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August 23, 2000

MEMORANDUM TO THE VICE PRESIDENT

FROM: DAVID BEIER AND MELISSA GOLDSTEIN

SUBJECT: FERC Investigation of California Electricity Markets

The Federal Energy Regulatory Commission (FERC) today ordered a formal investigation of the electric rates and structure of California's Independent System Operator (ISO) and power exchange (PX) as well as market-based sellers in California. The investigation will focus not only on public utility sellers' rates but also on the tariffs and agreements of the ISO and PX to determine whether market rules need to be modified. The order directs staff to focus its investigation as soon as possible on California and the Western region and launches a separate formal Commission investigation in California.

The formal investigation will allow accelerated process when Commission staff concludes a nationwide fact-finding probe of electric markets and recent price spikes that was initiated in late July (to determine if the electricity markets are operating efficiently as the industry transitions to a more competitive marketplace. The findings of the national probe will be presented to the Commission, which will then decide on any formal action. The formal investigation will permit the Commission to take remedial action if rates are found to be not "just and reasonable."

San Diego Gas & Electric Company (SDG&E) filed a claim with FERC last month, requesting that the Commission limit excessive rates in the California wholesale market. According to FERC Chairman James Hoecker, the Commission took such action three weeks ago. Hoecker also claims that he directed the Commission's staff two weeks ago to accelerate the California portion of its national market investigation. The Chairman also anticipates that at least one hearing pursuant to today's order will be held in San Diego.

FERC's order today responds to the issues raised in California Governor Gray Davis's August 10, 2000 letter to the President. FERC has both accelerated its investigation of wholesale energy prices in California and launched a formal investigation into the state's electricity markets that will allow for the investigation and related proceedings to be conducted on a formal evidentiary basis. In this vein, FERC's order also responds to the requests by the Governor and Congressman Filner that you urge the Commission to accelerate its investigation. Notably, the formal investigation also permits the Commission to take remedial action if rates are found to be not "just and reasonable."

However, FERC's order **denied** SDG&E's request for an immediate broad $250 per MWh price cap on all sellers in California. According to the Commission, SDG&E did not present evidence that all potential sellers in the state have market power, nor did the utility show why a broad price cap would be an appropriate response.

Although today's order finds that immediate seller price caps were not justified on the existing record, the order does not disturb the California ISO's recent decision to set its maximum purchase price cap for imbalance energy and ancillary services at $250 per MWh. The ISO's actions to change purchase price caps were sustained in an order issued by the Commission three weeks ago, and will mitigate pricing volatility and serve to discipline prices in both the ISO and the PX.

President Clinton: Taking Action To Help California With High Electricity Prices

August 23, 2000

President Clinton today directed Federal agencies to provide assistance to low income households and small businesses in Southern California. The wholesale price of electricity has risen steeply in parts of the country this summer, hitting California's low-income households and small businesses particularly hard. California's hot weather, its limited generation and transmission capacity, and growing demand have combined to significantly increase the price of electricity. Higher prices have been passed on to retail consumers, including low-income households and small businesses, in certain parts of California where the retail price of electricity is unregulated because of requirements established by the state's electricity restructuring legislation. Earlier this week, the California Public Utilities Commission took steps to ease the burden on these consumers by adopting a plan to stabilize their electricity bills.

PRESIDENT CLINTON TODAY ANNOUNCED SEVERAL STEPS TO HELP CALIFORNIA RESPOND TO HIGH ELECTRICITY PRICES:

- Secretary of Energy Bill Richardson today requested that the Federal Energy Regulatory Commission expedite its national investigation of the operation of bulk power markets so that state and Federal regulators and policymakers can have the information they need to protect consumers in a timely fashion.

- President Clinton today directed the Department of Health and Human Services to release $2.6 million in Low Income Home Energy Assistance Program (LIHEAP) emergency funds for low-income households in Southern California. This release doubles the funds that the affected region in Southern California currently receives under the LIHEAP program, helping low-income Californians who have faced substantially higher electricity rates this summer.

