Intra-Regional Relations:
Can States' Commonalities Overcome Their Differences?

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We may have all come on different ships, but we're in the same boat now.

— Rev. Dr. Martin Luther King, Jr.

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This fourth picture in the federal-state gallery addresses a prime tension contributor: state–state conflict, more politely called "intra-regional relations."

Contrasts in Community Commitment

Beneath the friendships and trust gained from residence in this state regulatory community, the subsurface has plenty of growling, teeth baring, and logic suppression. Examples of questions people ask about each other:

1. Why do coal states insist on the right to low rates, when those low rates stimulate electricity consumption that causes pollution costs for other states?

2. Why do the beneficiaries of hydroelectricity insist that the benefits are "theirs," when this power source's low cost owes more to nature, geographic serendipity, federal taxpayers, and 1930s laborers than to any efforts and innovations made by the residents of those states?

3. Why do residents of nuclear power states complain about federal regulations requiring them to bear the cost of burying the nuclear waste they produce, when absent careful burial the environmental costs will burden others for millenia?

4. Why do states that see wind power as in-state economic development work so hard to have other states fund the transmission investment?

5. Why do states whose air quality benefits from wind power expect other states to incur the associated aesthetic and transmission costs?

6. Why do so many urban power plants end up near low-income neighborhoods?

7. Why do we work harder at allocating costs to others than at understanding—and owning up to—our own responsibility?

8. FERC Order No. 719 requires each regional transmission organization to allow "aggregators of retail customers" (ARCs) to bid demand response into the RTO's organized market—unless the state prohibits the retail customer's participation. But a state that prohibits participation causes the region to forgo a leftward shift in the demand curve—a fancy way of saying that if one state blocks efficient demand response, the region's prices stay higher than necessary. Why is this behavior considered "OK" as a matter of "state prerogative"? (Separate question: Why would a national regulator, with a statutory obligation to advance benefits for all consumers, invite and accommodate state policies that reduce benefits for consumers?)

Contrast these examples of states that offer their wealth to others:

1. The states that cause their ratepayers to pay extra to attract renewable energy or increase energy efficiency, even though the benefits of supplier diversity, emissions reduction, and demand reduction will produce lower costs and prices for non-residents.

2. The states that subsidize education for the next generation of power engineers, lines workers, and pipe hangers so that the nation's lights stay on, even though some of these students will take their skills to other states.

3. The states that are generous with low-income assistance, according dignity to our poorer citizens, making the entire nation more civilized.

4. The group of western states working to integrate information on population patterns, resource richness, environmental vulnerability, and political cost tolerance into a regional electricity solution that recognizes the commonality of risk and opportunity.

Causes of Intra-Regional Tension

Why do we have more examples of opposition than cooperation? The problem arises in part from a combination of incrementalism and an insistence on "no losers, ever." In regulation, incrementalism is inevitable. We make many decisions case-by-case: this asset, that cost allocation, this transmission adder, that rate increase. In Major League Baseball's 162-game season, every game is win-or-lose. Similarly, every regulatory decision gets strip-searched for negative attributes. While every state wants to "collaborate" and "compromise," no one wants to lose, not even once, even if a loss today can produce a gain later. Yet long-term benefits require short-term hits. So by salami-slicing our decisionmaking, we distort vision and depreciate value. A "no losers" test produces real loss.

The problem also comes from confusion over words and actions. Consider the phrase "states' rights." A focus on "rights" creates a mindset of entitlement, leading to worry about winning. There is no such thing as "states' rights." Individuals have rights; states have powers. (See the U.S. Constitution, Tenth Amendment: "The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively, or to the people" (emphasis added).) In regulation, the relevant powers are the powers to regulate industry performance.

With powers and performance in mind, consider now the difference between state-as-stakeholder (i.e., when it advances its residents' interests over non-residents' interests) and state-as-regulator (i.e., when it focuses on improving industry performance). If we focus less on stakes and more on performance, we focus less on loss and more on benefit.

Solution

States want deference from federal agencies. Which group of states is more deserving of deference: the cost shifters and baby splitters, who emphasize the internal and the short-term; or the planners and pie-expanders, who emphasize the external and the long-term? Would states deserve—and gain—more credibility with federal regulators if they were seen—and acted—less like states protecting their consumers and more as co-regulators seeking to solve a national problem?

An article in *The New Yorker* (J. Lehrer, "DON'T! The Secret of Self-Control," May 18, 2009) described longitudinal studies conducted on four-year-olds in the 1960s. Researchers gave the children a choice: one marshmallow immediately versus two marshmallows fifteen minutes later. The children who managed to defer gratification for fifteen minutes had, on reaching high school, better grades and SAT scores; and, decades later, better body mass indices, better careers, better lives. While attributing the inter-child differences in part to "wiring," the researchers did not give up on the immediate gratifiers. There are ways to "re-wire" children—to teach techniques that strengthen the will muscles. (You had a better chance of surviving the fifteen-minute wait if you simply turned away from the marshmallows or covered your eyes. Other techniques included "kicking the desk, or tug[ging] on their pigtails, or strok[ing] the marshmallow as if it were a tiny stuffed animal.")

Similarly, constituencies that learn to defer gratification live better lives—as do their successors. What has this to do with regulators? Regulators can teach "re-wiring." Regulators are the issue experts. While regulation is political (its decisions assign obligations, benefits, and costs), it is one step removed from politics. Its practices and procedures emphasize fact finding, principles, and consistency over grab bags, power struggles, and happenstance. (Not to mention desk kicking, pigtail tugging, and marshmallow stroking.) Regulators have the institutional credibility to help citizens grasp the need for deferred gratification. That is why election-year governors who pressure their commissions to "get rates low" have it wrong, while the New England governor who told his commission chairman, "Leave the politics to me; you focus on the long term" had it right.