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.

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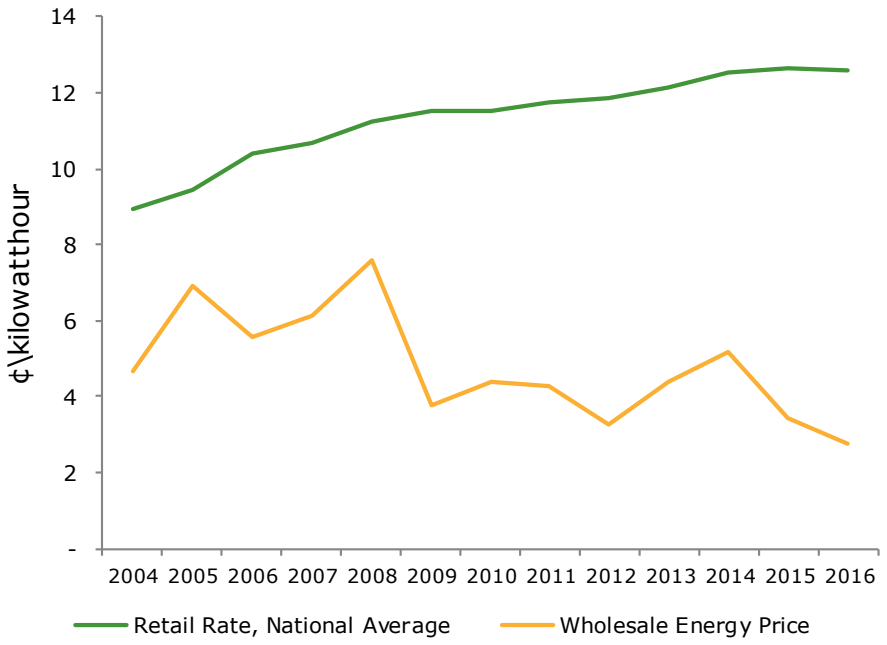
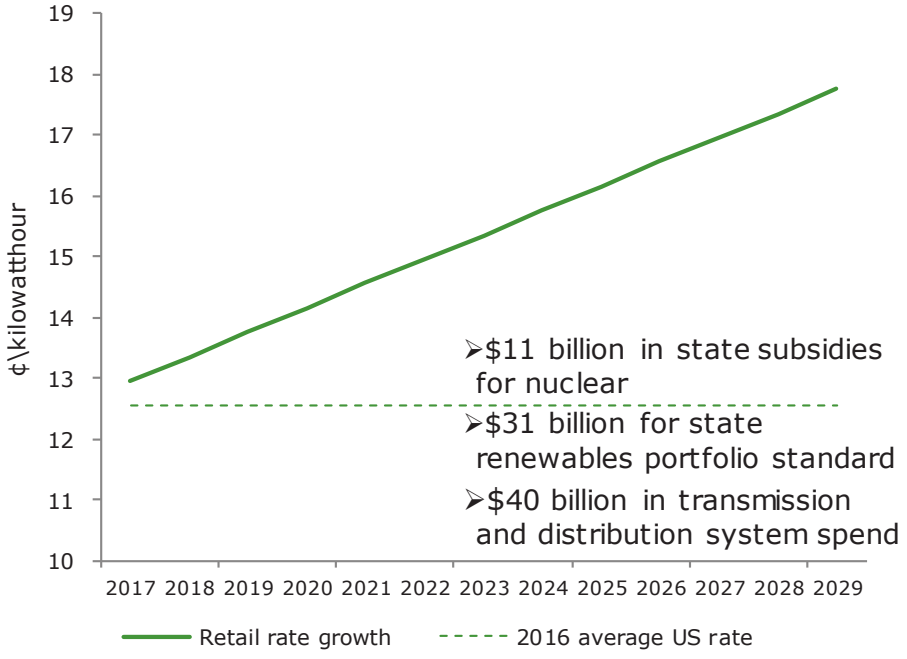
Benefits of Competition Not Reaching Consumers

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



…with over $80 Billion of <u>additional</u> non-competitive fees and taxes coming!



Data source: EIA, EEI, LBNL and NRG analysis

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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

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Conservatives Need a Coherent Message

Liberal Energy Policy:

Climate Change
&
Renewables

vs.

Conservative Energy Policy:

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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.

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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 2nd time)

Just remanded to FERC from D.C. Circuit!

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

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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.

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