Washington Examiner

Electricity boss doesn't buy Trump's coal bailout

By John Siciliano

September 11, 2018 - 12:00 AM

John Hughes, the president and CEO of the Electricity Consumers Resource Council, has represented large, industrial users of energy in Washington for more than 30 years. He is retiring from that role at the end of the year and has chosen Devin Hartman from the free-market R Street Institute to lead the trade group. Hughes is steeped in the ins-and-out of dealing with the Federal Energy Regulatory Commission, the nation's electric grid regulator.

Electricity policy is sometimes arcane — some say by design. In the end, it all shows up in the bills each of us pays each month.

Washington Examiner: Can you you explain what the challenges have been in trying to convey what ELCON does in terms of electricity policy?

John Hughes: ELCON members typically consume the same amount of electricity around the clock. Twenty-four by seven. It's very flat. That doesn't deviate. Stores [or] residential customers do not consume electricity on a level-level basis. They consume very little power at night, and they consume a lot of power in the late afternoon, early evening, and they contribute to the peak load of the local utility; much more expensive to serve the evening peak than it is to serve a customer that has a flat load. And so as a result of that, our members on average pay a rate that's lower than what the average residential customer might pay. And the fact of the matter is, that is fair based on the cost that they incur. And so, communicating that is very important. And in places in the parts of the country where they skew the rates, you know where they say, "No, we're going to make large customers subsidize the smaller customers," it has the impact, economic impact, on our members that they will reduce their production in those levels, which means fewer jobs, and shift their manufacturing capacity [to other] parts of the country or the world where rates are fairer.

Washington Examiner: If manufacturers are leaving the U.S. because of skewed rates, is it happening more often or with more frequency, or, as the Trump administration likes to tout, are manufacturers coming back? But from your perspective, what is exactly happening?

Hughes: They are coming back, and they've started to come back before Trump got in the White House. So, he's not really a factor here. What's happening is that the production overseas that took advantage of a lower-cost natural gas is coming back here to take advantage of fracking gas. A whole series of mostly petrochemical, chemical, oil refining processes are being built right now to take advantage of that lower-cost natural gas. But they're also being located in states that have more fair rate policies. So you won't see any of these facilities being built in places like Massachusetts or California. They're being built in Louisiana, Texas, Oklahoma, and parts of the South.

Washington Examiner: Are they attracted to places like Louisiana as compared to California because of the rate structures there? Or is it because of the proximity to the resource?

Hughes: It's a combination of factors.

Washington Examiner: Can you explain that a little bit? Are companies finding it more favorable to operate in the federally overseen PJM market, as opposed to the regulated markets in the Southeast?

Hughes: Well, what's happened with the ISOs [independent system operators] and RTOs [regional transmission operators], these are the independent grid operators that cover roughly half the United States, is that they've become more successful and attractive to consumers of any size, because they quickly pass through lower-cost generation. And right now, that's coming from natural gas-fired generation, as well as wind and solar. And so, companies that are outside ISOs and RTOs are somewhat envious of their competitors that may take advantage of the lower cost power that's being produced by PJM, the Midcontinental ISO, and others. And now Louisiana is in MISO.

Washington Examiner: So, MISO is expanding. What does that mean exactly? That they're getting more customers? People are seeing the benefits of getting into an ISO-RTO market as compared to a regulated market?

Hughes: Well, there's a lot of policy objectives in play, both from the Left and the Right of the political spectrum, and obviously the more conservative-oriented people see the ISOs and RTOs as the mechanism by which more competitive, lower-cost fuels come in play and a market operation that they support. People on the Left, the green community, they see ISOs and RTOs as a mechanism for integrating renewable energy resources. Different stakeholder groups see different values coming from the ISOs and RTOs. The area outside the ISOs and RTOs, to some extent right now, are stagnating because they can't take advantage of the low-cost natural gas as quickly as customers in the ISOs and RTOs can and because it's a slower regulatory process. But even companies like Southern Company, which dominates the Deep South in multiple states, they've reduced their reliance on coal and nuclear generation rather substantially in the last 10 years and they're becoming a huge consumer of natural gas. But it takes time to build natural gas-fired generation, but that's happening. So, they're adjusting. To some extent the markets do work even outside of ISOs and RTOs.

Washington Examiner: What do you mean by that exactly?

Hughes: To the extent that market forces deliver benefits, politically, the state commissions will be under pressure. "Why aren't you encouraging the utilities to use lower-cost resources?" And so that's what's happening.

