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The home state effect: How subnational governments shape climate coalitions

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Abstract

Organized business interests often seek to block public interest regulations. But whether firms oppose regulation depends on institutional context. We argue that, in federal systems, sub-national policies and politics can have a *home state effect* on firms' national policy preferences and the lobbying coalitions they join. State policies that force firms to absorb regulatory cost can reduce the marginal cost of national policies, leading to preference shifts. In addition, firms regulated at the state level have incentives to strategically align with their state governments to avoid future regulatory cost. We test our argument in the context of U.S. climate politics, matching original data on the positions of electric utilities toward the Clean Power Plan and data on ad hoc coalition membership with data measuring state policy stringency and state government positions. Quantitative evidence is consistent with hypotheses: both state policies and state politics influence utilities' positions on national climate policy. Qualitative evidence from elite interviews helps clarify the roles of different mechanisms. Our findings underscore the importance of sub-national governments in shaping national lobbying coalitions.

The authors contributed equally.

1 | INTRODUCTION

Business opposition has been a crucial impediment to policy reform across a broad range of policy issues, including labor, environmental, education, and health policy (Hacker & Pierson, 2002; Layzer, 2012). At the same time, business coalitions opposing public interest regulation have sometimes split as firms join alliances advocating for policy reform (Swenson, 2018). The emergence of competing business coalitions has been particularly important in climate politics, an increasingly salient field of public policy (Basseches et al., 2022; Downie, 2017).

A long tradition of analysis has highlighted the role of economic factors in driving variation in firm preferences, positing that firm preferences flow from firms' assets and how these are impacted by policies (Alt et al., 1999). Firms that are more reliant on fossil fuel intensive assets or processes are more likely to actively seek to block policies that would mitigate climate change by reducing greenhouse gas emissions (Meckling, 2015). Recent scholarship has added nuance to these explanations, broadening explanatory factors from firm assets to trade exposure of polluting sectors (Genovese, 2019), competitive dynamics vis-à-vis other producers (Kennard, 2020), and embeddedness in fossil fuel supply chains (Cory et al., 2021).

Another strand of literature argues that economic variables are insufficient to explain how firms engage in policymaking, highlighting instead the importance of political *institutions* (Finnegan, 2022; Hacker & Pierson, 2002; Martin, 1995; Martin & Swank, 2012; Woll, 2009). Extending this work, we propose that the institution of federalism can shape firms' engagement in policymaking. We specifically propose a *home state effect*. In federal political systems, sub-national policy and politics can affect firms' national-level preferences and coalition membership.

The core mechanism we identify by which state *policies* can affect firms' national positions is *cost absorption.* State policies might force firms to shift investments, and absorb costs, in order to comply. These shifts, in turn, can affect firms' positions vis-à-vis potential federal policies. The rationale by which state *politics* can affect firms' national positions is *cost avoidance.* More specifically, firms principally regulated at the state level might strategically align positions with the policy preferences of their home state governments to maintain or win political capital that helps them avoid future regulatory cost. The policy and politics mechanisms of the home state effect thus operate at different stages of the policy cycle: politics matters before policy adoption, and policy matters after policy adoption.

We examine our argument in the case of the position-taking and coalition membership of electric utilities in U.S. federal climate politics. Electric utilities have historically been core opponents of climate policy advances in the U.S. (Brulle, 2018), and climate policy varies substantially across states (Stokes, 2020; Trachtman, 2020). To what extent is the variation in electric utilities' positions explained by variation in the policy and political environments in which they operate?

Our first quantitative analysis examines the positions of electric utilities with respect to litigation challenging the Clean Power Plan (CPP). We demonstrate that utilities based in states with more pro-climate state-level policies were less likely to oppose the CPP, and more likely to support it. In our second quantitative analysis, we broaden our scope to examine the participation of utilities in ad hoc coalitions either supporting or opposing national-level climate policy. We again find an association between state policy environments and coalition membership, with utilities based in states with more pro-climate policies more likely to belong to pro-climate coalitions. Yet, in this case, the evidence suggests this relationship is driven more so by underlying political variables than by cost absorption from prior state policy adoption. Evidence from elite interviews suggests that both cost absorption and cost avoidance have played a role in utility position-taking.

Our argument on a home state effect advances recent research on the role of organized interests in mediating interdependencies across sites and levels of government in federalism by examining the mechanisms of interdependence (Finger, 2018; Karch & Rose, 2019). Specifically, we broaden the notion of the "California effect," whereby product standards diffuse upward due to the lobbying of businesses that prefer a single national standard to policy patchworks (Vogel, 1995), in two ways. First, the mechanisms underpinning the California effect are particular to product standards, a subset of policy instruments. And the upward diffusion advocated by firms depends on trade. We suggest that a much broader set of sub-national policies can shift firm preferences through the mechanism of cost absorption. This mechanism applies to both trade-exposed and non-trade-exposed sectors. Second, we propose that state politics—in addition to state policy—can shape the national-level positions of firms seeking to avoid regulatory cost by strategically aligning with state governments.

These interdependencies are essential in climate politics. The scope of the problem requires national-level policy, but progress has been much more attainable at the sub-national level (Basseches et al., 2022; Rabe, 2016). The political power of incumbent economic interests remains an impediment to national (and sub-national) reforms (Skocpol, 2013). At the same time, our research identifies the origins of change in the composition of national climate coalitions. While the opposing coalition is broad and powerful along the fossil fuel supply chain (Cory et al., 2021), the policies of progressive states have begun to reconfigure national climate coalitions.

