Insight

To Keep Benefits of Competition, Do Not Intervene in Electricity Markets

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Introduction

On Thursday, April 5th, President Trump said that he would consider using his executive authority to prop up some struggling power plants. This possibility is not new; the administration has floated the idea of intervening in electricity markets several times this year. Yet this friendliness toward intervention highlights a few deeper questions: Why are incumbent power plants going out of business—because of government subsidies or natural competition? And should the government intervene to protect them?

What Is Section 202(c), and Why Is Trump Thinking About It?

The sale and distribution of electricity has several natural challenges (such as perfectly matching supply and demand in real time), and the nation's fundamental dependence on power means overcoming these difficulties is essential. As a result, the government puts an extraordinarily high value on the reliability of electricity, especially in times of crisis. To ensure that in the event of war or disaster (natural or otherwise) electricity would be provided reliably where it was most needed, the Federal Power Act (FPA) gives the federal government the authority (codified in Section 202(c) of the law) to order utilities to change their behavior to meet such needs.

Since 2000, the Department of Energy (DOE) has only exercised this emergency power of the FPA eight times. Most of those were in response to natural disasters (Hurricane Katrina, for example) or unforeseen developments that created electricity scarcity.

What President Trump and the DOE are considering now, however, falls well outside the typical usage of 202(c). A now-bankrupt utility operating in the mid-Atlantic, FirstEnergy Solutions (FES), requested that the DOE use its 202(c) authority to force consumers to purchase power from their struggling coal and nuclear power plants in the name of preserving reliability. Yet FES's argument appears weak at best: PJM, the organization that manages electricity competition in FES's area and is tasked with ensuring that enough electricity capacity is bidding into markets to maintain reliability, has said that the loss of FES's struggling plants poses no threat to electricity reliability.

The Trump Administration's active consideration of the FES request is another in a string of discussions over the past year regarding interventions and subsidies in electricity markets to prop up failing "baseload" power plants. Last September, Energy Secretary Rick Perry requested that the Federal Energy Regulatory Commission use its authority under sections 205 and 206 in the FPA to support coal and nuclear plants. After the

Commission unanimously rejected Perry's proposal in January, coal utilities began pressing Perry to explore the usage of Section 202 of the FPA, culminating in FES' request.

What Should be Done?

The Trump Administration is not unique in its desire to intervene in electricity markets, as the federal government and state governments already intervene in numerous ways. For example, FES wants to rid itself of $765 million worth of power purchasing agreements that are mandated by renewable portfolio standards in states FES operates in (Ohio and Pennsylvania being notable ones). Some defenders of traditional baseload power plants, such as coal and nuclear, contend that protecting these plants simply preserves power plants that are suffering due to government interference in their businesses.

While it is true that government interventions have distorted electricity markets, these interventions do not moot the fact that electricity markets still do exist and are facilitating competition among different providers. The degree to which government regulations or subsidies are causing incumbent power plants to fail is likely smaller than market forces' impact, as an American Action Forum report previously showed coal plants were mostly being replaced by natural gas rather than their subsidized renewable competitors.

FES' plants are simply noneconomic—the electricity they produce is more expensive than that from other plants. The failure of FES's plants means wholesale electricity markets are moving from higher-cost to lower-cost sources. That shift is a good thing, as it means economic value is increasing by producing the same product for a lower cost.

If Trump orders the usage of 202(c) to defend non-economic plants when there is no threat to reliability, he would undermine competition in electricity markets. Such an order would signal to competitors or potential entrants into electricity markets that profits are uncertain because the government is willing to protect incumbents. Further, it would show that the government lacked the political discipline to tolerate threats to reliability or high prices during scarcity, which are exactly the signals that incentivize producers to improve electric reliability.

President Trump and the DOE should ignore FES' request for usage of 202(c), and indeed should ignore *any* request for a 202(c) intervention if there is no accompanying threat to reliability that fits within the wartime or disaster definitions outlined in the law.

Conclusion

Market competition allows the economy to deliver better quality products at a lower price. Government interventions that protect incumbent producers from competition forgo the economic benefits of competition, and this principle applies equally to electricity markets as any other. Even though electricity markets suffer from substantial governmental intervention already, addressing the consequences of that intervention should not include intervening even more.

Unless there is a threat to electricity reliability (and in the case of FES there isn't) during a disaster or conflict, there is no benefit to using the powers of 202(c). Such an action would instead tell power companies that the ability to produce electricity more cheaply than others is a less viable path to success than receiving protection from the government.