- President Clinton also directed the Small Business Administration to urge its lending partners in Southern California to use SBA credit programs, particularly the 7(a) program, and technical assistance to help small businesses in San Diego and Orange Counties hurt by high electricity prices. SBA's existing range of loan programs is flexible enough to help businesses whose costs have increased because of high electricity bills.

PRESIDENT CLINTON ONCE AGAIN CALLED ON CONGRESS TO PASS COMPREHENSIVE ELECTRICITY RESTRUCTURING LEGISLATION: The President urged Congress to work with the Department of Energy and other Federal agencies to enact comprehensive electricity restructuring legislation, which can promote greater investment in generation and transmission facilities and enhance regional planning, reliability and the efficiency of the interstate transmission grid, each of which is needed to ensure the availability of affordable and environmentally responsible electricity to power America into the 21st century.

TODAY'S ACTION BUILDS ON EFFORTS ANNOUNCED BY THE PRESIDENT EARLIER THIS MONTH TO HELP CALIFORNIA MEET ITS ELECTRICITY NEEDS THIS SUMMER. Earlier this month, in order to help reduce the risk of power outages as a result of electricity shortages in

California, the President directed that managers of all Federal buildings in California take steps to reduce consumption of power to the maximum extent practicable consistent with the health and welfare of employees, and that Federal agencies coordinate with other state and local government agencies to minimize the use of electricity in all government buildings in California. President Clinton also directed earlier this month that all federal agencies take steps to help California maximize available electricity. The Federal government is one of the largest electricity consumers in California representing approximately 2% of all electricity use.

# # #

DRAFT PRESS RELEASE FROM DOE

President Clinton today directed the Department of Health and Human Services to release \$2.6 million in Low Income Home Energy Assistance Program (LIHEAP) emergency funds for low-income households in California that have faced unusually high electricity prices this summer.

Residential electricity prices have nearly doubled from last summer in San Diego and parts of Orange County in Southern California. These price increases especially have created a hardship for low-income households, making it difficult for them to pay the costs of staying cool during the hot summer months. Today's release to California approximately doubles the amount that the affected area usually receives under the LIHEAP program.

LIHEAP helps eligible families pay the costs of cooling their homes in the summer, and heating and insulating their homes in the winter. This is the second release of LIHEAP emergency funds made available under the FY 2000 Emergency Supplemental Act. The Emergency Supplemental Act replenished the emergency fund which had been exhausted in response to oil price increases this past winter. On July 25th, the President directed the Department of Health and Human Services to release \$41.8 million in emergency LIHEAP funds for low-income households in eight Southern states experiencing extremely hot weather conditions, and low-income households in Alaska facing unusually high heating costs in light of the recent fisheries disaster.

DRAFT FROM DOE

Q: What were the criteria for the release of emergency funds to California?

A: The Administration bases its LIHEAP emergency releases on energy costs which are affected by fuel prices and weather conditions. Residential electricity prices in San Diego and parts of Orange County in Southern California have nearly doubled from last summer. These price increases especially have created a hardship for low-income households, making it difficult for them to pay the costs of staying cool during the hot summer months. Today's release to California approximately doubles the amount that the affected area usually receives under the LIHEAP program.

Q: Will you be releasing any more emergency LIHEAP funds this summer?

A: The Administration continuously evaluates the need for emergency LIHEAP funds in all the States on the basis of fuel prices and temperature data. On July 25th, the Administration released $41.8 million for low-income households in eight states experiencing extremely hot weather conditions, and low-income households in Alaska facing unusually high heating costs in light of the recent fisheries disaster. We will continue to monitor temperature data and fuel prices, including electricity, in all of the States to assess the need for additional emergency LIHEAP assistance.

Q: Are other parts of the county experiencing electricity price increases at this time?

A: The best information available to the Administration at this time indicates that San Diego and adjacent parts of Orange County in Southern California have been most severely impacted by increases in residential electricity prices. Press reports indicate that the New York City metropolitan area has also experienced increases in residential rates, but these increases have not been as severe as in San Diego. We will continue to monitor electricity prices throughout the country to determine whether another LIHEAP release is warranted.

