



Know Your Acronyms - Or Else

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How well do you know your electricity acronyms? Can you put a meaning to CCGT, HRSG, PWR? Of course you can. Well then, how about FCCC, COP4, CDM? If you don't already know what these acronyms mean, you had better find out. What they mean will affect the future of electricity everywhere.

FCCC is the Framework Convention on Climate Change, agreed by the world's governments at the United Nations Conference on Environment and Development in Rio in 1992, and in force since 1994. COP4 is the Fourth Conference of Parties to the FCCC, which took place in Buenos Aires in November 1998. CDM is the Clean Development Mechanism, an international instrument according to which developed countries can work with developing countries on activities intended to mitigate climate change.

COP4 in Buenos Aires followed COP3, which took place in Kyoto, Japan, in December 1997. To the surprise of many, and the consternation of some, the conference in Kyoto agreed a Protocol to the FCCC. The Kyoto Protocol lays down legally binding commitments, according to which the governments of industrialized countries agree to reduce emissions of greenhouse gases, principally carbon dioxide, by 'at least 5% below 1990 levels in the commitment period 2008 to 2012'. The sum of individual commitments in the Protocol add up to a reduction of 5.2% below 1990 levels. Specific reductions include -8% for the EU as a whole, -7% for the US and -6% for Japan. The implications for use of fossil fuels, including electricity generation, are profound.

The binding commitments in the Kyoto Protocol are precise and explicit. Much of the Protocol, however, is vague and ambiguous, open to widely differing interpretation by parties whose interests collide head-on. Oil-exporting countries, for instance, fear that constraints on the burning of fossil fuels will harm their economies. Small island states, on the other hand, fear that lack of such constraints will harm not only their economies but their entire countries, drowned under rising sea-levels. Climate policy is beset with such intractable conflicts.

For this reason, to no one's surprise, the Buenos Aires conference, endeavouring to refine and clarify significant details about practical implementation of the Protocol, made only glacially slow progress. But observers at Buenos Aires noted a definite change in mood. At the Kyoto



conference, the fundamental issue was whether the world's governments could reach any agreement whatever to address the issues of climate change. Those opposed to such agreement, notably some US industries and fossil-fuel interests, made every possible effort to scuttle agreement, to stop the process in its tracks. At Buenos Aires, however, the Kyoto Protocol, with its binding commitments, was already in place, an irreversible step forward. To be sure, its ratification remains in doubt, especially because of stubborn opposition by the US Congress. But the Protocol demonstrates that almost all governments now acknowledge the reality of the climate problem.

At Buenos Aires, therefore, opponents were forced to abandon their previous tactic, of trying to stop anything from happening at all. Instead, as the conference debated rules and procedures for international cooperation between governments trying to fulfil their Kyoto commitments, opponents could only attempt to delay and weaken what was now already happening. Their efforts focused on the Protocol's so-called 'flexibility mechanisms' - referred to sardonically in Buenos Aires corridors as 'flexmex' - including emissions trading, 'Joint Implementation' and the Clean Development Mechanism, by which the rich industrial countries could support projects in transition and developing countries and claim credit for emissions reductions accordingly. Opponents strove to make 'flexmex' as flexible as possible; others warned that too much flexibility might mean no practical results at all.

Ironically, however, as the diplomats and politicians continue to wrestle with the niceties and nuances of official texts, they may be falling behind the curve of practical climate policy. Although the world's governments may not yet have found an unambiguous form of words to which they can all subscribe, they have conceded that climate issues are a genuine cause for concern. The initiative for tackling the issues now appears to be passing from the hands of government to those of companies, including major multinational corporations. Watching the climate roadshow roll on, from Rio via Kyoto to Buenos Aires and beyond, more and more corporate executives are drawing two important conclusions. Climate change is going to compel corporate change; and corporate change, intelligently managed, may be not a threat but an opportunity.

Electricity executives in particular should take note. As governments strive to fulfil their Kyoto commitments, electricity will be in the front lines. Climate policy, including measures such as



emissions trading, technology transfer and ecological tax reform, will impinge relentlessly on electricity policy, both nationally and internationally. Climate policy will interact with electricity liberalization, competition, internationalization, technical innovation, finance and risk management. The consequences for the future of electricity are as yet unpredictable, but will undoubtedly be dramatic.

As the process evolves, electricity strategists should be key players. The potential for electricity to be an essential factor for good in mitigating climate change worldwide is abundant. The versatility of electricity in generation and use offers extraordinary scope for entrepreneurial imagination, finding new and better ways to deliver the energy services global society desires. COP5 should take place in 1999, COP6 in 2000. But the more far-sighted electricity people are not leaving climate to the COPs. Some are already laying the groundwork for yet another acronym: SESCO. It stands for 'sustainable energy services company'. Watch this space.