2 | FIRMS AND FEDERALISM

Firms are among the most powerful organized interests in modern politics, so it is crucial to understand what drives their preferences. A broad array of research has shown that economic factors—including asset portfolios, trade exposure, and industrial organization—affect firm preferences in areas such as trade policy and environmental policy (Falkner, 2008; Kim & Osgood, 2019; Milner, 1999). Some scholars have demonstrated that institutional factors including policy legacies and trade association membership (Martin, 1995; Woll, 2009) intersect with economic interests in shaping firm preferences.

The literature on firm preferences toward climate policy has begun to develop a systematic understanding of how economic factors shape climate policy preferences, with recent research highlighting the trade exposure of polluting sectors (Genovese, 2019), competitive dynamics vis-a-vis other producers (Kennard, 2020), and embeddedness in fossil fuel supply chains (Cory et al., 2021) as explanatory variables. A systematic understanding of the effect of institutions on climate policy preferences, however, remains elusive. In this article, we aim to begin to address this question by focusing on a central feature of firms' institutional environments: federalism.

In federal systems, the co-existence of policies at both the national and sub-national level can create complementary or conflicting pressures for firms. In climate politics specifically, sub-national entities such as states and provinces have often been policy leaders compared to national governments, particularly in Canada and the United States. Yet, the relationship between federalism and how organized interests engage in politics remains underexplored in American and comparative politics. Research on federalism has predominantly examined inter-governmental dynamics and policy adoption, focusing on vertical (state-federal) and horizontal (state-state) interactions (Hooghe, 2001; Oates, 1999; Volden, 2002, 2005). This focus on policymakers and policy adoption comes at the cost of understanding the broader political effects of sub-national policies and politics. This includes cross-level effects on organized interests, which are central to modern political life.

Recent research has begun to pay greater attention to these effects, including with regard to unions, city governments, and firms (Darmofal et al., 2019; Goldstein & You, 2017). Recent work on firms, in particular Kim et al. (2021), explores how exposure to particular state energy policies compels some firms to lobby federally. Here, we study a broader set of mechanisms by which state policy and politics affect the preferences of firms in national policymaking. We advance arguments about the effects of, first, state policy, and second, state politics on firms' preferences at the national level.

2.1 | State policy and firm preferences

Does economic competition between firms lead to a regulatory race to the top or to the bottom (Vogel, 1995; Volden, 2002)? Most existing scholarship on federalism and policy diffusion takes this as the guiding question and examines the influence of firms on policy in this context (Gilardi, 2010; Shipan & Volden, 2008).

David Vogel's seminal "Trading Up" (1995) demonstrated a race to the top in U.S. auto emissions standards. After California adopted more stringent regulation than the rest of the U.S., automakers asked the federal government to adopt uniform standards that would preempt state-level standards (Vogel, 1995). These ideas have since inspired work in international political economy on the race to the top versus the race to the bottom in environmental regulation (Prakash & Potoski, 2006). In this strand of research, trade is the central mechanism driving multi-level interactions and policy change.

Trade can mobilize firms in a number of ways. First, firms may lobby for the adoption of harmonized product standards at a higher-level jurisdiction to limit transaction costs of regulatory fragmentation. This is the story of auto emissions standards (Vogel, 1995). Second, firms can seek to export compliance cost to competitors outside their home jurisdiction by lobbying for the adoption of their home-state regulation at the national or international level. For instance, the U.S. fishing industry lobbied for the negotiation of an international treaty to level compliance cost with foreign competitors (DeSombre, 2000). Theoretically, the same could hold for the interplay of sub-national and national policy. Third, firms may lobby other jurisdictions to adopt similar policies to their home state if these offer benefits to the firms and allow for market expansion. For instance, installers of solar photovoltaics that emerged in U.S. states with early support policies lobbied other states to adopt similar policies to expand their market (Trachtman, 2023).

We argue that the home state effect on firm preferences extends to sectors not exposed to trade, and beyond product standards to a broader set of regulations. Firms operate in environments with overlapping policies at different political levels. These policies are often adopted at different points in time. The policy that comes first can affect firm preferences through mechanisms related to *cost absorption*. Cost absorption means that firms' current or expected cost structure changes as they comply with sub-national policy. Cost absorption can change firm preferences in a number of ways, including through asset changes, regulatory relief, and future expectations.

First, compliance with sub-national policy can require firms to make capital expenditures. In our case of electric utilities and climate policy, this relates in particular to renewable energy and energy efficiency investments. If the investments shift the composition of asset portfolios substantially toward lower-carbon assets, firms may be incentivized to support national policies. Utilities compelled by sub-national policies to shift to lower-carbon assets are less likely to incur additional costs from potential national policies, and therefore less likely to oppose them. Moreover, in cases where federal policies like renewable energy subsidies enhance the profitability of

the new assets, or where public support for regulations offers reputational or political benefits, firms may be more likely to support them (Meckling, 2015).

Second, new federal policies can provide firms operating in certain states with a measure of regulatory relief. Federal regulations generally preempt state regulations. So, firms operating in liberal-leaning states that champion strict environmental policies could face lower compliance costs due to the adoption of new federal policies. Even if firms operating in liberal-leaning states realize some regulatory relief from new federal policies, the national scope is likely to increase overall environmental benefits.

Third, firms may interpret sub-national policymaking to have political momentum toward a more regulated future. If firms operate on long capital cycles as is particularly the case in the energy industry, they may seek regulatory clarity at the national level to reduce uncertainty for long-term investments (Fabrizio, 2013). For example, the development of several state-level carbon pricing systems may indicate growing momentum toward national carbon pricing. This may incentivize utilities to support national carbon pricing to gain clarity about the design of a national system. This would reduce the policy uncertainty for long-term asset investments. This mechanism is thus about the expectations of future regulatory costs/benefits.

