The Daily Dish

Paying for Reliable Electricity

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Eakinomics: Paying for Reliable Electricity

You might think there is nothing more boring than a Federal Energy Regulatory Commission (FERC) meeting, but AAF's Philip Rossetti has new insight that dispels this mistaken notion. FERC was faced with deciding whether to implement a Department of Energy (DOE) proposal to raise electricity rates for power plants with a 90-day on-site fuel supply to support the supposed reliability of the energy these sources provide. This was a deceptively seductive proposal that would force consumers to pay a higher "just and reasonable" rate year-round to a select few plants that have a 90-day on-site fuel supply. Everyone cares about their electricity, and this sounds ok, right?

Not quite. After all, who has 90 days of fuel sitting around? Coal and nuclear generating facilities do, so this is essentially a disguised subsidy to those fuel sources. Those sources are essentially non-economic, largely because of the development of cheap natural gas sources (as DOE's own reliability study showed). Moreover, during the 2014 polar vortex (which spawned the DOE proposal) higher prices were caused in part by transmission — not generation — issues and (wait for it) frozen coal piles and equipment. This proposed rule was not about reliability and doesn't alter the fundamental advantages conferred by other fuel sources.

But the real insight is that market forces automatically pay for reliable power sources. During the recent "bomb cyclone," locational electricity prices were around six times higher than normal in New England on January 4th. But few power sources were knocked off the grid, so those producers who were reliable were rewarded by reaping the high return. The market pays for reliability — regardless of the underlying fuel source.

Of course, prices were significantly higher than normal, which can produce some, shall we say, kvetching. Owners of non-economic generation capacity can try to capitalize on discontent over high prices with proposals — such as what was before FERC — that provide a permanent subsidy to keep more generating capacity on-line. That is an everyday transfer from consumers of power to owners of obsolete capacity — far more costly than relatively rare price spikes of brief duration.

So discard those mistaken notions of what is boring. Moreover, every now and then goodness and reason triumph, as FERC yesterday unanimously rejected the DOE proposal.