

RESOURCE SELECTION: COHERENT POLICY OBJECTIVES, FLIGHTS OF FANTASY, OR JUST SERVING SPECIAL INTERESTS?

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Historic Basis's for Resource Selection

1. Economics
2. Reliability of Supply
3. Social Benefits (e.g. Environmental, Local development/Employment)

Recent Trends in Resource Selection

1. Primacy of Economics
2. Pushback for Social Selection (e.g. Mandates, Subsidies)
3. Reliability – Administratively Covered – Politically Contested
4. Efforts to Internalize Social and Reliability into Economics (e.g. Carbon Tax / Caps)
5. Special Interest Pleading (e.g. Coal, Nuclear, Renewables, Natural Gas)

Impact of Recent Trends

1. Politicization of Energy Policy
2. Policy Coherence at Peril

Example 1: USDOE Efforts on “Grid Resilience”

1. Context: Adverse Economics for Coal (particularly Appalachian) and Nuclear
2. Social Objectives: Coal and Nuclear Jobs / Local Tax Revenues/ Private Interests
3. DOE Prefatory Study: Potential Plant Closings Posed Little or No Threat
4. DOE Effort Effectively Would Have Preempted Existing Resiliency Protections

Example 1: USDOE Efforts on “Grid Resilience” *continued*

5. Would Have Imposed Resource Portfolio Otherwise Uneconomic
6. Would Have Socialized Market Risks
7. Might Have Achieved Social Objectives but at:
 - a) Asymmetrical Cost Allocation
 - b) Price Distortions
 - c) Market Disruptions
 - d) Political Manipulation of Market

Example 2: California and Rooftop Solar (Net Metering and Mandate on New Construction)

1. Context: State's Aggressive RPS and Carbon Emissions Reduction Agenda
2. Social Objectives: Emissions Reductions / More Renewables / Private Interests
3. Objectives Not Fully Reconcilable / Potentially in Conflict
4. Distorts Market Prices in CAISO / Reduces Price Discipline in RPS

Example 2: California and Rooftop Solar (Net Metering and Mandate on New Construction) *continued*

5. Ignores System Costs (T&D Grids) and Duck Curve
6. Social Objectives Not Necessarily Achieved Because:
 - a) Promotes High Cost / Non-Direct / Less Certain Response to Emissions Reduction
 - b) Resources Not Matched to Demand Characteristics
 - c) Lack of Incentives for Productivity and Reliability

Example 2: California and Rooftop Solar (Net Metering and Mandate on New Construction) *continued*

7. To Extent Social Objectives Are Met, there are the Following Costs:
 - a) Socially Regressive Effect
 - b) Perpetuates Subsidies Over Discipline of Market Prices
 - c) Provides Cheap (Perhaps Negative Priced) Off Peak Supply to Neighboring States
 - d) Minimal regard for Impact on Grid (PUC Report) or Dispatch
 - e) Prioritizing Non-Dispatchable, Intermittent, Less Certain Resources
 - f) Driving Down Prices in Emissions trading Market
 - g) Driving Up Costs of Housing
 - h) Incentives for Uneconomic Bypass
 - i) Promo

Conclusions

1. Economics Cannot Be Ignored
2. Internalizing Social Objectives Is Critical
3. Make Decisions Holistically / Avoid Unintended Adverse Consequences
4. Minimize Price and Market Distortions
5. Be Conscious of Incentives Provided