Cost absorption reduces the potential new costs firms might face from national-level regulations—and thus can lessen their opposition to national policy. This leads most likely to a shift from an opposing position to a neutral position. But competition with firms operating in states with weaker regulations may also generate support for national policies. The effect of state policy can thus entail a change in both preference intensity and directionality. To the extent that firm preferences matter for national policy decisions, this process can result in an upward diffusion of sub-national policy by reducing political opposition and/or increasing political support.

2.2 | State politics and firm preferences

In addition to state policy, state *politics* can also affect firm preferences in national politics. As much as firms are embedded in multi-level systems of policies, they are also embedded in multi-level systems of politics. In many cases, state governments take positions with respect to federal policies. Firms may align with those positions to gain or maintain political capital, and thus access to state-level policymakers that could help them shape future regulation. State politics, and more specifically, the policy preferences of state governments, are thus assumed to have a direct effect on the directionality of firm preferences.

Political capital, here defined as "a firm asset consisting of relationships and ties with political and regulatory players" (Kim, 2019, p. 1913), is important to firm performance (Faccio, 2006). Firms' political capital depends on multiple factors including policy expertise, whether it is foreign or domestic, and preference similarity between a firm and governments regarding policy choices. We focus on this third factor, preference similarity, which is essential to information exchange and political access (Carpenter et al., 2004). Policymakers—both elected officials and bureaucrats—often hold their own policy preferences and will grant access to interest groups that support their agenda (Woll, 2007). Firms, in turn, may align with policymakers in order to invest in political capital and potentially improve their capacity to influence future policies. Next to maintaining political capital with policymakers, firms may also seek to maintain political capital with the public. The goal is similar: avoiding that the public turns against them and demands more costly regulation in the future.

State politics thus shapes national firm preferences through a mechanism of *cost avoidance*—by strategically aligning with state regulators, firms seek to avoid future regulatory cost. In the context of federalism, the logic of strategic alignment suggests that a firm might support national

policy reform, even in the absence of prior state policy reform, if its home state government and/or public supports national policy change. These dynamics are particularly important in areas like energy in which state governments play a strong regulatory function. In these areas, sub-national governments, in addition to lobbying higher levels directly, might be represented by proxy through the strategically aligned positions of the firms they regulate.

How state politics shapes national firm preferences through the mechanism of *cost avoidance* contrasts with how, we have argued, state policy can influence firm preferences through mechanisms associated with *cost absorption*. Political and policy mechanisms of firm preference change can thus be understood to operate at different stages of the policy cycle. Political mechanisms can take effect prior to state-level policy adoption as firms seek to avoid regulatory costs. Policy-related mechanisms, on the other hand, take effect after firms absorb costs from policy adoption. The two mechanisms likely also differ in how quickly they generate a home state effect. Shifts in the political environment, such as a change in which party controls state government, may lead firms to immediately change their policy preference. By contrast, policy shifts might shift firms' policy preferences more slowly, as firms update their capital strategy to comply with new policies and then adjust their political strategy to the new capital strategy.

Lastly, firms may operate in multiple states, and thus be subject to multiple home state effects. These states may have diverging policies and politics creating cross-cutting pressures on firms. Firms then may need to reconcile conflicting home state effects internally in developing an aggregate preference on federal policy.

3 | INVESTIGATING THE HOME STATE EFFECT ON NATIONAL POLICY PREFERENCES

Here, we examine the home state effect in U.S. climate policymaking. We first introduce the policy area and provide some historical context for our empirical investigation. We then quantitatively investigate the home state effect on electric utilities in the cases of the CPP and ad hoc coalition membership. Finally, we leverage interview evidence to shed additional light on the causal mechanisms by which state-level factors shape firm preferences on national policy.

3.1 | U.S. climate politics

Multi-level political and policy change has characterized U.S. climate policymaking for the last 30 years (Rabe, 2007, 2018). This resulted in a pattern of "iterative federalism," in which regulatory lacuna at the federal level led to state-level policy development, followed by periods of federal policy efforts (Carlson, 2009). The pattern of iterative federalism highlights the centrality of state-level climate and clean energy policies in the U.S. Climate policy in the states dates back to the 1990s, with the number of active states growing in the 2000s. Renewable portfolio standards (RPSs) are the policy that has spread most widely. A deployment mandate, the policy requires utilities to provide a certain share of their electricity from renewable sources. By June 2019, 29 states and the District of Columbia had enforceable RPSs or other renewable energy mandates in place. Carbon pricing systems have also been adopted in the states, though much less widely than RPSs. In 2009, a coalition of Northeastern states created the Regional Greenhouse Gas Initiative, a cap-and-trade system for the power sector. In 2015, California launched its economy-wide cap-and-trade system. The adoption of climate policies across U.S. states varies

increasingly across partisan lines (Trachtman, 2020), reflecting a broader pattern of polarization in American politics. In this article, we explore how variation in state climate policies has shaped national-level preferences of electric utilities.

Thousands of electric utilities are involved in the generation, transmission, and distribution of electricity in the U.S. power grid, and electric utilities have long been major political actors in energy policy issues at the federal, state, and local levels (Stokes, 2020). Historically, they have often opposed attempts to develop climate policy in the U.S. (Williams et al., 2022). Among capital-intensive industries that tend to be the primary target of environmental and labor regulation, electric utilities offer a hard test for the home state effect because of the lack of interstate competition. The majority of U.S. states (33) have regulated electricity markets in which vertically integrated utilities own and operate electricity from generation to the meter. In these markets, utilities face no out-of-state competition. In addition, they can recover costs through rate negotiations with regulators. In some deregulated markets such as California, utilities also face very little competition. Overall, utilities thus have few incentives to seek to impose the compliance cost they face under home state regulation on out-of-state firms through the passage of federal policy. We would expect a stronger home state effect for industries that are subject to home state regulation *and* exposed to significant inter-state competition.