Washington Exam: You've taken some oppositional stances to the Trump administration as part of a major coalition opposing the coal bailout idea. How's that going?

Hughes: I think Trump, if nothing else, he's stubborn. I don't think he's going to give up on this issue. Just like he doesn't seem to give up on having a wall between the United States and Mexico. To him, it was a campaign promise that he wants to deliver on. But I think that the administration, primarily [Department of Energy], to the extent that the National Security Council is involved in this, they're struggling to come up with a funding mechanism that will survive the legal challenge. It's widely recognized that any funding mechanism is going to have to be approved by FERC [the Federal Energy Regulatory Commission], and there's a century of case law that's going to restrict what FERC can and can't do in doing this. And there are also some concerns that their efforts to kind of interpret old laws and their emergency power is that would give them the right to go to FERC and ask for a funding mechanism may not also survive FERC challenge. It's interesting, I think it was yesterday, the Heritage Foundation came out with a report on this and they pointed out a long list of flaws in the thinking of the administration and trying to do this. Our position is as simple. These are old, expensive power plants that need to be retired. And there's no viable reason to sustain them. And the claim that "we're trying to save the jobs at those plants or in those regions" flies in the face of the fact that what you're doing by keeping these plants online artificially is harming jobs elsewhere. And so it's not a net job builder. At best, it's a wash. The jobs you're going to preserve are lost somewhere else. And so that's our concern right now. We need to make the case that for all kinds of good economic and social policy reasons, these plants should be retired and allowed to retire.

Washington Examiner: Is it also an issue that it could drive up electricity costs keeping these online?

Hughes: Oh, yes. Really, it depends on how the funding mechanism is. And thought has been given, I'm sure, about taxpayers paying it, rather than the electric rate payers. And how that would be done, I don't know. But the fact there's no real proposal on the table, right now, means that they're struggling very much to kind of come up with some sort of magic wand that will let them accomplish what they're trying to do.

Washington Examiner: Is there any viable way they could do that? Subsidize coal plants without there being somebody paying for it, either taxpayer or ratepayer or commercial interests, like people you represent?

John Hughes: There's no way. That money's gotta come from somebody's pocket. And ultimately it's ours. It's either through our electric bill or April 15th when we pay our taxes.

Washington Examiner: When are you retiring?

John Hughes: End of the year.

Washington Examiner: In the last 20 years or so — and there's been a lot going on in that time — what do you think is your biggest success? And what are you leaving for Devin to take the reins on? [Devin Hartman of the R Street Institute will be taking over as president and CEO.]

Hughes: Well, I think I'll answer the last question first. So, what I want Devin to do is to tackle the issue of capacity constructs. Most of the ISOs and RTOs have some sort of capacity market, and we believe that it's phony. It's an administrative appendage to the market that dilutes the value of having a market. And so some sort of intellectual honesty has to be brought to bear on the regulations that have created those. So, I think that'll be one of Devin's biggest priorities. In recent years, I think a big success we've had is educating the commissioners and senior commission staff on the unique features of a large manufacturer. And so, we've had some great success in educating both NERC [North American Electric Reliability Corp.] and FERC staff and FERC commissioners.

Washington Examiner: The NERC standards, they also have a hefty price tag if you don't meet the reliability requirements, right?

Hughes: Sure. It can be a million dollars a day per penalty. They're tough. But we've gotten good credibility with the NERC board and NERC senior staff.

Washington Examiner: By consumers you also mean trickling down to the residential and homeowners?

Hughes: The fun part of my job is that I'm always convinced that anytime we do good for our members, it trickles to other consumers as well.

Washington Examiner: Is that one of the reasons you want Devin to take on the capacity markets because, in a way, they are just a windfall for merchant utilities?

Hughes: The way I characterize these capacity markets, it's just the big ATM machine. You just go there, put your card in there, and take money out. You don't have to provide anything for it. I mean, ERCOT [in Texas], which is not FERC jurisdiction, does not have the capacity, and their market has worked out very well.

Washington Examiner: Do you see that changing? After all, the utility of the future is supposed to be this value-added service that benefits consumers.

Hughes: I wish I could be more optimistic about that, but there is a thing called regulatory-scope creep, and that will seem to defy all kinds of logic and may be with us forever. I wish it wasn't, but I think the future means more complicated regulatory mechanisms and then probably not the reverse.

Washington Examiner: Do you see anything at FERC kind of benefiting consumers?