8/11/2000 FROM EPA

Background:
Today, EPA took action to help California meet its electricity needs this summer. In response to the President's directive calling on federal agencies to help California during this crisis, the Agency temporarily modified guidance to allow the use of emergency backup generators in certain circumstances to help avoid blackouts.

In a letter to the California Independent System Operator, EPA authorized the use of emergency backup generators during power shortage emergencies, defined as situations when system-wide available power reserves are 2 percent or less. EPA's earlier guidance prohibited operation of emergency backup generators until after power was actually interrupted.

Talking Points:
1)In response to a directive from President Clinton calling on federal agencies to help California during the crisis, this new guidance authorizes the use of emergency backup generators during power shortage emergencies.

2)The use of emergency generators will be authorized only when blackouts are imminent in order to limit air pollution and minimize potential public health effects.

3)EPA will continue to work with local and state officials to ensure that the energy needs of Californians are met and public health is protected.

WSJ Aug 3 A2

California Beset by Electricity Shortages

Deregulated Markets Fear State May Be Bellwether; Rolling Blackouts Likely

By REBECCA SMITH
Staff Reporter of THE WALL STREET JOURNAL

California, which led the nation in a rush to deregulate retail electric markets, is now facing an energy crisis made worse by a regulatory chaos.

As triple-digit temperatures boosted electricity demand throughout California for the fourth straight day, power reserves slipped perilously low. California's grid operator prepared to cut off electricity to hundreds of thousands of residents in rolling blackouts designed to prevent a broader collapse of the state's overstressed electric system.

The organization responsible for maintaining electric-system reliability, the California Independent System Operator, said it feared it would be 3,000 megawatts short of the power needed to satisfy near-record demand.

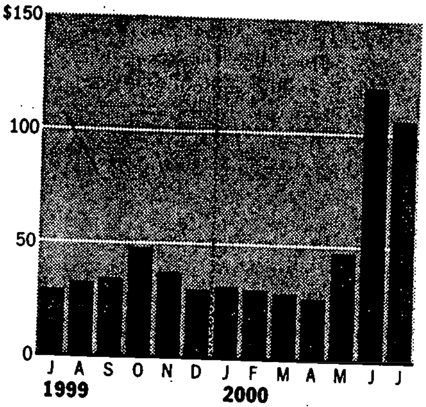
Outside California, officials are wondering if the state is a bellwether for what they soon may face in their deregulated markets. Utilities in many states quit building power plants years ago. While there were power surpluses initially, a decade of economic growth has eaten through reserves. And with wholesale electricity price caps at $1,000 per megawatt hour in the Northeast and mid-Atlantic states, there is the potential for even higher spikes than in California. (In an effort to put the brakes on volatility, the state this summer twice lowered its caps, down to $250 this week.)

For now, utility customers in most deregulated states are protected from price swings because their utilities still have contracts to get power at fixed prices. But those pacts will begin expiring in many regions in 2002. That will put those customers in the same position of vulnerability to market swings as California is facing.

Businesses in California tried to help avoid a catastrophe by sending workers home early, changing production schedules and turning down air conditioners to cut demand. Even so, most were reeling from a realization that electricity no longer can be taken for granted and that the goals of deregulation—lower prices and greater competition—appear shockingly frustrated by actual events.

Golden State Price Surge

California's soaring energy prices as measured in dollars per megawatt-hour



Source: California Power Exchange

Reacting to spreading panic, Gov. Gray Davis ordered air-conditioning thermostats in state buildings turned up to 78 degrees and mandated other power-saving moves. He also gave state officials a new timetable that would speed up processing of applications for new power plants.

In the wake of unprecedented price volatility, no fewer than five state and federal agencies are investigating California's market to see if there has been collusion among power suppliers or other unethical activity aimed at jacking up prices. But officials with the California grid operator express frustration that so much brainpower is being applied to market analysis instead of implementing fixes.