To generate our sample for empirical analysis, we used data from the Energy Information Administration (EIA) to identify the largest 100 utilities by MWh of electricity delivered, as well as the 100 largest utilities by MW of generation ownership (as of 2015).[1] We also identified the largest utilities by electricity delivered and generation ownership in each state.[2] Our sample is the union of the top 100 utilities by electricity service, top 100 utilities by generation ownership, top utility in each state by electricity service, and top utility in each state by generation ownership. This yielded a total of 159 utilities in the sample, covering 97% of electricity generation capacity and 93% of electricity sales. We restricted the analysis to large-scale electric utilities, since we expected larger firms to be more likely to be involved in national policy issues, and their involvement to be more likely to have implications for policy decisions.

In identifying firms' genuine preferences toward national policy, we face the possibility of strategic misrepresentation (Broockman, 2012). We mitigate this "problem of preferences" to the extent possible by triangulating firm preferences across different types of political behavior and venues. We conduct two quantitative empirical tests of the home state effect: first, firm participation in litigation against the CPP, and, second, firm participation in ad hoc coalitions.

3.2 | Evidence from the Clean Power Plan

Our first empirical analysis examines the positions taken by utilities with respect to the CPP. The CPP was first proposed by the EPA under the Obama administration in July 2014 and was published in October 2015. The legal justification for the CPP is based on EPA's authority to regulate carbon dioxide as a pollutant under the Clean Air Act, as determined in *Massachusetts* versus *EPA*.[3] The rule established national CO_2 emissions performance rates for existing coal and gas plants, and the EPA determined state-specific requirements for emission reductions by 2030 by applying national rates to states' generation mix in 2012 (Davis et al., 2016; McCarthy et al., 2017).

States were given flexibility with respect to how to achieve performance rates. By and large, states that had taken early action to transition to less carbon-intensive power generation had lower emission reduction targets under the CPP. This reflects a general pattern of policymaking:

federal policies generally give states credit for early action, usually either by granting credits under a uniform federal standard or by creating state-specific standards. As a result, the regulatory costs electric utilities expected to face under the CPP were directly related to the existing policies in the states in which they operated. Utilities in states with more stringent policies had already absorbed regulatory cost, so faced lower costs under the CPP.

The CPP has been politically and legally contested since even before it was published (Tsang & Wyatt, 2017). Opponents, including 26 state attorneys general, three labor unions, several non-profit policy organizations, and energy companies began filing legal petitions challenging the Rule the day it was published (Ibid.). These petitions were ultimately consolidated into one case: *West Virginia* versus *EPA*. A number of environmental organizations, firms, and governments also intervened in *West Virginia* versus *EPA* in support of the CPP.

The key outcome we examine is the participation and the position of electric utilities in *West Virginia* versus *EPA*. We coded the 26 utilities in the sample that participated as petitioners against the CPP in the lawsuit as *oppose*, and the 13 utilities that intervened in favor of the CPP as *support*. The remaining 120 utilities in the sample were coded as *no position*. Our theoretical framework suggests that state-level policy and political landscapes might influence utilities' position-taking with respect to the CPP, with utilities operating in states with stronger (weaker) state-level climate policies—as well as in states where government officials supported (opposed) the CPP—more likely to support (oppose) the CPP.

Our measurement of state-level policy relies on measures of policy stringency along three policy dimensions: RPSs, cap and trade, and energy efficiency.[4] Each has the potential to drive cost absorption and shift utilities' preferences in the long run (see Supporting Information S1: Appendix A.1). While we do not suggest that these three policies provide a complete picture of utility-related state climate and clean energy policies, we believe that, put together, they can provide an informative measure of a state's overall policy environment. In this vein, rather than include separate variables measuring regulatory stringency on each policy dimension, we scale the policies to one *utility clean energy* policy score in order to explore how utilities respond broadly to their policy environments—versus any one specific policy.[5]

We use principal component analysis to generate the *utility clean energy* policy score. The first principal component explains 66% of total variation in the three policy variables.[6] In addition, as demonstrated in the Supporting Information S1: Appendix A.1, measures of policy strength in each policy area (for instance, stricter RPS requirements, greater energy efficiency expenditures, etc.) load positively onto the first principal component, suggesting it can be interpreted to represent the stringency of state policy environments (the Supporting Information S1 provides more details, including variable loadings). Figure S1 demonstrates that, as expected, liberal-leaning states in the West and Northeast score high, while conservative-leaning states in the South, Midwest, and Mountain West score low.

We operationalize state-level *political* environments in two ways: state attorneys' national policy preferences and political lean of the state electorate. We measure the positions of state governments by recording whether state attorneys general participated in *West Virginia* versus *EPA* either in support or opposition to the CPP. We measure state participation on a scale from −1 to 1, with −1 representing opposition, 0 non-participation, and 1 support for the CPP. Overall, 27 states challenged the CPP and 18 states supported it. In addition, we measure the political lean of a state's electorate by recording Democratic vote share in the 2016 Presidential election.

Our outcome is at the utility level, but key explanatory variables are measured at the state level. A complication in matching state-level variables to utilities is that many utilities in the sample provided electric service or owned generation in multiple states. For these utilities, we

TABLE 1 The effects of state policy and politics on CPP litigation.

