Michigan Energy Futures II Conference:
Transitioning to Market Models and Implementation Challenges, Changing Regulatory Framework to Support the Utility of the Future

By Tom Catania, Pavel Azgaldov, Olivia Katz, Denise Miller, Therese Miranda-Blackney, Dave Nowak, and John Serron
Introduction

In September, the Erb Institute and partner organizations convened practitioners from the private, public, and civil society sectors to continue last year’s conversation about the tectonic shifts taking pace in the nation’s electricity sector.

This second Michigan Futures Conference hosted at the University of Michigan’s Ross School of Business on Sept. 9, focused on how to provide reliable, affordable and sustainable electricity and related services to energy consumers. The goal was to facilitate honest and open debate, with well-informed moderators asking the hard questions while encouraging participants not to shy away from major points of disagreement or concern.

In this period of unprecedented industry transformation, continuous dialogue is essential among the various players in this sector — energy producers, regulators, advocates and customers — in order to deliver robust strategies that address this critical challenge as Michigan and the nation’s electricity sector hurtles toward the future.

Our goal is to equip current executives and other stakeholders to function effectively in the now, while inspiring them to lead the changes toward a more sustainable electricity sector for the future.

Slides, Video and Notes

The conference’s content is available in several forms.

- A video of the conference, which also includes relevant slides used by presenters, resides here: http://bit.ly/EF2-video
- This written summary contains endnotes that direct the reader to more information or specific parts of the video dialogue.
- Erb Institute graduate students summarized each of the individual conference sessions and their notes can be found here: http://bit.ly/EF2-summary
Executive Summary

The Clean Power Plan, or Regulation 111(d), has been described as the most significant government regulation affecting the utility industry in the past 50 years. One of this conference’s utility sector speakers analogized the significance of the day he learned of its issuance to other days he would never forget, like JFK’s assassination or the birth of his child. This conference brought together Janet McCabe, the federal government official most directly responsible for the finalization and implementation of this regulation, along with those most involved in, responsible for, or expert regarding the evolving utility sector in Michigan and nationally.

The conference was organized around three broad themes:
1) Energy Supplies in Transition
2) The Changing Utility Business Model
3) Evolving Regulatory Frameworks

A common thread which wove through the prepared remarks and the question-and-answer sessions was that maintaining the status quo was not an option. New sources of supply and generation have been coming online at a breakneck pace, disrupting traditional sources of revenue, even before proposed regulations add to the pressure on those sources with the largest carbon footprint. In Texas, the utility sector has already experienced one of the largest bankruptcies in the nation’s history, based in no small part on an incorrect bet on the direction of natural gas prices. (Since the conference — where issues discussed included the effect that low natural gas prices might have on the competitiveness of nuclear and renewables — was held, the per-barrel price of oil has dropped by nearly 50 percent, making the payback periods for electric vehicles, for example, much longer in the short run.) There was discussion of what lessons could be learned from the German experience, and more broadly in Europe, where radical and rapid changes in generation mix have substantially raised residential electricity rates and seen a substantial reduction in the collective market capitalization of the European utility sector. These discussions continue to be timely, with the post-conference announcement that the largest German utility, E.ON, will be splitting itself in two — a renewables company and a traditional generation company. For a variety of reasons — some related to technology and cost improvements, some a result of regulatory mandates and tax incentives, some resulting from consumer and commercial appetite or new innovative business models, and some the fruit of decades of compounded energy efficiency achievements — traditional utilities are losing sources of revenue and gaining competitors, including their own customers, who have been aggressively exploring distributed generation options.

How will, and how should utilities respond? The discussion demonstrated that many parts of the utility sector are proving to be more resilient and willing to adapt than some would have believed. A variety of renewable portfolio mandates have been adopted in states throughout the country, and these new generation sources have been absorbed without material increases in rates or reliability. Utility regulators throughout the country have brought these new generation sources into the existing regulatory framework and met their legislatively driven targets for improving the emissions profile of the nation’s generation. The Michigan Public Service Commissioners in attendance and former Colorado Public Utilities Commission Chairman Ron Binz attested to this fact.
Regulation 111(d) sets the bar much higher. McCabe described and answered questions about the variety of tools that a state or region of the country might deploy to help meet the national objective embodied in the proposed regulation. The fact that this regulation has generated in excess of 1 million written comments is a testament to how important and significant it is believed to be, and how challenging it will be to understand and apply.