"Their time would be better spent getting new generating plants and transmission lines built and by giving the market ways to stand up and say 'no' to high prices," said Terry Winter, chief executive of the state-sanctioned ISO.

California's crisis reflects several immense miscalculations. First, that California could rely indefinitely on surrounding states to meet its energy needs. In fact, neighboring states' power demands have been growing so fast that they have less and less surplus power to sell to California. Second, there was a dangerous assumption that demand would stay far beneath supply, even though the state hasn't added significantly to its power-plant capacity since the mid-1980s.

It is now clear that expectations for deregulation were so rosy that the state prepared no contingency plans as supplies grew tight and prices became more volatile. The state's policy was "crafted in a cauldron in which the free market was everything and there was nothing but low, low prices ahead," says Nettie Hoge, executive director of the Utility Reform Network, a San Francisco consumer group.

California observers say that officials at the Federal Energy Regulatory Commission, the agency charged with monitoring interstate energy markets, have fallen down on the job by dismissing price volatility as merely growing pains of a new market. "A 10 on the volume dial in California, only amounts to a two on the volume dial at FERC," said Frank Wolak, chairman of the California ISO's market-monitoring committee.

Even in California, the response has been lethargic because deregulation stripped many agencies of their most-basic powers, such as the ability to order building of new plants. That has left various agencies uncertain about who has authority to act. For example, an urgent proposal to hook up a power barge on the San Francisco waterfront has gotten mired in red tape at the California Energy Commission. The agency is stuck on the barge's potential to pollute the air.

The Public Utilities Commission has been slow to push for installation of electric meters that would enable consumers to track and respond to wholesale prices. As such, most consumers have no idea whether power costs a penny or $1 a kilowatt until they see their bills. optional cut for space: "Imagine having dinner at a restaurant and not finding out, until a month later, that your bill was two or three times higher than expected," says Paul Patterson, utilities analyst for Credit Suisse First Boston. "You'd be furious."That, in essence, is what has happened in San Diego. Retail energy bills have doubled in the past two months, leading to a round-robin of blame among officials. Unlike other states, California required its utilities to sell power plants and buy all the power their customers use from a central, daily auction. Utilities weren't allowed to sign contracts—with those who bought their plants—to get the output for several years at fixed prices, as was done else-

Please Turn to Page A6, Column 6

Heartland, Investors to Buy MascoTech In Latest Industrial-Manufacturing LBO

By KARA SCANNELL
And STEVEN LIPIN
Staff Reporters of THE WALL STREET JOURNAL

An investment group led by David Stockman's **Heartland Industrial Partners** said it would acquire **MascoTech Inc.**, an auto-parts manufacturer, for about $550 million in cash, proceeds from the sale of some assets ...

shares are down 31%, according to Baseline, about the same decline as its former parent Masco, which has fallen 32%. In two years, MascoTech has fallen 45%. By some estimates auto-supplier stocks are trading between three and six times forward earnings.

A6

y Approves nitive Award Bakery Case

N FRANCISCO (AP)—The nation's
t wholesale baker was ordered to pay
nillion in punitive damages to black
ers who said they suffered racial dis-
nation at a Wonder Bread plant.
he damage award came two days af-
a jury ordered **Interstate Bakeries**
)., the Kansas City, Mo., producer of
ider Bread, Twinkies and Home Pride,
ay $11 million in actual damages to 21
kers at the San Francisco plant.
The plaintiffs applauded as the award
s announced in San Francisco Superior
urt. "I'm numb. This is definitely way
yond my wildest imagination," said
arles Wright, 52 years old, a former
eliveryman awarded $16.2 million.

Lawyers for the bakery said they would
ppeal. "We are disappointed that punitive
lamages were awarded," their statement
said. "The facts of the case do not support
awarding any damages."

The jury found that the company acted with malice and oppression toward 17 of the 21 plaintiffs; the 17 men and women will share the punitive award. All 21 share in the actual damages awarded Monday.