	CPP litigation position			
	(1)	(2)	(3)	(4)
State policy score	3.70***	2.18**	2.77**	2.26*
	(0.85)	(1.08)	(1.29)	(1.36)
Democratic 2016 presidential vote		1.07	1.18	−0.01
		(3.12)	(3.12)	(3.84)
State government position		0.66	0.61	0.65*
		(0.41)	(0.41)	(0.36)
Utility-level covariates			✓	✓
State-level covariates				✓
Observations	159	159	159	159

Note: Coefficients from ordinal logistic regression model with three outcome levels: oppose, neutral, and support. Robust standard errors clustered at parent company level.

Abbreviation: CPP, Clean Power Plan.

*$p < .1$, **$p < .05$.

generated state-level variables by calculating weighted averages of electricity service and generation assets across states.[7]

In addition to state-level policy and political variables, our analysis includes covariates at the utility level. Prior research suggests that the composition of utility resource portfolios—particularly coal assets—influences policy preferences (Downie, 2017) and political engagement (Kim et al., 2016). We therefore include measures of coal assets and non-carbon assets (e.g., nuclear, geothermal, wind, solar) in our analysis.[8] Accounting for resource portfolios also likely captures a significant portion of the variation in the carbon intensity of utilities' supply chains, which has been shown to shape firm preferences for climate policy (Cory et al., 2021). We also adjust by variables measuring utilities' size, both in terms of ownership of generation capacity as well as retail electric sales. Finally, we account for utility corporate governance with an indicator variable representing whether utilities are publicly owned. In certain models we also adjust by state-level covariates. These include state GDP per capita, tax revenue per capita, wind energy potential, air quality, unemployment rate, and electricity prices. Summary statistics for each variable included in models are provided in Table S2.

We use ordinal logistic regression to examine the factors shaping whether utilities opposed the CPP directly or through coalition membership (coded as −1), did not participate in legal action (coded as 0), or supported the CPP as intervenors (coded as 1). Regression results for the main variables of interest are presented in Table 1, with the full set of coefficient estimates provided in the Supporting Information S1: Appendix A.5. Column (1) demonstrates a strong descriptive relationship between state policy and utility positions on the CPP. Below the median state policy score, 27% of utilities opposed the CPP in court, and just 4% of utilities supported the CPP. Above the median, just 5% of utilities opposed and 13% supported the CPP.

Column (2) adds the state-level political variables (Democratic presidential vote share and state government position) discussed above. Though these policy and political variables are highly

correlated, it is notable that the coefficient on each is positive. Policy score, state government positions, and partisan lean in the electorate are all associated with greater support, and lower opposition to the CPP. But the only statistically significant variable in this model is state policy score. Column (3) adds the utility-level variables discussed above. Even adjusting for utility generation assets, we find again that state policy score is statistically significantly associated with CPP positions. The coefficient of 2.77 suggests that a .1 point difference in a state's *utility clean energy* policy score (SD = .27, 0–1 scale) is associated with a 32% increase in the likelihood of a utility based in that state supporting the CPP (compared to non-participation). This result holds conditional on state-level covariates as well, as demonstrated by column (4), though it is only statistically significant at the $\alpha < .1$ level.

It is worth taking a closer look at the utilities that intervened in support of the CPP, since they are a significant minority, but also represent the potential emergence of a pro-clean energy coalition of electric utilities. As indicated by Table S3, the pro-CPP coalition represents both utilities servicing Democratic strongholds with strong state-level climate policies and goals (e.g., PG&E), as well as utilities with substantial generation ownership focused on growing their clean energy portfolios (e.g., NextEra). Moreover, this coalition appears to be relatively robust. Many of the utilities that supported the CPP also petitioned the D.C. Circuit of Appeals challenging the Trump administration's decision to replace the CPP with the much weaker Affordable Clean Energy rule (Walton, 2019).

One potential concern with the prior analysis is the high number of utilities not participating in litigation. The reasons for the high number of firms with no position may be twofold. First, litigation is costly action that firms weigh carefully against the potential benefits. Second, our theoretical expectation suggests that a home state effect reduces the opposition to national policy, which can result in either a neutral or supportive national preference. Our test of litigation in favor of the CPP thus is a hard test of the home state effect that leads to national policy support.

3.3 | Evidence from ad hoc coalitions

We now turn our attention to a broader outcome than utilities' positions on a specific policy: utilities' membership in ad hoc coalitions either supporting or opposing federal efforts to mitigate climate change.

Our analysis relies on data assembled by Cory et al. (2021), which we will refer to as the ad hoc coalitions data. Cory, Lerner et al. assemble an exhaustive list of the coalitions (including firm membership) that have organized to engage in "outside" lobbying (Kollman, 1998) on climate change from 2000 to 2019 in the U.S., and code the positions taken by these coalitions according to their public statements. Ad hoc coalitions are alliances of firms formed around a single issue, such as renewable energy policy. The ad hoc coalitions data also includes trade associations focused on a narrow set of related issues around clean energy. Firms joining a specific ad hoc coalition thus share a general policy preference. Ad hoc coalitions are distinct from sectoral or peak trade associations, which tend to represent a broader and more diverse set of firm preferences.

Bringing these rich and newly disseminated data together with the data we assembled on utility assets and state policies allows us to examine the home state effect in this second empirical context. We leverage the same sample of 159 large electric utilities as in the prior analysis for consistency and take 2015 as our base year (excluding coalitions that were not active as of 2015). Coalitions that were only active at the state or regional level were also excluded. Of national coalitions active in 2015, 17 featured electric utilities as members (Table S4). We use electric utilities' membership in these ad hoc coalitions as our outcome here.

