

United States Energy Association – January 21, 2015 – 20 minutes

“Reconciling Conflicting Policy Requirements”

Good afternoon. You’ve heard from a lot of distinguished folks already today, so I’ll be brief, but pointed, in my remarks.

I am proud to represent the nation’s rural electric cooperatives.

Co-ops are consumer-owned, consumer-governed electric utilities. They’ve had a straightforward mission for over 70 years: to provide their members with safe and reliable electric service at affordable rates.

In the 1930s and 40s, cooperatives brought power to the 90% of rural communities which had no electricity at the time. And with electricity came clean water, light, heat, refrigeration, irrigation, and farm automation. The expected life span for farm families improved. Farm productivity increased. Exports began to rise. And when America exports agriculture, farm income goes up, which benefits entire rural communities.

Electrification transformed the rural American economy.

So what is the role of the electric cooperative today?

They’re bringing cutting edge technologies to their members – on grids large and small, in renewable energy sources, for demand response and efficiency. They’re just as responsive to the member in a suburban neighborhood as they are to the member at the end of the line in the country. Cooperatives power oil fields and data centers; state-of-the-art hospitals and schools; manufacturers, tech companies and telecommuters.

Electricity is still essential to the economy, and electric cooperatives are keeping their members competitive.

Coops optimize a portfolio of energy investments for their members. They combine generation, transmission, distribution, distributed-energy resources, communications, and automation.

And investments in the electric grid are more important than ever. Each utility has an optimal level of investment for each technology or resource. Rooftop solar, natural gas combined cycle generation, distribution automation or new high-voltage transmission: each cooperative must respond to the conditions in the communities – the economies – they serve.

And there is immense diversity in those communities. Cooperatives cover 75 percent of the land area in the U.S. and serve 42 million consumers. They maintain roughly half of the distribution infrastructure in the nation.

Our electric grid has been described as the biggest, most complex machine in the world. Every element of the grid affects and is affected by every other, electrically and financially.

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Investment in large generation without a corresponding investment in transmission can undermine reliability and increase prices. Investment in intermittent generation without a corresponding investment in flexible, dispatchable generation can have the same effect. And depending on how they are planned and managed, investments in distributed-energy resources can either enhance the efficiency of the grid – or undermine reliability and increase prices as well.

Given this complexity, it is unfortunate that politics makes it difficult for policy decisions to be made in the same way as a utility's investment decisions.

Again and again, policymakers express support for individual technologies or policy goals in isolation. They don't have the information to consider the relationships between different elements of the electric utility system.

Rooftop solar, for example, holds tremendous promise... Many coops are working closely with their members who want rooftop solar. Yet the effort to balance that technology with other investments in the grid can be complicated by RPS solar set asides, net metering, feed-in tariffs, or other policies that promote rooftop solar. So, how do you find the "right" amount of solar?

As another example, large-scale wind generation is a good resource, and many cooperatives have significant investments in wind farms. But, how many policymakers are balancing the effect of the production tax credit and renewable portfolio standards with the “right” amount of wind generation given the limitations on our grid?

If policymakers adopt a renewable portfolio standard or a tax incentive, they should also consider the need for additional distribution “communications and control” technology, fast-ramping generation, and “wear and tear” on base-load.

And they MUST NOT – they MUST NOT – strand investments in low-carbon or carbon-free assets, like cleaner coal technologies or nuclear power plants.

When policymakers set mandates for solar or wind or any other resource, they owe it to their constituents to evaluate the effects of those requirements on each other and on the grid.

Distributed solar reduces the load on the utility’s system and can limit the revenue that utilities use to make other system investments.

Wind mandates increase the investment utilities must make – not only in the wind generation, but also in supplemental, flexible generation AND in transmission to preserve reliability.

Those conflicting requirements complicate efforts to provide safe, reliable, and affordable electricity.

Many electric cooperatives are solving that problem with careful analysis. They’ve worked to understand the incentives for renewable generation; their members are asking for more renewables; and they go into the market willing to make the necessary investments.

And the less uncertainty they suffer from unclear or constantly-changing policies, the more often they will make those investments.

The less conflict they encounter between the requirements of regulations and their reliability mission to consumers, the better decisions they will make.

So, since we are talking about conflicting requirements, I have to say a few words about EPA regulation...

In the Clean Power Plan, the EPA has expressed its expectation that utilities will be able to improve the heat rate of their coal generation by 6 percent. Putting aside some serious concerns with that number, this element of the CPP runs into direct conflict with several other EPA rules.

Here's one example: In some cases, the plant upgrades which EPA assumes utilities could make to achieve heat rate improvements run afoul of New Source Review requirements – forcing additional pollution controls. And the parasitic loads required by those controls would UNDO the heat rate improvements sought by the CPP.

And, at the same time we're working to evaluate the CPP, we must also respond to the EPA's cross-state rule, new Ozone NAAQS, and anticipated particulate matter NAAQS, all of which could require additional pollution controls whose parasitic loads would reduce the heat rate efficiency of existing coal generation, once again.

It's like loading the wagon down, and then whipping the horse to go faster.

No regulation, no matter how well-intentioned, works out in the real world the same way it works on paper.

Here's the bottom line: The EPA should not evaluate the achievability of each new environmental requirement in a vacuum. The EPA should not evaluate the cost to consumers and the economy of each new environmental requirement alone. The stakes are simply too high.

Instead, the EPA should look at the cumulative impact of its regulations on the entire resource portfolio. It should make decisions to optimize the environmental value of its efforts in an achievable manner – consistent with safety, reliability, and affordability.

If we can help policymakers understand the relationship between different resources on the grid AND the risk to the grid from unachievable policies, it will be

far easier to manage portfolios that meet regulatory requirements AND optimize available resources.

I hope we can bring these issues into balance: Policies which set a positive direction for the future of energy generation AND preserve the industry's mission of safety, reliability and affordability.

Those are investments electric cooperatives are willing to make – eager to partner in – and excited to model. And they are engaging with policymakers at the local, state and federal levels.

The benefits of this approach is are clear – a smaller environmental footprint, enhanced reliability, and lower costs.

Thank you.