The bakery also said it would ask the judge to reduce the damages awarded because some of the allegations, which date back more than 30 years, occurred when another company owned the plant.

The jury spent nine days deliberating after two months of testimony about racial slurs and other indignities suffered at the hands of co-workers.

Theodis Carroll Jr., 34, a former machine operator, testified that co-workers called him "boy" and common racial epithets. Mr. Wright said he was denied Martin Luther King Day off, even though white workers were allowed to take days off to see the San Francisco Giants.

Howard Jones Jr., a former route salesman, was awarded a total of $14.9 million. He was put on light duty after being hit by a drunken driver, but the company demanded that he sweep the parking lot, he said. "I refused. I was treated like I was at the bottom," he said.

Fidelity Federal Swings to Loss

EVANSVILLE, Ind.—**Fidelity Federal Bancorp** said it swung to a second-quarter net loss of $133,000, or four cents a share, from net income of $53,000, or two cents a diluted share, a year earlier.

The company said it would have had a loss of $128,000, or four cents a share, during last year's second quarter if it excluded $300,000 in reversals in provision for letters of credit, allowance for loan losses and partnership investment valuations.

California Is Beset By an Energy Crisis, Regulatory Chaos

Continued From Page A2

where. As a result, San Diego consumers have been left completely exposed to surging prices.

At **Sempra Energy**, which supplies electricity to the area through its utility, San Diego Gas & Electric Co., executives blame out-of-state generators for the current predicament. They also blame the state. "There's been a failure on the part of the state since it's done nothing to expedite construction of new plants," said Steve Baum, chairman of the San Diego-based utility.

What's needed now, many public advocates say, is for regulators to give consumers—or power suppliers acting on their behalf—better tools to respond to the market and to mitigate market risk. Sempra failed to take full advantage of its authority to enter into contracts to hedge against the risk of rising energy prices that are now hitting its customers. Even if it had, it wouldn't have been enough to protect against the actual risk.

"Imagine only being able to insure half your house against a fire," says Mr. Wolak. "Instinctively, we all know that's not enough."

ation and Challenge for the World

August, UNICEF
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ek—a time to cele-
undeniable health
way to feed an infant
estimated 1.5 million
nd improves the growth
millions more.

Janet Anderson

06/12/2000 06:52:26 PM

Record Type: Record

To: Roger S. Ballentine/WHO/EOP@EOP

cc: Angela C. Mizeur/WHO/EOP@EOP
Subject: EPA/reliability

A few comments on the EPA paper:
1. Industries that have self-generation units are all attached to the grid; the few that produce excess their use have access to the grid (otherwise they couldn't cost justify their investment); the underlying issue here may be whether the plant can shut down and still generate power to the grid. I don't see this as a big issue and you are also correct to note the interconnection/regulatory issues (altho Admin. is working to make this easier).
2. The other sources sited all come under the back-up generation rubric; these are the ones to be addressed thru the streamlined interconnection standards (most are currently wired to power the host sight if the grid fails). These are the sources DoE is considering most likely suppliers of back-up generation (particularly the ones located at power plants where interconnection is not an issue).
3. While I agree with the thrust of looking at reducing demand first, then utilizing "non-traditional" generation sources (and even cleanest first if possible); the message of providing Americans with the power they need while protecting the air they breathe can be taken too far; people need electricity to live in this society and in an **emergency** want the elec. more than clean air that day.
4. The New England example from '96 and '97 may not be feasible at this late date and because few other regions in the country are as cohesive. Some of the areas of risk are that way because of equipment outages far away; federal leadership will be needed.

UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

JUN 2 2000

OFFICE OF
AIR AND RADIATION

VIA FACSIMILE TRANSMISSION

MEMORANDUM

TO: Roger Ballentine, Deputy Assistant to the President
Ron Minsk, National Economic Council
Linda Lance, Council on Environmental Quality

FROM: John Beale Brenner (for)
Acting Deputy Assistant Administrator
Office of Air and Radiation

SUBJECT: Reducing the Risk of Brownouts this Summer

DOE?

