



# Heritage Foundation Energy Policy Discussion

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# 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.

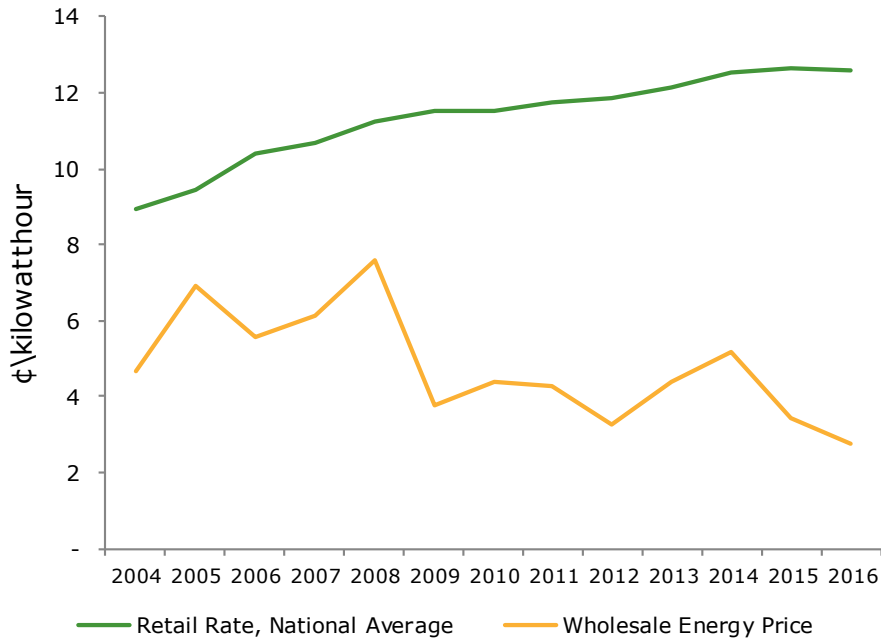
### 3. Politicians are Micro-managing Competitive Outcomes:

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

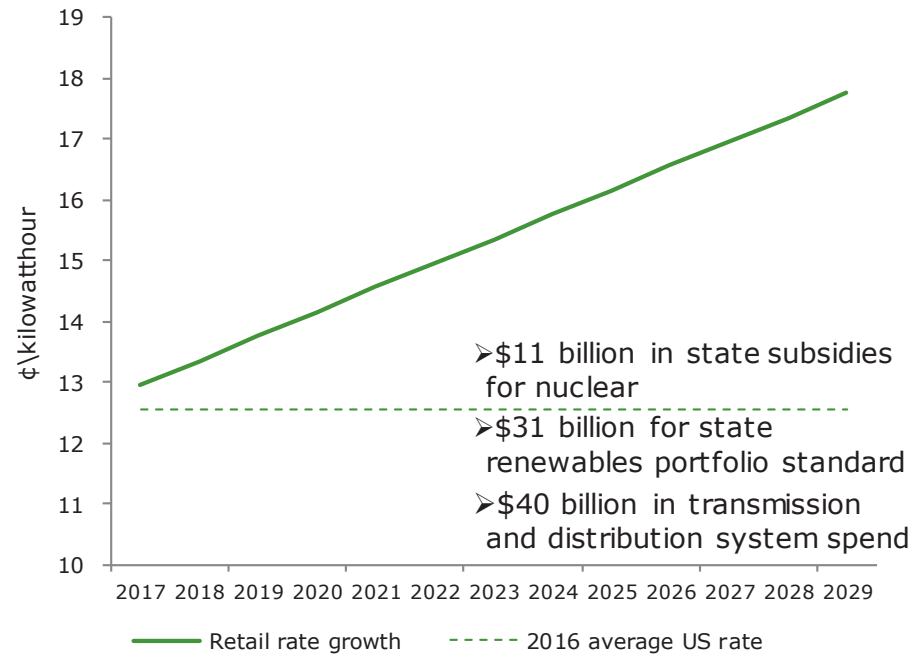


# Benefits of Competition Not Reaching Consumers

**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

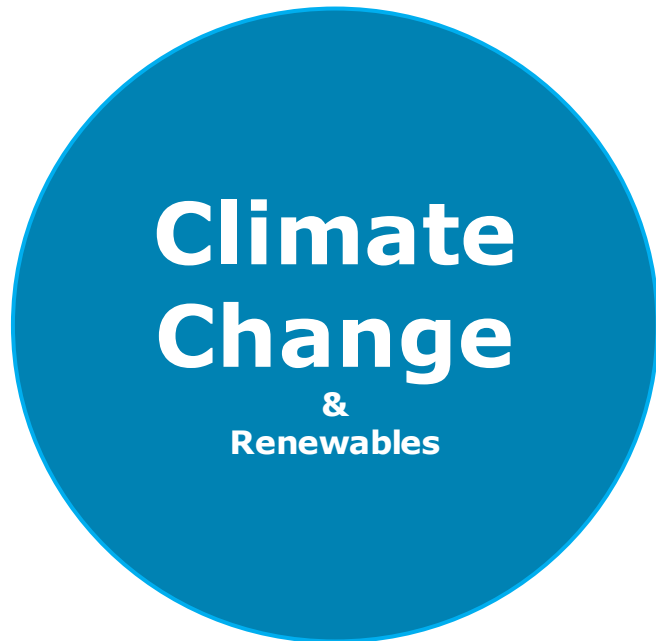
- Market: **Monopoly**
- Plant: Vogtle
- NRC Approval: Aug. 2009
- Cost to date: **\$16 B** (and counting)
- Outcome: **Ongoing**
- Consequences: **Consumers**

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



**Sitting at FERC since 2013**

**Sitting at FERC since 2014**

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

**Just remanded to FERC from D.C. Circuit!**

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



# Our Recommendation on DOE Resiliency NOPR

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## 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.