

Energy Subsidies and Resource Mandates: Assessing the Implications for Wholesale Competition

American Antitrust Institute
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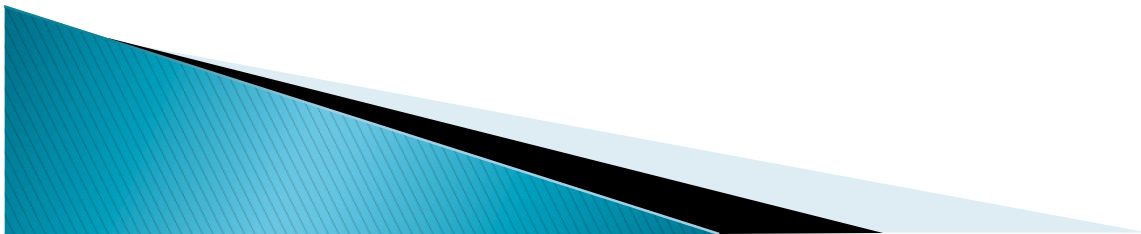
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Disclaimer

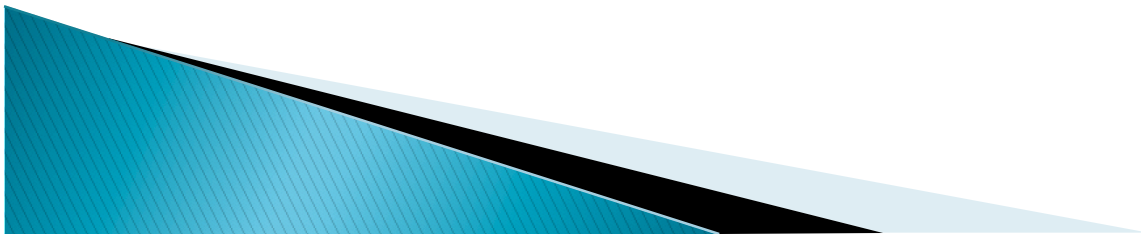
I'm speaking for myself

NRECA and its members may not agree with everything I'm saying, and chances are that some would vehemently disagree with elements of my presentation



My Goal

To help consumers benefit from a portfolio of resources that permits them to receive safe, reliable, affordable power over the long-term



Therefore:

- ▶ Interventions in the market should either:
 1. Directly promote safety, reliability, and affordability of power (e.g. LIHEAP, weatherization)

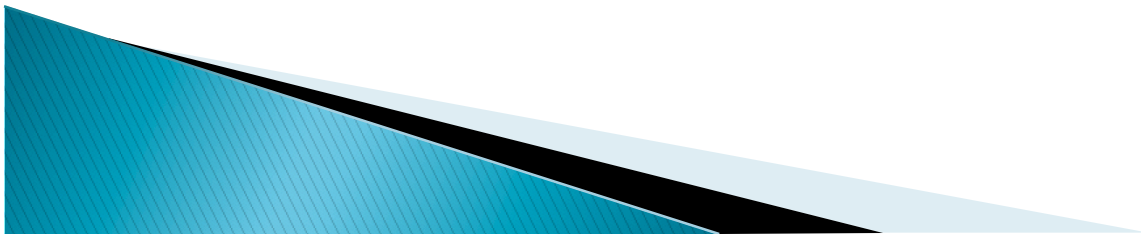
or

2. Accomplish the stated goal at the lowest total cost taking into account both direct and secondary impacts



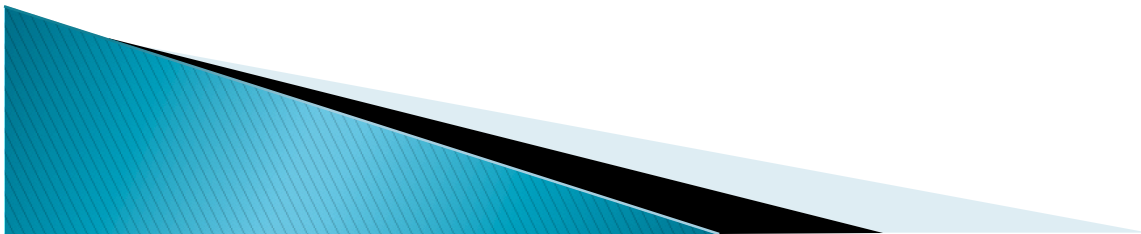
They should therefore

- ▶ Be carefully targeted
- ▶ Assign costs to those who cause them or if that's not possible, share costs very broadly
- ▶ Minimize distortions that undermine long-term investment in and operation of a reliable, low-cost portfolio of resources



