PUBLIC UTILITIES FORTNIGHTLY
"In the Public Interest"

Published on *Fortnightly* (https://www.fortnightly.com)

Conversation Cannot Be Markets vs. Non-Markets [1]

Deck:
Pendulum Swings Again

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PUF 2.0 - January 15, 2018 [2]

In the wake of the Department of Energy releasing its Staff Report on Electricity Markets and Reliability, followed by its Notice of Proposed Rulemaking directed at FERC, more than a few observers have questioned the motives driving DOE's agenda. Are the motives resiliency and security?

Maybe they include propping up the nuclear and coal industries? Or maybe they are just a perverse fascination with keeping the energy Twitterverse fully engaged?

Many of us seem to agree that some sort of market reform is necessary. But, in many ways, we are confronted with a market identity crisis concerning what exactly we are trying to achieve.

Leave it to the great electricity market philosopher Jon Bon Jovi to succinctly describe where we are with energy policy – the more things change, the more they stay the same.

History tells us that electricity, one of the most omnipresent commodities in the U.S., is and will continue to be inherently susceptible to political and social intervention. Let's recap some of that history.

In the midst of the Great Depression, electricity production was controlled for the most part by private utility companies. At the time, however, it was not uncommon for urban areas to be fully electrified, but for adjacent rural areas to be without power.

In response, President Franklin Roosevelt and the New Deal Democrats proposed large public works projects to employ millions of jobless Americans while simultaneously creating and modernizing critical infrastructure.

FDR promoted the concept of large, federally funded hydroelectric developments in several of the nation's river basins throughout the south and west to create jobs and mitigate the electricity divide between urban and rural communities. It also happened to be a popular idea among those in FDR's core political base.

U.S. energy policy in the 1970s and 1980s was the result of a number of cultural and political upheavals. The Three Mile Island nuclear incident, foreign oil embargoes, and growing support for environmental conservation reshaped the way electricity was produced and regulated. And in 1978, Congress opened the door to small, non-utility power producers with the passage of the Public Utilities Regulatory Policy Act.

Later, issues like the stagnant demand for electricity, cost overruns at merchant generation facilities, excess capacity, rising fuel costs, and new federal and state regulations for air and water quality presented stark challenges to regulators.

State and federal regulators sought to achieve a balance, providing affordable electricity to consumers while remaining sensitive to utility companies' bottom lines. This convergence of issues paved the way for a renaissance in utility integrated resource planning.

Integrated resource planning was, and remains, a viable way to reconcile the concerns of ratepayers, environmental groups, and industry stakeholders by allowing utility companies to develop a resource portfolio with their preferred mix of least-cost and sustainable resources.

The 1990s brought a fundamental restructuring of the energy industry, intended to deliver more efficiently priced electricity by paving the way for regional wholesale power markets.

While most low-cost states made the inherently political decision to retain vertically integrated utilities, political imperatives in higher cost states sought to place resource decisions in the hands of merchant generators, shifting risk from captive ratepayers to shareholders.

All of this created a marketplace for electricity that had been largely nonexistent throughout the 1970s and 1980s.

While open markets were the objective of the 1990s, the pendulum is swinging again, unsure of which direction to go. Electric markets are confronting the political realities of low gas prices, decreasing costs for utility-scale renewables, a fervent desire to create jobs and preserve a tax base with market subsidies for renewable and zero-emission power, and the effects of aggressive environmental regulations.

In that context, while it might seem we have come a long way since the New Deal and the Arab oil embargoes, current events are merely reinforcing the fact that social and political imperatives inherently animate the electric industry.

It appears we are now standing at another fork in the road. As we contemplate which way to go, perhaps we would benefit from deeper discussions about where we are heading, all the while not forgetting where we have been. Undoubtedly, politics have and will continue to have a profound influence on electricity policy.

Indeed, as FDR sagely noted, "In politics, nothing happens by accident; if it happens, you can bet it was planned that way." While accepting this fact, we should be clear that the country would do well to better define what it is we are trying to accomplish, and that the conversation cannot be "markets" versus "non-markets."

Rather, we need to have an honest conversation that involves confronting the reality that the electric markets of the 1990s are hardly – and never will be – the "open markets" we set out to create.

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