All tools in the national toolbox will be required, including work being done at the National Renewable Energy Lab in Colorado on how to effectively integrate as much as 80 percent renewables into the grid by 2050. Robin Newmark represented NREL at the conference. All this new movement of energy, from where it is most cost-effectively and environmentally benignly generated to where it will be consumed, will test our nation’s transmission and distribution system, as Greg Ioanidis of ITC Michigan explained.

The luncheon keynote, former Indiana Senator Evan Bayh, spoke on behalf of Nuclear Matters, a bipartisan organization he co-founded, to urge that the nation act to ensure that its existing nuclear plants, which generate 20 percent of the nation’s power and 63 percent of its carbon-free energy, be protected from short-term market or regulatory forces that might prematurely destroy their economic viability. This is a topic that has received considerable attention in the business press.

In this time of flux and experimentation, the conference heard about a variety of approaches from across the country, foreshadowing what an integrated national strategy that delivers on the important requirements of a reliable, affordable and clean energy future might look like.

Upon reviewing the detailed materials, including video of the entire conference, I believe the reader/viewer will end up where the audience began when they were polled. They concluded that national goals for an appropriate balance in the reliable, affordable and cleaner electric energy equation were both technically and economically achievable, but politically challenging. But political challenges are not insurmountable. To quote Winston Churchill: “Nothing is impossible. The impossible just takes a little longer.”

“There is no way we will accomplish our climate change goals if we abruptly take a significant portion of carbon-free energy out of the market,”
—Senator Evan Bayh

Author’s note: Simply, if the U.S. wants carbon-free sources, we must be agnostic about the source of that energy.

“If you can’t come up with the answers in this room right now, then it is up to legislators to come up with the answers in the bill that sunsets in 2015.”
—Michigan State Senator John Proos
Endnotes

Throughout this summary of the conference, hyperlinks will be provided to relevant portions of the videotape of the proceedings that is available on the Erb Institute website here: erb.umich.edu/news-and-events/events-archive/page/4/ Specific time signatures are cited for each of the portions of the conference agenda, so the reader can hear and see for themselves the substance and flavor of that portion of the conversation.


See introduction of Janet McCabe by VP of Consumers Energy Dennis Dobbs [link to relevant portion of video 19:53 minutes into opening session]

rossmedia.bus.umich.edu/rossmedia/Play/688ddade9aa948db836396be79adee31d

rossmedia.bus.umich.edu/rossmedia/Play/80aa6814a0ad46bb9e9cfb43eb26f76a1d

Introduction: Last panel begins at approximately 8:30 minute mark of the video. rossmedia.bus.umich.edu/rossmedia/Play/019a96df1f804084b67898952c2606531d

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An interesting exchange of perspectives can be heard at the 1:06:30 mark of Panel #1 and 4:45 of Panel #4. The reader will find a more in-depth study on the German and Japanese experience with renewable energy done by the Brookings Institution here: brookings.edu/events/2014/09/19-electricity-portfolio-germany-japan-renewable-energy

wsj.com/articles/e-on-se-to-split-into-two-companies-1417388121

See presentation by Robin Newmark of NREL, beginning at 16:00 mark of Panel #1

Janet McCabe began answering questions at the 1:07:30 mark of her introductory keynote section of the video

Panels II and III focus on these issues in detail with perspectives offered from a legislator, utility regulators, an industry economist and other experts.

About Tom Catania

Thomas F. Catania, Jr., former Vice President of Government Relations at Whirlpool Corporation, works to enhance the Institute’s visibility in the business community and among policymakers through written communications and by organizing meetings for executives on corporate strategies on energy and environmental issues. He also works with Erb Institute directors and faculty to create and strengthen the Institute’s ties with corporate executives, donors and industry organizations. Tom, a leader in identifying and implementing solutions to public policy problems, has spent his career operating in the complex intersection of business, government, nongovernmental organizations and public policy. Serving as Whirlpool’s Vice President for Government Relations since 1997, Tom managed the firm’s government relations, which he transformed from a United States-centric, primarily reactive activity into a global public policy one that produced a substantial percentage of Whirlpool’s annual earnings per share for several consecutive years.
About the Erb Institute

The Erb Institute is committed to creating a socially and environmentally sustainable society through the power of business. Building on nearly two decades of research, teaching, and direct engagement, the Institute has become one of the world’s leading sources of innovative knowledge on the culture, technologies, operations and governance of business in a changing world.

The Institute’s impact is realized most powerfully through our vibrant global network of students and alumni who are the transformative change agents in business, government and the non-profit worlds. Created in 1996 through the generosity of Frederick A. Erb (BBA ’47) and his wife, Barbara, the Institute is a partnership between the School of Natural Resources and Environment and the Stephen M. Ross School of Business at the University of Michigan.

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