Here are EPA's preliminary recommendations on how best to address the risk of brownouts while maintaining air quality this summer. Brownout risks can be reduced this summer through a partnership of various energy and environmental institutions and a balanced portfolio of actions to reduce peak electricity demand and increase peak supply. We believe a good model to follow is the successful partnership effort by power companies, state energy and environmental regulators, EPA, and others to cope with power shortages in New England in the summers of 1996 and 1997.

In the summer of 1996 and 1997, New England faced potential brownout (and blackout) situations because several nuclear units were not operating. A key factor in the New England experience was that NEPOOL (now ISO New England) played a strong coordinating role in bringing the various industry and government players to the table. Through this process, a plan was developed that focused on measures to reduce peak demand and increase generation.

Recognizing that the heaviest power demand most often occurs when the weather is most conducive to high levels of air pollution, a critical feature of the plan was that it placed priority on steps to reduce demand and to call on backup generation resources to the extent possible in "cleanest-first" order. For example, each power supplier in the affected area agreed to make special arrangements with its 30 largest customers to curtail demand on days predicted to have the highest power demand and the worst air quality conditions. This was the single most important measure in closing the gap between supply and demand.

Special demand side management efforts, including public service announcements, were also aimed at residential customers and made substantial reductions in peak electricity demand. There was also agreement on special provisions to offset excess NOx emissions from backup power sources. This enabled state environmental agencies and EPA to make a number of accommodations to normal regulations and permitting procedures.

EPA believes the New England experience is a good model for short-run action this summer. We would draw the following lessons from it:

- The need for a partnership of all relevant industry and government players in each affected area, led by a strong coordinator. While that role was played by NEPOOL in New England in 1997, it could be assumed by another institution (private or governmental) in each of the relevant regions this summer. EPA is prepared to participate in any such efforts.

- The importance of a balanced portfolio of demand and supply actions, with priority on demand reduction and "cleanest-first" supply order, and with provisions to offset excess pollution from backup sources.

EPA is concerned, however, that at this point there are important information gaps on exactly what resources are under consideration in each region in discussion of backup generation. This information is needed in order to assure that a backup generation strategy can be implemented in an environmentally sound manner. There are various types of potential backup sources including:

- self-generation units not currently connected to the grid at industrial facilities, — regulatory barriers.
- back-up generators at power plants,
- back-up power generators along transmission lines;
- emergency generators at hospitals,
- other municipal facilities and commercial facilities;

Currently, it is not clear which facilities and sources are considered by the Department of Energy or others to be the most likely suppliers of backup generation. We believe it is a priority for EPA, DOE, FERC, State energy and environmental agencies, and regional reliability councils to work closely together to determine which of these sources are considered backup generators and what their operating and environmental characteristics are.

Finally, it is important throughout this summer situation to maintain a message that provides appropriate attention on meeting air quality needs while supplying the necessary electricity. The message on coping with the immediate summertime brown-out risk should be to provide Americans the power they need while protecting air they breathe. This can be done by focusing on feasible demand reduction steps and on using the cleanest backup generation resources first.

In the part of the message that looks beyond the summer, it is important to continue highlighting the value of energy efficiency. This would include emphasizing the features of the Administration's electricity competition bill that would promote efficiency, especially the proposed public benefits fund to maintain -- indeed to restore -- investments in energy efficiency, which have dropped off sharply with cutbacks in power providers' demand side management programs.

The message would also include continuing aggressive promotion of EPA's and DOE's current, highly effective, energy efficiency programs, and the President's budget proposals to Congress for expansion of these programs. EPA and DOE's Energy Star programs have already had a sizable impact in reducing the peak power needs across the country, and the program is expected to have an even greater impact in the future. Here are some points:

- In 2000, Energy Star will eliminate the need for over 10,000 MW of peak summer generating capacity (which is about half the total peak demand in New England) while saving businesses and consumers more than $4 billion and reducing air pollution.
- Energy Star programs and products are expected to offset the need for more than 30,000 MW of additional peak summer generating capacity by 2005 while saving businesses and consumers more than $10 billion.
- If Congress had fully funded the Administration's requests for EPA's Energy Star Programs over the past several years, electricity demand this summer would be about 3 gigawatts lower than it is.

