
National Capital Area Chapter

United States Association for
Energy Economics

March 2002

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news

Multi-Pollutant Control Legislation—At What Cost?

Our Next Luncheon at Library of Congress

WHEN: Noon, Friday, March 15

WHERE: 6th Floor, Madison Building—Montpelier Dining Room
Library of Congress (enter from Independence Avenue)
1st Street & Independence Avenue, SE, Washington, DC

SPEAKER: Anne E. Smith, Vice President, Charles River Associates, Inc.

Since passage of the 1990 Amendments to the Clean Air Act, industry has argued that it cannot make economically efficient decisions regarding pollution control because pollutant regulations were defined incrementally, precluding the use of more cost-effective “co-control” technologies. That opportunity appears on the horizon. There are several bills in Congress, and the Bush Administration recently released its “Clear Skies Initiative.” However, there are many environmental, legal/regulatory and commercial issues associated with these proposals, the most important of which is the benefit/cost ratio.

Our speaker this month, Anne Smith, will provide an overview of recent proposals for multi-pollutant legislation. She will describe modeling being used to understand the cost and other economic implications of these proposals. Included in the discussion are key assumptions that introduce significant uncertainties into modeling results, to be highlighted for the ensuing policy debate.

Dr. Smith has made significant economic and policy analysis contributions to numerous prominent environmental policy debates, including global climate change, air quality standards, acid rain and regional haze. Dr. Smith has testified before the U.S. Congress and in legal cases on air quality issues, and has served on expert panels of the National Academy of Sciences and the UN Environment Programme. Dr. Smith was formerly a Vice President at Decision Focus Incorporated, and has also served as an economist in the Office of Policy Planning and Evaluation of the US Environmental Protection Agency. Dr. Smith received her Ph.D. in economics from Stanford University in California.

Join us on **Friday, March 15** at 12:00 PM for networking, with the lunch-line forming promptly at 12:30 and the presentation beginning at 1 PM so we are done by 2 PM. **COST:** \$15.00 for members and \$20.00 for non-members—guests are always welcome. Make checks payable to NCAC-USAE.

RSVP: By noon, TUESDAY, March 12, by phone to Pam Tomski on 202-861-2841. Cancellations after noon Thursday will be billed.

February Meeting Highlights

SPEAKER: Ruben S. Brown, President, The E Cubed Company, LLC

Demand Response: Creating New Markets in Electricity

Brown began by noting that a fundamental message about “demand response resources” can be drawn from the “hockey stick” electricity supply curve. Namely, that price spikes, in the absence of price caps, can be so great that a small shift in the curve can save a significant amount of dollars. The New York Independent System Operator (NYISO) recently declared that if 5% demand response in the marketplace could reduce peak electricity prices by as much as 50%.

In the past year, FERC has ruled that demand response, which refers to markets that allow consumers to bid a reduction a load into the day-ahead market, is a sale for resale in the wholesale market, resolving a jurisdictional issue in a context where retail matters have been regulated by the states and wholesale matters at the Federal level. While state regulators may have been concerned about being left out of the process by FERC, there has been a push by FERC to do just the opposite. He saw this as the beginning of a reevaluation of the linkage between Federal and state regulation as the issues of market change get worked through, with demand response providing an opportunity for a Federal-state dialog.

Brown noted many gray zones in designing and implementing market rules, and thus, many players are still trying to determine where their respective interests lie. For example, a distribution utility may be reluctant to give up control over demand programs, and probably more importantly, potential revenues. Generators may also protest, as their profits are based on price volatility. But, he countered, these programs also reduce the pressure from regulators for price mitigation and the imposition of penalties. They may also serve as a precursor to relief from price caps and facilitate opening of the market in other ways.

At another extreme, a self-generator that has never been on the grid may not see a net benefit to interacting with the grid, since other institutions would then have a call on it and its resources. Thus, he said, there are benefits to a program that gives entities flexibility in their degree of participation. Utilities with their own generation, transmission and distribution may be uncertain on how to change. State regulators may feel that nothing needs fixing and may be satisfied with the status quo. Meanwhile, electricity users in markets with inadequate supplies may be in particular need of relief.

State and Federal agencies are addressing how some costs have been socialized historically, such as the cost of generation and transmission fees. Those who have received rights under that regime have not necessarily wanted to socialize benefits to demand reduction resources. One area where reform may come about is in interconnection practices and pricing. There is a major move to reform and standardize interconnection dealings for large and small generators. FERC is currently working on a draft set of standard guidelines for the interconnection process and for interconnection agreements, and is soon to issue a Notice of Proposed Rulemaking on the pricing of interconnections.

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- **Immediate Past President**

NCAC Monthly Lunches—Set your Calendar for the Year!

To help you plan for the coming year, the following dates have been reserved for the NCAC monthly lunch: April 26, May 17, June 21, September 20, October 18, November 15

Please Renew for 2002 now!

If you have not already renewed your membership in NCAC, please fill out the form below and either mail it or bring it to the next luncheon.

National Capital Area Chapter United States Association for Energy Economics

2002 MEMBERSHIP RENEWAL/REGISTRATION FORM

_____ Please check here for membership renewal.

_____ Please check here for new membership registration.

- Membership registration/renewal for the NCAC/USAEE are expected by the end of the preceding calendar year.
- Please return your registration form and check to Pamela Tomski-NCAC/USAEE 2001 Treasurer at Wampler Associates, 1130 17th Street, Suite 312, Washington, DC 20036 or e-mail the information below to ptomski@erols.com.
- Dues for 2002 are \$20.00. Please make checks payable to NCAC/USAEE.

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