TABLE 2 The effects of state policy and politics on climate ad hoc coalition membership.

	Ad hoc coalition membership			
	(1)	(2)	(3)	(4)
State policy score	1.64***	0.16	−0.20	−0.45
	(0.60)	(0.99)	(1.05)	(1.21)
Democratic 2016 presidential vote		6.66**	6.01**	8.78**
		(2.76)	(2.87)	(3.57)
Control of state government		−0.04	−0.06	−0.22
		(0.35)	(0.37)	(0.40)
Utility-level covariates			✓	✓
State-level covariates				✓
Observations	159	159	159	159

Note: Coefficients from ordinal logistic regression model with three outcome levels: oppose, neutral, and support. Robust standard errors clustered at parent company level.

**$p < .05$, ***$p < .01$.

As a broad measure of utilities' positions with respect to ad hoc coalitions, we code utilities that were only members of opposing coalitions as *opposed* (35 utilities), and utilities that were only members of supportive coalitions as *supportive* (25 utilities). Again, we use ordinal logistic regression to estimate the association between state-level factors and utilities' membership in pro- and anti-climate ad hoc coalitions, with outcomes as −1 for *oppose*, 1 for *support*, and 0 for utilities that were either members of both opposing and supportive groups (which characterized 23 utilities), or no coalitions (78 utilities).[9]

We again use the *utility clean energy* policy score to measure the state policy environment in which utilities operate. We operationalize state political environment by including a measure of partisan control of state government and broad partisan lean (2016 Democratic presidential vote share)—which act as a proxy for the broad preferences of state government actors.

Regression results for the main variables are presented in Table 2, with full results including covariates provided in the Supporting Information S1: Appendix A.5. Column (1) demonstrates an association between state policy scores and pro-climate coalition membership. Yet, when we add political variables measuring broad political lean (2016 Democratic vote share) and control of state government, results suggest that political lean is the strongest predictor. This result holds accounting for utility-level variables as well, as demonstrated by Column (3). The coefficient of 6.01 suggests that a 10-point shift in Democratic vote share is associated with utilities being 82% more likely to belong to supportive coalitions (vs. no coalitions).[10] We recover similar results in the model adjusting for state-level covariates, with results presented in column (4).

3.4 | Discussion of quantitative results

Broadly speaking, the analysis of utility participation in ad hoc coalitions supports our main descriptive findings from the CPP analysis. But an important difference in this analysis is the role of state *politics*, as opposed to state *policy*. Studying the CPP, we find that measures of state

climate policy stringency are most strongly associated with participation in litigation supporting (and not opposing) the rule. But studying utility membership in ad hoc climate coalitions, we find that a broader measure of the state political environment, Democratic vote share, is the strongest predictor of membership in pro-climate policy coalitions (and non-membership in opposing coalitions).

We believe that these differences reflect variation in specific attributes of the outcome variables: CPP litigation and ad hoc coalition membership. In determining how to respond to the CPP, electric utilities had a good idea of the specific requirements and compliance costs that the policy would impose. Policy uncertainty was low. Indeed, a number of electric utilities based in states with stringent climate policies successfully lobbied to ensure that their efforts to comply with state policies (e.g., RPSs) also satisfied CPP requirements.[11] Our finding that state policy measures are associated with utilities' participation in litigation challenging the CPP is consistent with the direct and visible link between state policy environments and utilities' *new* obligations under the CPP.

The ad hoc coalitions outcome provides, on the other hand, a measure of utilities' more general positions vis-à-vis potential federal climate policies. The compliance costs (or benefits) of these potential federal regulations are more variable than in the case of the CPP. We think that this variability might strengthen the role of states' political environment versus policy environment for two reasons. First, under conditions of high policy uncertainty, utilities might respond to the variability of potential compliance costs from future regulations by drawing on their political environments as a rough heuristic for the policy environment they might face *in the future*. Second, the variability of potential compliance costs might compel utilities to upweight other factors like strategic alignment. Taken together, the results suggest that a state policy effect may be more likely under low policy uncertainty, whereas the state politics effect may be stronger under high policy uncertainty.

Overall, the quantitative evidence thus provides broad support for the general perspective we put forth in this paper: the positions electric utilities take on national-level policy issues are associated with the state-level policy and political environments in which they operate, even once we account for key economic variables like resource portfolios. Our analysis has, however, some limitations regarding causal interpretation of the demonstrated association between state policy and politics and utilities' national-level positions and coalition membership.

First is the question of selection into or out of operating in particular states. Utilities with underlying pro-climate corporate culture might select into states with more stringent climate and energy regulations—and vice versa for those with underlying anti-climate culture. However, the great majority of utilities in our sample have maintained a long-standing presence in the states in which they operate. And, historically, electric utilities held mostly uniform positions of opposition to climate policy.

Another potential issue is one of reverse causation, whereby states with more pro-climate utilities have more stringent climate policies precisely because of utilities' engagement in state policy decisions (Basseches, 2019). This is a valid concern. But at the same time, utilities have, as a general rule, opposed new state regulations aiming to promote clean electricity. For example, PG&E initially opposed the RPS program initiated in 2002, before adapting to the new regulation and growing more supportive following policy adoption (Basseches, 2020). The cases where utilities support new state climate policies are generally ones in which those utilities responded to *prior regulations* by making greater investments in clean energy assets.

The quantitative evidence presented is also limited in its leverage for parsing mechanisms. While we are able to distinguish to some extent between state politics and state policy, our

precision is limited since these tend to be highly correlated. These limitations in both causal inference and parsing mechanisms motivate the elite interviews presented in the following section.