Please contact me (564-1677) or Bill White (564-6977) if you have questions or require any additional information.

cc: David Gardiner, WHCCTF
Richard Glick, DOE
Howard Gruenspecht, DOE

Paul Bledsoe
05/25/2000 04:47:02 PM

Record Type: Record

To: John D. Gibson/WHCCTF/EOP@EOP

cc: Roger S. Ballentine/WHO/EOP@EOP, David Gardiner/CEQ/EOP@EOP, Ronald Minsk/OPD/EOP@EOP, Elliot J. Diringer/CEQ/EOP@EOP

Subject: DOE Panel: Efficiency, Renewables Seen As Answer To Power Grid Crisis

May be worthing citing in energy speech.

---------------------- Forwarded by Paul Bledsoe/WHCCTF/EOP on 05/25/2000 04:44 PM ---------------------------

Jon Coifman <jcoifman@ems.org>
05/25/2000 03:10:04 PM

Record Type: Record

To:

cc:

Subject: Dow Jones: Efficiency, Renewables Seen As Answer To Power Grid Crisis

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Dow Jones Newswires -- May 25, 2000

Efficiency, Renewables Seen As Answer To Power Grid Crisis
By BRYAN LEE

WASHINGTON -- Anticipating a wave of power outages this summer, three experts Thursday touted energy efficiency and renewable energy technologies as offering the fastest and cheapest means of keeping the lights on.

Power outages have become the norm in recent summers during times when hot weather has driven power demand beyond the ability of the transmission and distribution grid to deliver electricity.

A U.S. Energy Department task force analyzed a wave of outages last summer, and in a resulting report painted a picture of a nationally integrated power grid in crisis, and warned that more outages are likely this summer.

Over the last decade, utilities have postponed needed investments in the face of regulatory uncertainty as electricity demand has risen at a constant rate of about 2% annually.

For the most cost-effective and immediate solution to the ongoing grid capacity crisis, regulators and lawmakers must create a market for energy efficiency, and lower barriers to market entry for renewable and clean-burning energy technologies, the experts said at a press briefing Thursday.

With competition replacing regulation, profit-seeking utilities have abandoned energy efficiency programs over the last decade.

Yet it is far cheaper to convince consumers to reduce demand during a grid crisis than it is to bring more generation on line or to build new transmission, they said.

By factoring environmental concerns into electric industry deregulation, policy makers can help foster a market for clean and renewable energy technologies, and energy efficiency and demand-side management practices, they said.

"Level the playing field and energy efficiency and renewables will kick butt in the marketplace," said Joseph Romm, executive director of the Center for Energy & Climate Solutions.

'Dinosaurs Set Rules For Mammals'

Through performance-based ratemaking and other regulatory innovations, policies can be developed to provide the incentive for competition in both supplying energy and in reducing demand, said Karl Rabago, a former Texas utility regulator and U.S. Energy Department official.

"A firm commitment not to use energy ought to compete on the same basis as a firm commitment to supply," argued Rabago, managing director of the Rocky Mountain Institute, a Colorado-based environment and energy think tank.

Rabago cited Texas, in which "intelligent" deregulation policies help promote renewable or low-emission "distributed" power systems, such as fuel cells and rooftop solar systems that consumers install at the point of use.

Rich Cowart, a former Vermont utility regulator, cited a program in that state, in which funding for energy efficiency programs, guaranteed under the old regulated regime, was continued in the transition to retail power market competition.

Regulators created a state-sanctioned energy efficiency utility, which receives funding from a fee assessed on power sales and which is given an incentive to reduce consumers' energy demand through performance-based ratemaking.

A distribution utility has no economic incentive to reduce demand since profits are dictated by throughput, Cowart said.

