For Immediate Release Contact: John P. Hughes
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INDUSTRIAL CONSUMERS SAY UTILTY LEGACY GENERATING ASSETS SHOULD BE AFFORDED SOME COST RECOVERY; SAY ONLY PRUDENTLY INCURRED COST SHOULD BE RECOVERED FROM RATEPAYERS

Washington D.C. -- The Electricity Consumers Resource Council (ELCON) today said that "uneconomic legacy assets of traditionally regulated utilities should be afforded some degree of cost recovery to balance the rate impact on consumers with the financial impact on the utility." However, the paper went on to say that "utilities should be denied full recovery of such cost to provide incentives for efficiency in reducing those costs in the first place."

The comments by ELCON, the national association representing large industrial consumers of electricity, were included in a new position paper on the treatment of uneconomic power plants released Thursday. A copy of the paper is attached.

On the other hand, affiliated merchant entities, the paper said, "should not be afforded any opportunity for cost recovery unless such action significantly impairs the credit rating of the regulated affiliate. And, "unregulated, merchant generation unaffiliated with a regulated utility are not entitled to any form of regulatory relief that results from changing market conditions or environmental regulations."

However, "it may be necessary to support the continued operation of certain affiliate and unregulated merchant plants if the relevant NERC Balancing and Planning Authorities deem the asset a reliability must run (RMR) unit. The determination of RMR status should be done on a case-by-case basis by an independent assessment."

The paper noted that a "combination of factors has rendered many existing coal-fired and nuclear power plants uneconomic and at risk of early retirement. Most notable are market conditions such as low natural gas prices and environmental regulations that have increased the cost of coal-fired generation. Another, perhaps more significant factor, is federally-subsidized wind and solar resources.

"In organized markets such as MISO or PJM, these factors can interact with short-term oriented market design and provide little in the way of long-term price support for base-loaded generation."

The paper also addressed how regulators should determine if a plant is uneconomic on a long-term, forward cost basis and should be retired.

"This determination should be based on reasonably expected market conditions and environmental regulations, and consistent with the utility's most recently approved Integrated Resource Plan (IRP), including a thorough evaluation of cost-effective alternative resource options. These options should include new plant construction, selling the plant, temporarily idling the plant, coal-to-gas conversions, distributed generation (including Combined Heat and Power), power purchase agreements (PPAs), and purchases from ISO/RTO energy and capacity markets (where applicable).

“Once a determination has been made that the asset is deemed uneconomic, the Public Utility Commission should consider the prudence of the unamortized balances and other abandonment costs. Only those costs prudently incurred should be eligible for recovery from ratepayers.

“The amortization period should be long as possible consistent with maintaining the utility’s financial viability and reducing the rate impact on consumers.”