The Making of Sausages and Energy Policy: Not a Pretty Picture

Or

US Energy Policy: Clear Skies or Turbulence Ahead?

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History of Current Energy Policy Legislation

2000 Campaign – High oil and natural gas prices – swap from SPR and California “Crisis”

1/01 Administration responds to the "lack of an energy policy" by creating Cheney Task Force

2/01 Governor Bush of Florida objects to Clinton proposed lease sale in Eastern Gulf of Mexico

3–4/01 Administration rejects Kyoto Protocol, rolls back Clinton efficiency standard for new air conditioners

5/01 National Energy Policy: Reliable, Affordable and Environmentally Sound Energy for America’s Future

7/01 House passes bill to open ANWR, Environmentalists file lawsuit against Cheney Task Force

7/01 9/11 Terrorist Incident and 10/11 Anthrax shuts down Senate

4/02 Senate passes bill including a Renewable Portfolio Standard, without ANWR

10/02 House/Senate Conference breaks down over electricity restructuring

4/03 New Congress

House passes new bill

7/03 Senate abandons effort to pass new bill and passes 2002 bill again – including RPS

8/03 Blackout covering Northeast and Midwest

10/03 House/Senate conference produces bill costing $31 billion - described as a “turkey filled with pork” and “no lobbyist left behind” – House passes, Senate refuses
National Energy Policy: Reliable, Affordable and Environmentally Sound Energy for America’s Future

Administration’s NEP – Balance of supply from all sources and efficiency from new technologies

Supply – Increase oil and gas production by opening ANWR and increasing access onshore but not offshore, Federal siting authority for electric transmission, Tax incentives for renewables, support for cleaner coal

Demand – Tax incentives for efficient equipment and buildings, Nothing on vehicle efficiency other than tax incentives for hybrids
Jurisdictional Authorities

- **Federal**
  - Oil and gas leasing on Federal lands and offshore (1/3 of total)
  - Siting and economic regulation of gas transmission lines
  - Rates for electric transmission lines and wholesale power generation
  - Federal Clean Air Act (CAA)

- **States**
  - Production of oil and gas on state and private lands
  - Retail sales of natural gas and electricity
  - Siting power plants, all electric lines and local gas lines
  - Adequacy of power supply and distribution systems (local franchise)
  - State Implementation Plans under CAA

Local jurisdiction over municipal utility systems
Federal Electricity Policy (NEP)

- Mandatory Reliability Authority
- Federal Siting Authority for Transmission
- FERC Policy Authority over National Transmission Grid
- Expand Deregulation-Repeal of PUHCA
- Support Renewables, but not a Portfolio Standard
- Diversity Policy – more Coal and Nuclear
- Minimal Commitment to Policy Changes to Support Distributed Generation
Regional Politics Drive Electricity Policy

- Fallout from California Crisis affecting Western States
- NW and SE - Low Cost Regions and Public Power Oppose Federal Policies
- NE and MW – support federal policies on transmission
- White House Agrees to Limit FERC Authority over transmission policy in order to pass an Energy Bill
Estimated Average Revenue per Kilowatthour for All Sectors at Electric Utilities by State, 2000

Source: Energy Information Administration
Source of additional friction with respect to federal policy changes

<table>
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<th>Publicly Owned (Munis)</th>
<th>Investor Owned (IOU’s)</th>
<th>Cooperative</th>
<th>Federal</th>
<th>Total</th>
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<td>2009</td>
<td>240</td>
<td>894</td>
<td>9</td>
<td>3152</td>
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Source: Energy Information Administration
FERC WHITE PAPER ON TRANSMISSION POLICY

OUT:  Standard Market Design (SMD)
IN:  White Paper/ Wholesale Market Platform – But uncertain future due to limitation on FERC authority in energy bill through 2006

Organizational framework:  Utilities required to join RTO’s, but not required to turn over facilities to an independent transmission operating company.  FERC ensures RTO’s are independent and have authority to operate transmission lines

Rates and Access to the Grid:  FERC guarantees all parties comparable terms of access. States retain jurisdiction over bundled transmission rates for local retail customers. Involves States in determining rates to pay for expansions and upgrades to the grid.
Market Power: RTO’s would have independent market monitors and tariff rules to address market power.

Smooth, cost-effective transition: Phased-in with only cost effective features included.

Expansion Planning and Reliability: RTO’s responsible for short-term reliability and for regional expansion planning, RTO’s try to arrange for necessary transmission expansions, additions, and upgrades to ensure reliability, but cannot order construction.

Resource Adequacy: Clarifies States are responsible for resource adequacy - generation, transmission, energy efficiency and demand response solutions.
Gas Costs Remain Paramount Concern of Industry
Comparison of World Natural Gas Costs

Where will U.S. manufacturing go?

Source: Dow Chemical Corp.
Status of Policies and Disposition of Major Energy Issues

Oil and Gas Supply

Energy Bill: ANWR - no, Alaska Gas – maybe
NPC Gas Study – Tight supplies, higher prices
LNG Expansion – Siting issues must be addressed at state and local levels

Electricity

Energy Bill - Reliability-yes, PUHCA repeal-yes, federal authority - loser
Net result is ongoing uncertainty
Diversity – Natural gas dominant despite supply concerns, minimal on renewables, coal supported by White House, but siting uncertain
Efficiency – Fails to move aggressively on CHP and District Heating and Cooling

Transportation and Fuels

Energy Bill - MTBE replaced with national ethanol mandate, incentives for hybrid vehicles
SUV's Rule – hydrogen/fuel cell distraction

Environment and Climate Change

Energy Bill – minor efficiency efforts, some tax incentives counterproductive especially for coal, New Source Review and other Clean Air Act rollbacks
Future of Clear Skies Initiative with or without CO2 is uncertain, Administration continues “study” of Climate Change
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Modified Energy Bill likely to pass in early 2004
Minimal change in oil and gas production policies
Mixed on federal electric transmission policy - ongoing uncertainty with jurisdictional conflicts
Continues bias toward central station power generation with expanded transmission grid
Price volatility continues
Support for coal with reduced environmental standards in 2003 - Skies remain hazy
Partisan chasm widens
Uneasy Relationship between FERC and State Regulators