Hughes: Well, I'll bring up another issue that is very much a concern of consumers that had worked at FERC. One of them is taxes. I think FERC was very quick to act on passing through the savings from the lower tax rates to customers. That was a big one. And the other one is a return on equity for transmission investments. Utilities that were building new transmission lines were getting like 14 percent rate of return on that. Where could you be 14 percent on some kind of investment? I mean, that was to us actually criminal that FERC would allow that. But they've been slowly bringing them down. In recent cases, rates as low as 10 percent, which I still think it's too high, but that's still a big drop from 14.

Washington Examiner: I remember under a Chairman Jon Wellinghoff, ELCON was pushing for the demand response rule. Is that still a benefit to energy consumers? I mean, it survived multiple court challenges and I believe went to the Supreme Court, as I recall.

Hughes: It was a hot issue 10 years ago when gas prices were $15. And so, it's cooled off since then because the marginal rates, the marginal cost of generation, is now so low. But it's still in play. I don't know the results from the summer, but I'll bet it used an awful lot during this current heatwave.

Washington Examiner: That sounds like a great policy for Massachusetts or the Northeast.

Hughes: I hope so. I'm familiar with that area. I worked on energy issues there for a long time [at the] Massachusetts Energy Facility Siting Council.

Washington Examiner: So, it sounds like Massachusetts was going to rely on nuclear more, but it didn't pan out?

Hughes: To be honest, when I was a teenager, I wanted to be a nuclear physicist. Totally loved the whole idea of nuclear power, the power plant, and every chance I had, I would visit the nuclear plants. I grew up in Chicago, and Illinois hasn't had a lot of nuclear plants. I have no natural aversion to nuclear, but over a year ago, I testified before Congress telling Congress they should reconsider their policy to keep throwing good money at bad nuclear plants that will never be built. The debacle that's going on in Georgia and South Carolina right now could have been predicted. And there are enormous mistakes. My members believed that the utility business model in the United States is incapable of managing a complex project like that. Whatever the merits of the technology. And I think it was a lot of merit to it. They just can't do it. You're putting up the technology in the wrong hands.

Washington Examiner: Is there a problem for the people you represent in having nuclear plants close?

Hughes: Well, yes and no. You got to remember, there are a lot of nuclear plants out there that are working, right now, providing relatively cheap power. Now having said that, during the restructuring era 20 years ago, many of them were allowed stranded cost recovery, and so the companies, so the owners, were reimbursed for their costs for the plants. Once that was done, they're fairly reliable suppliers of power into the grid, which benefits my members. But it's on a case-by-case basis. The ones that are being retired are typically the older ones, they're smaller, they are single units. You get better economies by having two or more units at the same nuclear site. And those are the ones that are remaining, for the most part, economically viable.

Washington Examiner: What about in the Southeast? I mean, with all the problems they're having with the Westinghouse plants?

Hughes: It's going to be an ugly debate in the next few years about how those costs could ultimately get recovered. But the consumers in the Southeast, they are benefiting from the fact that utilities down there are moving to natural gas, tapping into Marcellus, or whatever they can get. That's the bright side of what's going on down there.

Washington Examiner: Even making coal clean at the Kemper plant that Southern Company is building.

Hughes: That's the same issue. It's too complicated for the utility. That technology, by the way, one of my member's champions. They use gasification. So, we visited one of their facilities in Florida that was used by Florida utility.

Washington Examiner: What about renewables? How is that panning out for consumers?

Hughes: You can't ignore the fact that the subsidies, production tax credit that Congress allows for wind, and the investment tax credit that it allows for solar, that's pushing a lot of that onto the grid, and the average costs are coming down and rather rapidly. That, combined with natural gas power generation, creates almost what one might want to call a windfall for any consumer. I just got my electric bill yesterday from Pepco, I'm still flabbergasted by what it is going through the hot summer that it was. I'm only paying a couple of cents per kilowatt hour for energy, my bill. And that hasn't happened in a long time.

Washington Examiner: It's not just renewables, but renewables combined with natural gas?

Hughes: Our members are looking at these technologies closely for their own use, and two of my members have the own wind farms. One of them, the farm is directly connected to an oil refinery. They won't tell me the economics of the situation, but I know at least what they're doing is investigating the merits of this technology.

Washington Examiner - https://www.washingtonexaminer.com/policy/energy/electricity-boss-doesnt-buy-trumps-coal-bailout