First decide what you want to accomplish

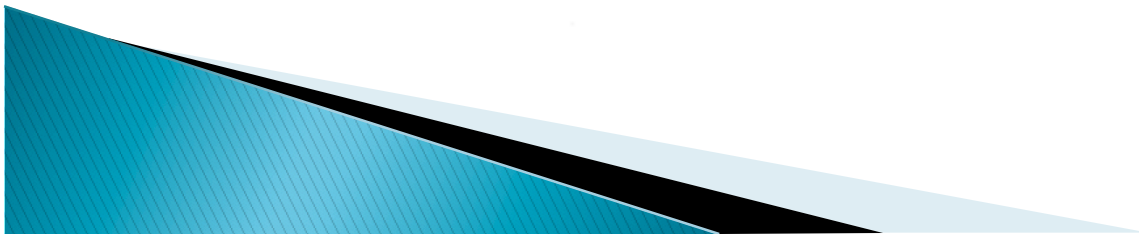
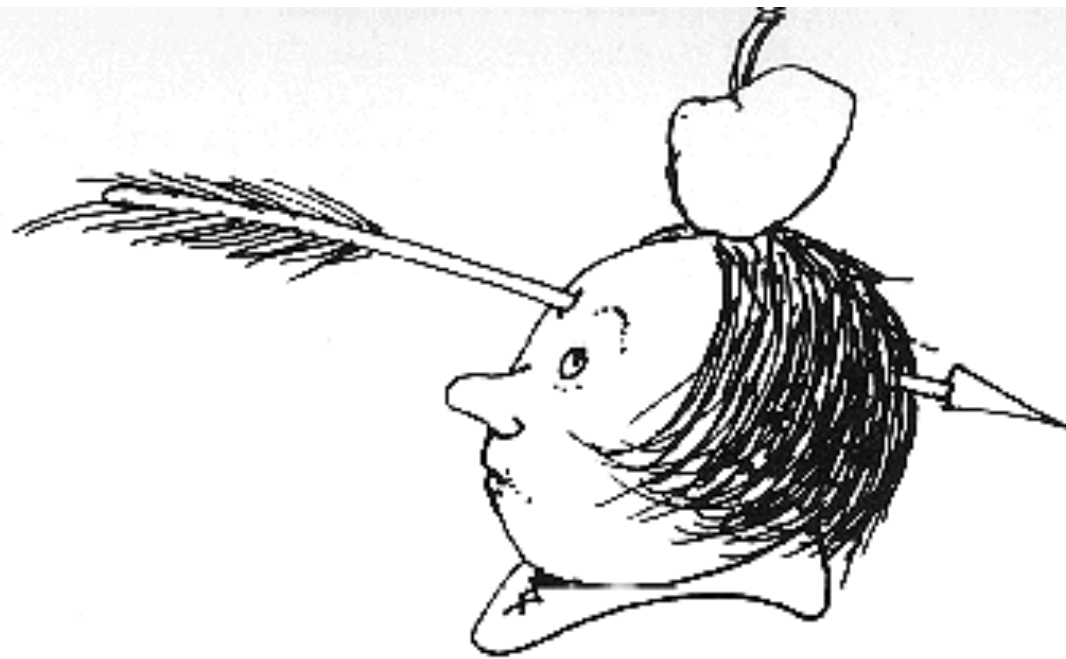
- Climate
- Criteria pollutants
- Fuel diversity
- Green jobs
- Supporting particular technologies
- Economic development
- Market impacts



