



**Senate Committee
On
Energy and Natural Resources**

**Removing Barriers to Distributed
Generation, Renewable Energy, and
Other Advanced Technologies in
Electricity Generation and
Transmission**



NATIONAL ENERGY MARKETERS ASSOCIATION

3333 K Street, NW, Suite 425
Washington, DC 20007
Tel: (202) 333-3288 Fax: (202) 333-3266
www.energymarketers.com

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This document reflects the views of the National Energy Marketers Association and does not necessarily reflect the views of any specific member of the Association.

I. Introduction

My name is Craig G. Goodman. I am submitting this testimony as President of the National Energy Marketers Association (NEM). NEM is a national, non-profit trade association representing a regionally diverse cross-section of both wholesale and retail marketers of energy and energy-related products, services, information and technology throughout the United States. NEM members include: small regional marketers, large traditional international wholesale and retail energy suppliers (as well as wind and solar power), billing and metering firms, Internet energy providers, energy-related software developers, risk managers, energy brokerage firms, information technology providers and manufacturers and suppliers of advanced distributed generation. Membership includes both affiliated and unaffiliated companies. Affiliated and independent marketers have come together under the NEM auspices to forge consensus and to help eliminate as many issues as possible that would delay competition.

NEM members urge lawmakers and regulators to implement: 1) laws and regulations that open markets for natural gas and electricity in a competitively neutral fashion; 2) rates, tariffs, taxes and operating procedures that unbundle competitive services from monopoly services and encourage true competition on the basis of price, quality of service and provision of value-added services; 3) standards of conduct that protect consumers; and 4) policies that encourage investments in new technologies, including the integration of energy, telecommunications and Internet services to lower the cost of energy and related services.

As a national trade organization, NEM brings a wide range of experiences, as well as broad perspectives to its testimony in this proceeding that should aide the United States Senate Committee on Energy and Natural Resources and enhance

the quality of the record to be developed here. NEM currently participates in more than 50 restructuring proceedings around the country and at FERC. The testimony and recommendations presented here represent major issues and barriers to price competition that are most often confronted in proceedings around the country.

II. Background

Electricity represents the last vestige of 60 years of the most complicated price and allocation controls known to man. The retail U.S. energy business is one of the largest single businesses in the world. It represents nearly a trillion dollars a year, of which, energy is only about \$300 billion. Currently, however, utility bills include all manner of products, services, information and technologies which are truly separate and very competitive businesses.

In the U.S., there are very few true supply monopolies or demand monopsonies. But between competitive sources of supply and demand there are two, full-blown, government sanctioned monopolies. One is an interstate transmission monopoly, and one is a local distribution monopoly. Current rules governing these monopolies are incredibly complex, hard to audit and impose enormously unnecessary costs on consumers in many different ways.

To help consumers and to lower energy prices quickly, monopoly barriers to new energy supplies must be repealed, and aggressive conservation and load reduction incentives must be implemented immediately. At the same time, both state and federal policies must squeeze the monopoly profits out of the two monopolies between supply and demand so that more competitive supplies can meet demand at lower prices.

Utilities should not have a monopoly or competitive advantage to provide competitive products, services, information and technologies. Utilities should perform solely natural monopoly functions. Regulated utilities should sell

transportation services on a "no frills" cost of service basis. Needed infrastructure investments should be given targeted, performance-based incentives. Regulations, tariff structures, interconnection rules, back up rates and operational protocols should be uniform and designed to permit competitive suppliers to provide all other energy-related products, services, information and technologies at competitive, not monopoly, prices.

III. Recommendations

There are a number of actions that federal and state governments need to take to encourage new investments in distributed generation technologies as an important part of the competitive restructuring of U.S. energy markets. NEM members operate in virtually every market that has opened for competition, and their broad base of experience was the basis for the attached document entitled, "*National Guidelines for Implementing Distributed Generation and Related Services*." In this document, NEM recommends fair and uniform business practices for interconnection, reasonable regulation of emissions, balanced planning and distributed generation valuation, fair tariffs for regulated services, and the ability to sell excess power.

NEM also recommends the expansion of existing energy and environmental tax credits to include *Qualified Restructuring Investments* such as advanced metering, computer system upgrades, and distributed generation and the provision of tax and performance based regulatory incentives for infrastructure upgrades, congestion management, maintenance and streamlined interconnection procedures.

A. Implementation of Distributed Generation Technology

Electric demand is increasing as a result of economic expansion and the 21st century digital revolution. As congestion on the existing grid mounts, investment in distributed generation can provide significant relief to consumers quickly and

cost effectively. Accordingly, NEM urges the adoption of five principles to encourage implementation of distributed generation.

