



Heritage Foundation Energy Policy Discussion

David R. Hill
November 30th 2017





Diagnosing Today's Energy Markets



The Problems:

1. Benefits of Competition are Not Reaching Customers:

- ❑ Despite record low wholesale prices, consumers still see high retail bills.
- ❑ Monopolists are replacing market savings with new taxes & fees.

2. Market Rules are Falling Behind:

- ❑ New pricing tools are needed with cheap natural gas and more renewables.
- ❑ FERC has been slow to address the effects of state climate policies on wholesale markets.

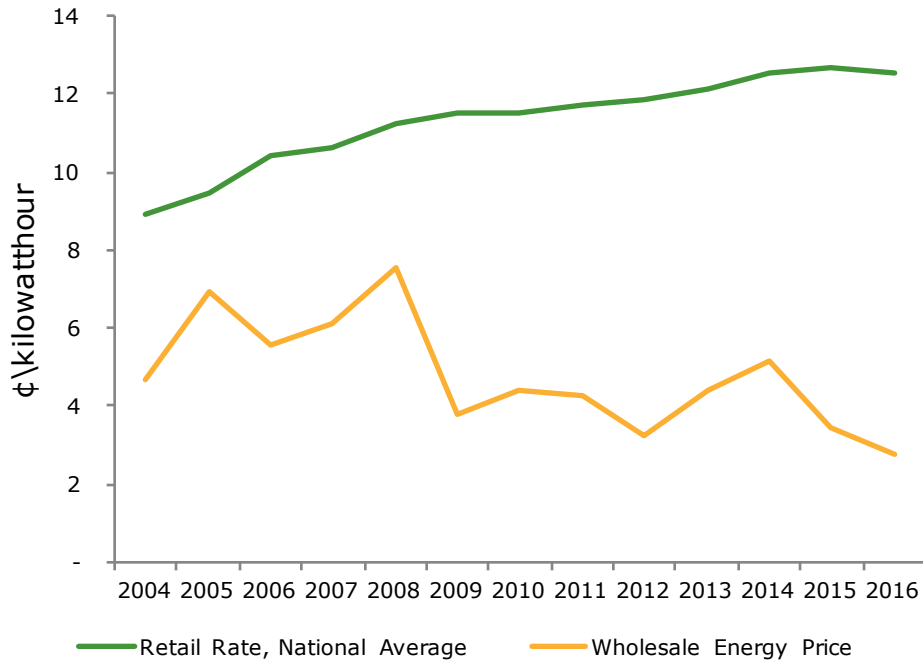
3. Politicians are Micro-managing Competitive Outcomes:

- ❑ Policymakers on the left don't trust markets to reduce carbon emissions.
- ❑ Policymakers on the right are being asked to bail out failing companies.

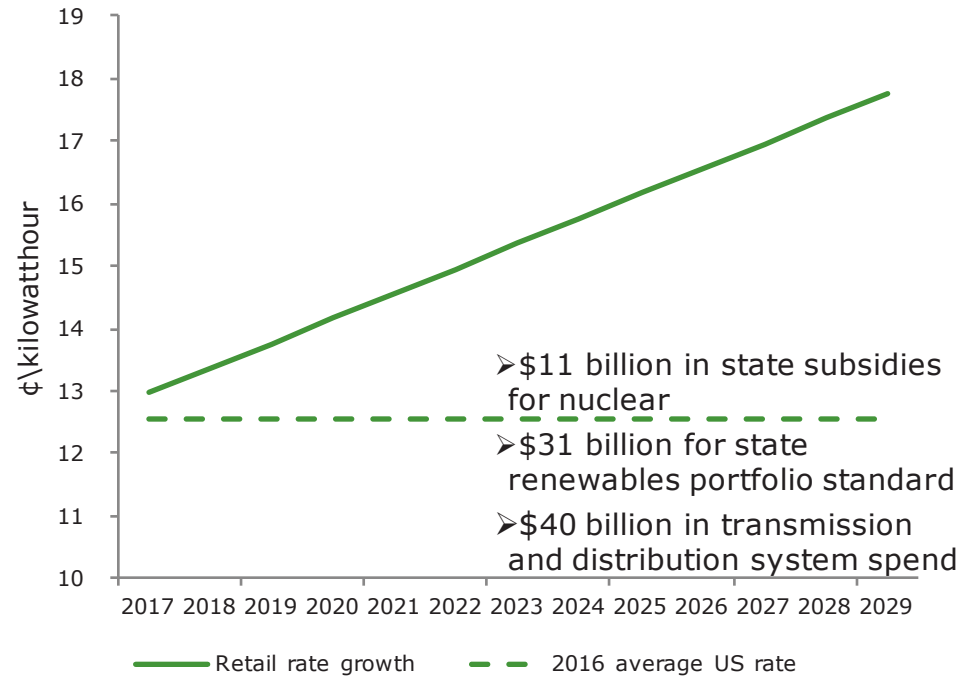


Benefits of Competition Not Reaching Consumers

Consumer retail electric rates increase while wholesale prices fall to record lows...



