

## ELCON INFO MEMO

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**To:** Member Representatives, Technical Committee, Federal Relations Committee & Affiliates

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**Subject:** What to Expect

The most often asked question both in Washington and from ELCON members is what will happen early on in the Obama Administration, now scheduled to take office in just over one month.

The big gorilla on the horizon is, of course, legislation (or, possibly, EPA action) to reduce greenhouse gas (GHG) emissions. But many observers are now thinking that, for a number of reasons, GHG legislation is going to be a long-term, not a short-term proposition.

For ELCON members, several other electricity issues will likely be considered in the short-term, and those issues could have a more immediate and possibly more costly impact on industrial electricity users than climate change.

President-elect Obama campaigned as the candidate of “change,” and one item he frequently referenced as needing “change” was our electricity grid.

Among the items the Obama-Biden Administration has stated they will seek:

**Invest in a Smart Grid:** The new Administration calls for major investments in our national utility grid using smart metering, distributed storage and other advanced technologies to accommodate 21<sup>st</sup> century energy requirements. This includes establishment of a Grid Modernization Commission as well as a Smart Grid Investment Matching Grant Program. While total costs are uncertain, the Edison Electric Institute has been citing \$1-1.5 trillion in infrastructure improvements over the next ten years. Consumers, including ELCON members, will be analyzing these programs to ensure that benefits outweigh costs.

**Flip Incentives to Energy Utilities:** The new Administration recommends flipping incentives to utility companies by “requiring states to conduct proceedings to implement incentive charges and offering them targeted technical assistance.” This “regulatory equity” begins with decoupling of profits from increased energy usage, which “incentivize” utilities to partner with consumers to reduce monthly energy bills. “The federal government under an Obama Administration will play an important and positive role in flipping the profit model for the utility sector so that shareholder profit is based on reliability and performance as opposed to total production.” ELCON has long opposed decoupling – while it may remove a disincentive for utilities to support energy efficiency

it does not necessarily provide any incentives. And it is generally very costly to consumers.

**Other Issues:** The Obama-Biden Administration has also called for reducing the demand for electricity through energy efficiency, setting national building efficiency goals, and weatherizing one million homes annually, among other objectives.

All of these provisions could be considered as part of a stand-alone energy efficiency package, or as an energy efficiency component of a larger economic stimulus bill. Regardless, these issues may well be considered in the first six months of an Obama Administration. Depending on how they are structured, costs for these programs could be assigned to specific ratepayers or socialized through general revenues. In any events, these costs will be substantial.

There are several reasons why GHG, often assumed to a quick-action item, may be pushed back on the calendar:

- Creation of a White House-based National Energy Council (perhaps led by Clinton's EPA head Carol Browner), as has been discussed, will perhaps centralize Administration efforts, but will still add one more level of bureaucracy and clearance.
- House Speaker Nancy Pelosi (D-CA) has stated repeatedly that the Democratic Party – meaning both Congress and the Administration – has to “govern from the center” and many of the President-elect's appointments seem to reflect that approach.
- In a sense, the de-Chairmanship of Rep. Dingell frees him from the being a Democratic spokesman on Climate Change issues and enables him – if he chooses – to more openly represent the interests of his manufacturing based constituency.
- The head of congressional relations in the Reagan Administration (arguably the most effective Administration in dealing with Congress) used to say that any Administration has the political capital to deal with only one major issue at a time, maybe two, but never more than that. Assuming “the economy” has to be number one, and if there is a number two it will be Iraq/Afghanistan, attacking an additional major issue early in the year would be very difficult.
- Manufacturing production is at its lowest level in 24 years. November 2008 showed the largest monthly job loss in 34 years. Nearly every analysis of most greenhouse gas emission bills project reductions in manufacturing jobs – an issue many legislators would prefer to avoid.

- Recent experiences in the European Union have shown (1) a lack of expected progress in reducing greenhouse gases and (2) that several countries, most notably Germany and Poland, are seeking parochial provisions to benefit their own national industries.

In summary, given the severe downturn in the economy, it is not generally considered an optimal time to undertake legislative efforts that most believe will result in additional job losses. And, despite the mantra for “change,” the appointments made in the Obama Administration to date tend to argue for a go-slow, status quo, approach. Changes in congressional leadership could, in fact, divide the Party rather than unite it.

More and more, Democratic leaders are talking about energy efficiency (and its sub-topics such as renewable energy, “smart grid,” and revenue decoupling) as issues to be considered early in the session, either stand-alone or as part of a stimulus package (some assert that new “green jobs” will be outweigh job losses). So, in the short run – economic stimulus, yes; energy efficiency, yes; improvements in the transmission grid, yes; but a comprehensive effort to reduce greenhouse gases, not so fast.

ELCON has been working on these issues, and ELCON will continue to work to ensure that costs for these programs – which inevitably are borne by end users – are reasonable and do not outweigh the benefits.