In a Congressional hearing this morning, Congressman Henry Waxman had a rare chance to face all five sitting members of the Federal Energy Regulatory Commission (FERC) at the same time to talk about climate change. He took the opportunity to point out UC Berkeley's recent <u>report</u> on FERC's authority under existing law to reduce greenhouse gas emissions. He placed the report into the Congressional Record and expressed his hope that the commissioners would give the report serious consideration. It is likely that the commissioners will do just that.

As I recently <u>wrote</u>, the most prominent finding in the report has to do with FERC's ability to place a "carbon adder" on the wholesale prices offered in the markets it regulates. This could help ensure that rates are just and reasonable by including, in the cost of power, the environmental externalities that generators can currently ignore. While the House members in attendance as well as the commissioners did not debate the legal conclusion about FERC's existing authority, they did talk about the best ways to set prices in a carbon-constrained world. Commissioner Moeller discussed the importance of improved price signals to encourage cleaner power purchases. Commissioner Norris went further, stating that "you have to get the externalities into the price." When Congressman Waxman asked if any of the commissioners believed it was unnecessary to act on climate change, none of the commissioners stepped forward.

FERC sets rates for wholesale electricity and interstate transmission, and oversees interstate gas pipelines. With its return to full power after the recent Senate confirmation of two more commissioners, the time is right to watch the agency with great interest. If the price signals are wrong, and if it is necessary to act on climate change, what will FERC do?