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PRATT'S

ENERGY LAW REPORT



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BUSINESSES STEP UP**

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Laws of Energy Economics Present Reality for New Administration: Gas is Cheaper than Coal

*By Stephen J. Humes**

The review and modification of energy regulations was a cornerstone of President Donald Trump's first 100 days in office. The author of this article discusses how fundamental laws of energy economics will limit the ability of the Trump Administration to reverse the national transition from coal to natural gas in the generation of electricity and how states will continue to play an important role in encouraging the development and promotion of renewable energy projects and the implementation of innovative electric utility rates and regulatory structures.

President Donald Trump has promised to bring back jobs in the coal industry and reduce or reverse regulations that could inhibit economic growth. His team has already begun to review the plethora of regulations that the Obama Administration tried to complete before leaving office. The review and modification of regulations across multiple agencies was a cornerstone of Trump's first 100 days in office.

NEAR-TERM IMPACT ON FEDERAL ELECTRICITY POLICY

President Trump's near-term impact on federal electricity policy is unlikely to be as dramatic and immediate as his campaign trail hyperbole, largely because the electric utility industry in the United States is so heavily impacted by state and regional regulatory structures and the independent regulatory authority and decisions of the Federal Energy Regulatory Commission ("FERC"). President Trump will be able to change the federal energy policy agenda in several areas. First, he can use his power to appoint Commissioners to fill the two vacancies to the FERC. Second, President Trump can work to undo certain of former President Obama's environmental regulations aimed at climate change, especially the Clean Power Plan, and other policies that have hobbled the coal-fired power generation industry. Finally, President Trump will be able to encourage Congress to support new electric initiatives through the possible renewal of the Federal Power Act and to adopt energy investment tax incentives or an initiative that promotes energy infrastructure, such as expanded interstate

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natural gas pipelines or federal government support of electric transmission infrastructure.

THE LAW OF SUPPLY AND DEMAND ECONOMICS

One law that President Trump will not be able to undo, however, is the law of supply and demand economics that has kept the price of natural gas at historic low prices, which has left coal “out of the money” as a fuel source in generating electricity. Despite political attacks on President Obama’s environmental policies aimed at the coal industry, such as the Clean Power Plan, and promotion of a climate change agenda, the economic truth is that the price of natural gas as an electric generation fuel source was dropping precipitously even before former President Obama took office in 2009. Data from the Energy Information Administration shows that because of the economic reality of lower natural gas prices in the wholesale power markets, the market share of natural gas-fired generation was increasing dramatically in the U.S. as coal-fired generation was on a steady decline. An increasing number of coal-fired generators have been retired in recent years, even before the Clean Power Plan would have taken effect (if it were not stayed by litigation), as the wide availability of domestically-sourced natural gas from hydraulic fracturing continues to provide the wholesale power generation industry with access to ample low-cost fuel that is clean and reliable.

Perhaps the biggest difference between President Trump’s expected energy policies and the energy agenda proposed by Secretary Hillary Clinton was that candidate Clinton spoke of natural gas as a “bridge fuel,” which was a code phrase favored by the environmental activist community and meant natural gas as a bridge between coal and 100 percent renewable power. President Trump has not discussed natural gas as a bridge fuel and support energy infrastructure development, including natural gas pipelines.

It is hard to imagine that President Trump will be able to reverse the laws of economics and promote coal as a power source, even if he undoes the Clean Power Plan, because coal remains simply out of the money as a fuel source unless the federal government were to offer the coal industry and coal-fired power plant owners significant federal subsidies and tax breaks. So far, President Trump’s team has not proposed any such ideas.

STATE ACTION

As the Trump Administration transitions into office and new energy-related appointees take their seats of power, states will continue to play an important role in encouraging the development and promotion of renewable energy projects and the implementation of innovative electric utility rates and regulatory structures. Already, major states from California to New York are

pursuing their own in-state policies in favor of clean energy standards, support for renewables and policies to reinvent rates and regulatory structures for traditional electric and natural gas utilities. New York is promoting a new utility model called REV, which means reforming the energy vision, while California is promoting investments in renewables and energy storage, among others, to transition the state's electric consumers away from reliance on fossil fuels.