If you don't know where you're going, you're going to cause an accident



Carefully aim interventions
at accomplishing that goal



Look at secondary effects

- ▶ Altering dispatch
- ▶ Changes to energy prices
- ▶ Changes to capacity prices
- ▶ Increasing forced outages and maintenance costs from ramping
- ▶ Causing retirements of existing units
- ▶ Increasing risk to investors/cost of capital
- ▶ Increased reserve requirements
- ▶ Requiring changes to existing resources to make them more flexible



More secondary effects

- ▶ Altering use of the transmission system:
 - Stability
 - Congestion
 - Stranding assets
 - Changes in short-term and long term access to transmission for existing transmission customers and LSEs
- ▶ Altering use of the distribution system
 - Requiring switch to two-way flows
 - Requiring additional SCADA and distribution automation
- ▶ Regional or local cost impacts with economic development and social service implications
- ▶ Cross-fuel, cross-industry impacts (e.g. need for more gas delivery infrastructure)
- ▶ Reliability challenges
- ▶ Changes in fundamental understanding of electric service

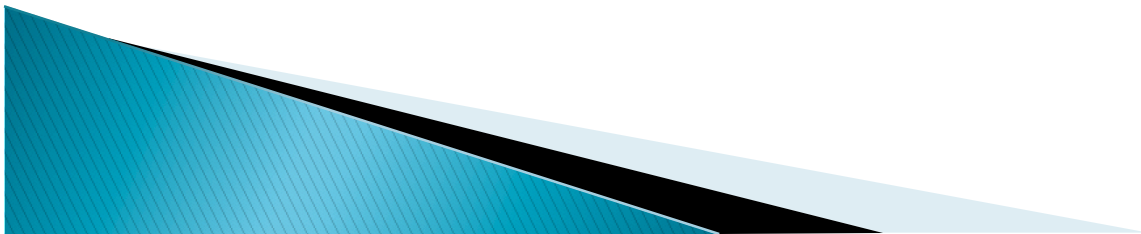


Secondary effects may be greater than the direct effects



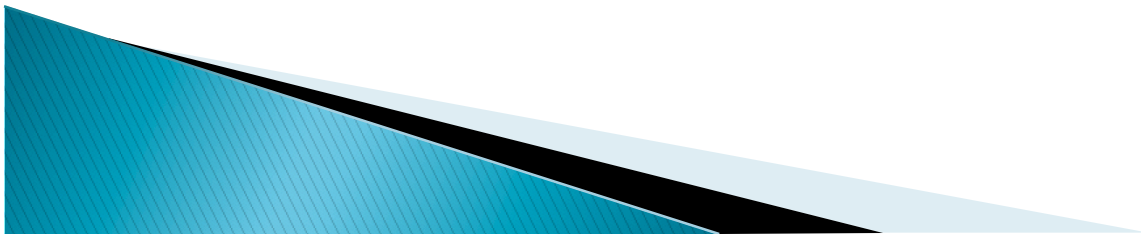
Evaluate all options

Sometimes the best solution
does not require an
intervention in the energy
markets at all



Minimize cost shifting or spread the costs broadly

- ▶ Assign costs to those who cause them
or
- ▶ Use tax credits and tax-funded subsidies rather than FITs, RPS, net metering and interconnection/integration related interventions



What are interconnection or integration related interventions?

- ▶ FITs
- ▶ Queue position changes
- ▶ Reductions in transmission interconnection requirements
 - Studies and study costs
 - Reactive power/power factor
 - Insurance
 - Indemnification
- ▶ Transmission expansion requirements AND cost allocation
- ▶ Transmission access rules and transmission services
- ▶ Transmission rate design
- ▶ Metering and data communication
- ▶ Responsibility for ancillary services
- ▶ Responsibility for stand-by/back-up services



Where does that lead us?

- ▶ First-cost interventions rather than performance incentives
 - RD&D investments, manufacturing incentives, investment tax credits, training installers, accelerated depreciation, etc. rather than production tax credits, feed-in tariffs or net metering
 - Goals for total name-plate capacity rather than percentage of total energy
- ▶ No “must take” mandates