3.5 | Evidence from elite interviews

We conducted 11 semi-structured elite interviews with individuals working on public policy in or close to the electric utility sector.[12] Given the limited number of interviews, this section offers an initial exploration of mechanisms to complement the extensive quantitative analysis, to be expanded in future work.

We focused on understanding mechanisms driving the support for federal climate policies from utilities based in liberal-leaning states, since the opposition of utilities elsewhere follows directly from models of the economic costs of new federal policies. Six of the interviewees were individuals with manager-level and executive-level policy positions at large electric utilities in states with stringent climate policies (two of the utilities represented also held assets in states with less stringent climate policies). Three additional interviews were conducted with attorneys and lobbyists representing national coalitions of electric utilities. Finally, we conducted one interview with a manager at a professionalized climate advocacy organization who works closely with electric utilities, and one interview with a Department of Energy manager during the Obama administration now consulting in energy policy. Interviews were held over phone or Zoom between June and November of 2020.

Generally, interviewees pointed to both state policy *and* state politics driving the preferences and positions of electric utilities. But the interviews also provided some insight into how and why state policy and politics drove utilities' positions.

In terms of state policy, interviewees were largely in agreement that resource portfolios were fundamental. Utilities operating in states with more stringent climate policies are compelled to adopt cleaner portfolios, reducing the additional obligations of federal policy. Yet, several interviewees emphasized that this effect was likely driven to a greater extent by expectations of future shifts to resource portfolios than by current portfolios. Quite simply, one said, "utilities in states with ambitious policies were ok with it [the CPP] mostly because they didn't have to do anything beyond what they were already planning to do."[13] Another stressed that their company determined its policy positions by evaluating the degree to which potential policies aligned with current investment strategies, which in turn reflected the state policy environments in which it operated.[14] The role of expectations explains the association between state policy and utility positions even conditional on resource portfolio measures.

On the other hand, several interviewees disagreed with the notion that utilities operating in states with stringent policies sought regulatory relief from national regulations that would preempt state laws. They maintained that utilities generally expect any new federal regulations to be designed as floors (allowing states to adopt more aggressive regulations), not ceilings. Other interviewees, though, did suggest that utilities owning and operating assets in multiple states with multiple sets of policies have supported federal policies in order to provide a more consistent regulatory landscape.

Interviewees also raised two additional mechanisms related to how federal policy structures the costs (and benefits) of compliance with state mandates. First, for utilities operating in states with carbon trading schemes, federal carbon pricing policy would expand the permit market and give rise to new trading partners. Second, federal policy might lead to technological innovation (e.g., the development of more efficient batteries) that further reduces the costs of complying with strict state policies.

In terms of state politics, interviewees generally agreed with the notion that cost avoidance and strategic alignment factored into utilities' positions. One emphasized that this effect is particularly prominent in the case of electric utilities, which are much more heavily regulated at the state level than federal level—so maintaining a good relationship with state regulators is a major priority. The logic of strategic alignment, one interviewee speculated, explains why several utilities operating in states with stringent climate policies went further than not opposing the CPP, and actively supported it.

Several interviewees proposed that, while strategic alignment is relevant to both utilities with significant regulated assets and utilities operating mainly as independent power producers, maintaining a good relationship with state regulators is more important to utilities with a greater proportion of regulated assets. State regulators, for these utilities, directly determine profits through their decisions in utilities' rate cases. One interviewee who worked at a utility with assets in both liberal-leaning and conservative-leaning states even suggested that trying to satisfy regulators in both sets of states posed issues for executives determining what positions to take on federal policies.

Finally, we should note that several interviewees suggested that the divergence in utility positions based on state-level policy and political factors has likely shrunk in recent years (since 2015). They pointed to two key reasons. First, as the effects of climate change have become clearer and more salient in the public, utilities operating in states across the country increasingly recognize that they will have to face greater regulations. As a result, some utilities that would have previously vigorously opposed have softened their positions. Second, the reductions in the costs of solar and wind energy have acted as an equalizer. As the costs of transitioning to clean energy decline, the state policy landscapes in which utilities operate matter less in determining planning. Indeed, utilities are increasingly setting their own targets for clean energy and carbon emissions reductions, and not only in liberal-leaning areas of the country with stringent state policies. Of course, cost reductions have been driven by economies of scale generated in part by prior state-level deployment policy. This suggests (technology) cost reductions as a separate mechanism by which states can more broadly shift national group coalitions.

4 | CONCLUSION

We have argued that the sub-national policy and political environments in which firms operate can create a *home state effect* on their national policy positions. State policies force firms to shift their investments and operations in a way that affects how they view subsequent federal policy initiatives. And considerations of state-level political factors incentivize firms to align positions with their state regulators.

Our empirical analysis of electric utility preferences and coalition membership in U.S. climate policymaking supports the notion of a home state effect. Electric utilities operating in states with more aggressive climate policies were more likely to support the CPP in court, while utilities operating in more lax policy environments were more likely to oppose it. This relationship holds conditional on covariates including resource portfolios and measures of state political environments, suggesting cost absorption from prior state policy decisions was the key mechanism. We find a similar descriptive association when we investigate ad hoc climate coalition membership, with utilities operating in more liberal states more likely to belong to pro-climate coalitions (and vice versa for utilities operating in more conservative states). Here, though, the strongest driver appears to be measures of state political environment, highlighting the mechanism of cost avoidance through strategic alignment.