...with over \$80 Billion of additional non-competitive fees and taxes coming!



Data source: EIA, EEI, LBNL and NRG analysis





Competition Protects Consumers

TEXAS

- Market: **Competitive**
- Plant: South Texas Project
- NRC Approval: Sep. 2007
- Cost to date: **\$481 M**
- Outcome: **Cancelled in 2011**
- Consequences: **Shareholders**

GEORGIA

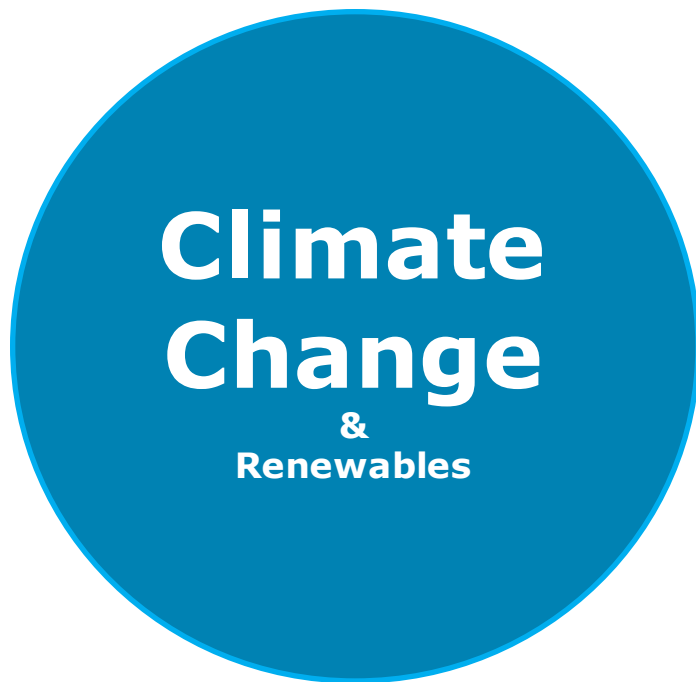
- Market: **Monopoly**
- Plant: Vogtle
- NRC Approval: Aug. 2009
- Cost to date: **\$16 B** (and counting)
- Outcome: **Ongoing**
- Consequences: **Consumers**

Natural Gas Price in Jan. 2008: **\$7.99** per MMBtu
Natural Gas Price now: **\$2.88** per MMBtu



Conservatives Need a Coherent Message

Liberal Energy Policy:



vs.

Conservative Energy Policy:





Fixing Today's Energy Markets



The Treatment:

Conservatives should adhere to three *competitive* principles:

1. Pricing should be competitive and fuel-neutral;
2. Markets should identify and price desirable attributes; and
3. Policies should be achieved via competitive wholesale markets.



FERC Role in Saving Electricity Markets

President Obama-era FERC did not prioritize competitive market outcomes:

- Refused to address generator bailouts – now including nuclear bailouts – that threaten competition;
- Failed to advance energy market improvements;
- Exempted renewables from rules that apply to everyone else; and

Each of these proceedings has a full administrative record and can be acted on ***immediately***.



Sitting at FERC since 2013

Sitting at FERC since 2014

**Currently being *defended* by FERC at D.C. Circuit!
(for the 2nd time)**

Just remanded to FERC from D.C. Circuit!



Our Recommendation on DOE Resiliency NOPR

1. Immediate Improvements to Capacity Markets

- ✓ FERC should take action in dockets pending for multiple years to apply price floor (known as the Minimum Offer Price Rule, or MOPR) to subsidized resources
- ✓ Eliminate special treatment for renewables in the New England capacity market and ensure they play by the same rules as every other resource.

2. Create a “Forward Resiliency Market” to procure qualified resiliency resources.

- ✓ Create a new reliability product to compensate companies providing firm fuel attributes

3. Allow all units needed for reliability to set wholesale energy market prices.

- ✓ Ensure that LMPs in each interval reflect the offer price of the most expensive resource dispatched by the ISO/RTO, at any output level, to reliably meet demand and reserves.

4. Longer-Term Solutions

- ✓ Ensure capacity market parameters include fuel security costs.
- ✓ Finalize Price Formation NOPRs.
- ✓ Improve scarcity pricing.