutional and informational support they might require. Success here could not only make emission reductions cheaper and easier, but also provide funds for less wealthy jurisdictions to invest in cleaner electricity production.

- **Coordination in Environmental Impact Assessments:** We need better tools to share information about how new electricity power projects are likely to affect shared ecosystems, from airsheds to waterways to migratory corridors. This need for cooperation in environmental assessments becomes even more important when new power stations are being built to serve markets of adjacent jurisdictions.
- **Comparable Air Emission Inventories:** The background paper that you have provides estimates of the baseline data for NO<sub>x</sub>, SO<sub>x</sub>, mercury and carbon dioxide. The availability and quality of emissions information is not equal in all three countries. This needs to be fixed. Having readily available, comparable and transparent emissions information is becoming a basic necessity for effective North American cooperation on emissions reduction. North America has made remarkable progress, through the Commission, in formulating comparable inventories for toxic releases, and this is available each year in the *Taking Stock* report on toxic releases in North America. This year's report includes the electricity sector for the first time.

My colleagues from the Secretariat and I are eager to hear your views. We are grateful to you for bringing your expertise to bear on what is a dynamic and complex set of issues. With the help of Phil Sharp, our chair for this meeting, we have carefully crafted an agenda that focuses on several key questions:

- What market-based instruments can prove efficient and effective at a regional scale, to help avoid or reduce environmental impacts and even generate resources for environmental protection?
- What environmental policies and management tools work well in restructured markets and in a cross border setting, and how should these policies be adapted so that they enhance competitiveness and innovation, and at the same time benefit the environment?
- How can we facilitate the “win-win” outcomes of pursuing energy efficiency and renewable energy at a North American scale?
- How can compatibility in environmental policies make domestic strategies to address environmental concerns such as air pollution more effective?

A series of papers have been written to stimulate the discussion. To assure the widest possible public access to these discussions, this symposium is being broadcast live through the Internet and will be archived on the Commission's homepage for several months to follow.

In February of next year, I will be submitting a formal report with recommendations to the Council of the Commission: Minister David Anderson of Environment Canada, Governor Christine Whitman, Administrator of the US Environmental Protection Agency, and Secretary Victor Lichtinger of *Mexico's Secretaría de Medio Ambiente y Recursos Naturales*.

I want to thank you for helping us with this effort. We at the Commission's Secretariat are deeply indebted to Phil Sharp and each member of the Advisory Group for guiding the work of the Secretariat in this complex area. We owe a debt as well to the members of the Joint Public Advisory Committee, who will be deliberating on their own advice to the CEC Council.

I would also like to recognize the efforts of Greg Block, Scott Vaughan, Paul Miller, Zachary Patterson, and the rest of the team at the CEC Secretariat who have worked so hard on this initiative.

And of course, I would like to thank the Institute of the Americas for helping us organize this event.

I look forward to your advice and to working together with you on this very important issue.

Thank you.