As a general matter, regulators should unbundle and redesign distribution rates, eliminate penalties, redundant charges, and barriers to entry and implement tariffs that encourage investments. As currently designed, utility tariffs represent significant economic barriers to consumers that wish to invest in distributed generation and related technologies. NEM maintains that utility tariffs, operating practices and procedures must be rewritten to recognize that distributed generation can increase energy supplies, enhance system reliability and lower energy costs to both the utility and the consumer.

Utilities must provide equal, non-discriminatory access to markets for power and auxiliary services. Interconnection of distributed generation, in and of itself, does not provide distributed generation investors with equal and open access to either wholesale or retail markets. Distributed generation must have access to markets for the sale of generation and capacity as well as ancillary services. Distributed generators must also be able sell the output of their generation to the wholesale market and trade demand or energy reduction as a replacement for generation ("negawatt market"). Additionally, uniform and reasonable retail wheeling rates should be developed to maximize customer choice and permit a market for the local sale of power.

Federal and state governments must adopt uniform technical requirements and procedures for the interconnection of distributed generation technology. National, or at a minimum, statewide technical safety and reliability requirements, application procedures, forms, standards agreements, related testing and certification requirements and the elimination of existing penalties can reduce the costs and risks of investments by consumers in competitive new distributed generation technology. Uniform interconnection standards, policies and practices must be implemented to lower the costs of installation.

Consistent siting requirements and reasonable environmental permitting of distributed generation will reduce the cost and uncertainty associated with compliance for all parties. Similarly, local siting and environmental permitting requirements must allow investors in distributed generation technologies to comply in a realistic and timely fashion. At a minimum, emissions requirements should be phased in to provide manufacturers time to meet unrealistic or overly stringent emissions targets.

Finally, utilities should not be granted a monopoly or competitive advantage to provide competitive products, services, information or technology. Utilities should perform solely natural monopoly functions. Essentially, regulated utilities should sell regulated distribution services on a "no frills" cost of service basis. Regulations, tariff structures, interconnection rules, back-up rates and operational protocols should be designed to permit competitive, non-utility suppliers to provide each of the products, services, information and technologies that are not natural monopoly functions. The provision of distributed generation technology can and should be opened immediately to competition.

B. Federal and State Tax and Regulatory Incentives are Needed Immediately for Investments in New Energy Supplies, Conservation, Technology, and Infrastructure Immediately. The United States has entered the digital age with an energy infrastructure constructed for the industrial revolution. The United States is operating on a level of reliability that cannot support digital power quality needs. A flicker of the lights in Silicon Valley has global impacts.

One of the lowest cost, highest yield policy solutions is to create targeted tax incentives to encourage all forms of new energy supply, technology and conservation investments. This includes investments in new pipes and wires to reduce congestion, advanced metering systems, new computer systems, new energy supplies as well as distributed generation. Both the state and federal

governments have powerful and effective tools to encourage new investments in energy supply and conservation. The federal tax code already contains a myriad of targeted energy, environmental and efficiency tax credits that should be updated to increase the supply of electricity and natural gas and reduce consumption. Either or both the existing energy tax credits contained in Section 48 of the Internal Revenue Code (IRC), or the existing credit for research contained in Section 41 of the IRC, could be expanded to include "qualified energy restructuring investments." The credit should be available to both regulated and unregulated entities. To ensure that restructuring tax credits and regulatory incentives are targeted and effective, investments that are not "qualified" should also not qualify for stranded cost recovery.

Conclusion

Our country is urgently in need of new generation investments, and it is in the public interest that customers be incited to make these investments as soon as practicable. Toward that end, competitive barriers to entry must be removed to create a hospitable market for distributed generation investments including the adoption of uniform technical requirements and interconnection procedures as well as the elimination of redundant fees and charges. Furthermore, reasonable emissions standards and environmental permitting and siting requirements for distributed generation should be adopted.

At the wholesale level, distributed generation investors must have equal and open access to the markets for power and ancillary services. At the retail level, utilities' tariffs must be fully unbundled, and the utilities' role in the market should be defined as that of a no-frills, wires-only distribution company. All other competitive functions and products, including the installation and supply of distributed generation, should be provided by the competitive marketplace.

Additionally, existing tax and regulatory incentives must be expanded to encourage new investments in energy supply, technology and conservation. NEM

experts are available to work with Committee staff to draft appropriate language to implement these recommendations.

Respectfully submitted,

Craig G. Goodman
President
National Energy Marketers Association
3333 K Street, NW
Suite 425
Washington, DC 20007
Tel: (202) 333-3288
Fax: (202) 333-3266
Email: cgoodman@energymarketers.com
Website: www.energymarketers.com