"We have to change the way they make money through regulation," said Cowart, executive director of the Regulatory Assistance Project, which promotes innovative regulatory schemes as state regulators increasingly move to open retail markets to competition.

Romm cited the environmental disincentives of existing law, which gives emission credits to polluting fossil-fired generation plants but none to renewable energy, and which thwarts market entry by highly efficient combined heat and power plants.

Market entry is further blunted by utilities erecting barriers to interconnection with the grid, and charging unnecessarily high rates for backup power, said Romm, a former Energy Department official.

Imagine if IBM had rules two decades ago that limited installation of personal computers because of the impact on mainframe computers, Romm posited.

Yet that is exactly the situation blocking market entry by new clean distributed generation and combined heat and power systems, he said.

"The dinosaurs are setting the rules for the mammals," Romm said.

-By Bryan Lee, Dow Jones Newswires, 202-862-6647, bryan.lee@dowjones.com

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Jon Coifman
Senior Program Director
Environmental Media Services
1320 18th Street NW, Suite 500
Washington, DC 20036
Tel (202) 463-6670 / Fax (202) 463-6671
E-Mail jcoifman@ems.org

Janet Anderson

05/03/2000 05:24:23 PM

Record Type: Record

To: Roger S. Ballentine/WHO/EOP@EOP

cc: Shelley N. Fidler/WHCCTF/EOP@EOP, David Gardiner/CEQ/EOP@EOP, Angela C. Mizeur/WHO/EOP@EOP, Debra R. Reid/OA/EOP@EOP

Subject: reliability

With normal weather this summer, there are several areas of the country likely to experience shortages of electricity -- reliability problems. The regions of concern this summer are: eastern seaboard from ME to MD (1 in 5 chance of catastrophic outage if warmer than normal weather); FL (high load growth without new generation); middle-south (AK, LA -- Entergy svc territory -- growth and aging infrastructure); and CA (tho there are differing opinions on the risk here - CA officials say no). DoE is drafting a report on the shortfalls in reserve generation margins in regions around the country. It won't be final until the end of the month, but shows that load growth is higher than estimated and capacity projections overstated (I don't have numbers yet). The voluntary standard in power pools has been 15% above a utility's peak projected load.

Congress will likely use these outages to bash the Administration for having no plan to deal with them and no energy policy (similar to oil price increases). After the shortages last summer, Sec. Richardson created a group of experts to study them and make recommendations to avoid repeats. There were 12 items - most of them long term.

Several weeks ago in a hearing, Sec. Richardson outlined 6 short term actions he would take to deal with the threat of outages this summer (see below). The FERC has also recently issued several rulings that address interconnection standards for distributed generation that help on reliability (easier for small generators to connect with the grid). Three times during recent hearings before Sen. Murkowski, the issue of comprehensive legislation and its effect to improve reliability has been raised and each time Murkowski has said he does not intend to be blamed if outages occur and seemed mad about the connection.

Given the likelihood of outages, it is a great opportunity for POTUS messages/events on the consumer efficiency angle (tax bill, appliance standards, efficiency $ in the budget, the federal energy EO,...) and Congress holding up (since summer of '98) his restructuring bill, and programs at DoE and EPA to improve efficiency (and reduce costs) for both small business and residential consumers. He could announce the emergency planning effort (w/ FEMA?) and what actions consumers can take to help.

Six short term actions DoE will take: 1. work with Bureau of Reclamation to reduce electric consumption at federal water projects (large pumps for irrigation) 2. explore opportunities to use existing back-up generators during power supply emergencies 3. prepare public service announcements with tips for consumers to reduce or shift the time of electric use 4. conduct emergency exercises with state and local governments to help prepare for potential summer emergencies 5. urge the FERC and state utility commissions to adopt rate structures to help reduce demand during peak time periods (e.g. time-of-day rates and peak pricing) 6. work with utilities to gain current information about grid-related problems. He also reiterated that to protect reliability long-term, passage of comprehensive electricity restructuring legislation to keep pace with rapidly changing market developments is needed.