Future research may focus on identifying the scope conditions for mechanisms underpinning the home state effect. First, cost absorption may operate differently depending on the type of policy. For instance, RPSs may shift preferences through *asset changes* as RPSs incentivize the creation of clean energy assets. Carbon pricing regimes, instead, often do not lead directly to asset changes, but may affect national policy preferences through *regulatory relief* or *future expectations*. A national carbon pricing program may be less stringent and thus less costly than a state-level one, or it could provide firms with greater certainty that allows them to plan investments more effectively. Identifying "policy-mechanism" connections will lead to a clearer understanding of the coalitional effects of specific policy levers at the disposal of state policymakers.

Second, the level of inter-state competition in an industry may condition the home state effect. The more competition a firm faces from competitors in other states, the more sensitive it will be to compliance cost under home state policy. As a result, the national preferences of firms in competitive industries are likely to be shaped to a greater degree by state policies than in less competitive industries—enhancing the strength of the home state effect. In this regard, electric utilities present a hard test for the home state effect given the lack of nation-wide competition in power markets. In manufacturing industries, instead, we would expect a stronger home state effect, given both a high level of regulation at the state level, in particular labor regulation, and higher inter-state competition.

Third, the nature of industries is likely to condition the relevance of different mechanisms and the strength of the home state effect. Industries vary, for example, in their capital intensity. Electric utilities tend to be on one end of spectrum, exhibiting both high capital expenditures and long capital lifecycles. Power plants and grid infrastructure stick around for decades. Under these conditions, state policy may create stickier changes in national policy preferences and more stable coalitions relative to industries with lower capital expenditures and shorter capital lifecycles. By contrast, healthcare providers participating, for example, in new pricing models under state policy may have more moderate and medium-term capital expenditures to comply with state policy. This still suggests the possibility of a home state effect, but one likely less pronounced than in the case of electric utilities.

Finally, future work might empirically explore how the home state effect affects firms with operations in multiple states. In this paper, we generally assume an *aggregation* model, which is relevant to both the politics (cost avoidance) and policy (cost absorption) mechanisms. Under this model, firms roughly incorporate the political and policy environments in the states they operate into political positions in proportion to the magnitude of their investments in those states. However, there are other plausible models, particularly when it comes to cost avoidance. One model is that exposure to varied state political environments renders some firms less willing to engage politically. Even if there are benefits from aligning their position with regulators in some of the states in which they operate, taking positions that conflict with those of regulators in other states could be costly—so firms might choose to "play it safe" and reduce their overall political engagement. Another model suggests that—due to social or cultural ties between executives and regulators—firms' positions on federal policy are most responsive to the political environments in the states where their *headquarters*, not their investments, are located. Our study does not have the sample size to rigorously parse these models, but future research might.

Evidence of a home state effect on national firm preferences and coalition membership has important theoretical and empirical implications. Theoretically, this article contributes to a growing body of work exploring interest group mobilization across federal systems, including with regard to unions, city governments, and firms (Darmofal et al., 2019; Goldstein & You, 2017; Kim et al., 2021; Trachtman, 2023). We expand specifically the notion of the "California effect."

Both state policy and state politics can shape firms' national political behavior, and the effect extends to sectors not exposed to inter-state trade.

Empirically, our research identifies the origins of change in the composition of national climate coalitions. The business coalition opposing national climate policy is broad and powerful along the fossil fuel supply chain—it conducts 66% of U.S. lobbying on climate policy (Cory et al., 2021). Yet this coalition is fraying as economic interests begin to support climate policy. State policy is a key driver and political lever. We show that state climate policy can pay broader dividends in terms of national political mobilization. Both state policy and politics offer sub-national climate leaders pathways to reconfiguring national climate coalitions.

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CONFLICT OF INTEREST STATEMENT

The authors have no competing interests to declare.

DATA AVAILABILITY STATEMENT

The data that support the findings of this study are available at the following link: https://doi.org/10.7910/DVN/A0TSVTlink.

ENDNOTES

[1] These data are available via Forms EIA-860 and EIA-861. We adopt a broad definition of utilities, including both electric distribution companies and owners of large, centralized generation.

[2] We added these utilities to the sample to increase variation *across* the states, since the key independent variables are measured at the state level.

[3] In 2011, the Supreme Court upheld *Massachusetts* versus *EPA*, and determined the rule also applied to stationary sources, including power plants (*American Electric Power Co vs. Connecticut*).

[4] We draw on measures of policy stringency from Trachtman (2020). The measures of RPS and energy efficiency are continuous, while the cap-and-trade measure is binary. Supporting Information S1: Appendix A.1 provides more details.

[5] Any effort to do so would also be plagued by omitted variable bias, since states that, for instance, adopt stricter renewable portfolio standards also tend to adopt other pro-clean energy provisions.

[6] Other principal components have eigenvalues less than 1, so we do not interpret them.

[7] See Supporting Information S1: Appendix A.2 for details.

[8] The residual, once coal and non-carbon assets are accounted for, is almost entirely natural gas assets.

[9] We recognize that non-membership and membership in both supportive and opposing coalitions could signify different preferences. Results are robust to excluding utilities that were member to both opposing and supportive groups. See Supporting Information S1: Appendix A.4.

[10] Results are robust to a specification where the outcome is measured as the number of pro-climate coalitions a utility is member to minus the number of anti-climate coalitions a utility is member to. See Supporting Information S1: Appendix A.4.

[11] Interview with regulatory policy manager at large electric utility based in a liberal state, 10/12/2020.

[12] See Supporting Information S1: Appendix A.6 for more details.

[13] Interview with former Department of Energy official, 8/31/2020.

[14] Interview with regulatory policy executive at large investor-owned utility, 12/21/2020.

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SUPPORTING INFORMATION

Additional supporting information can be found online in the Supporting Information section at the end of this article.

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