

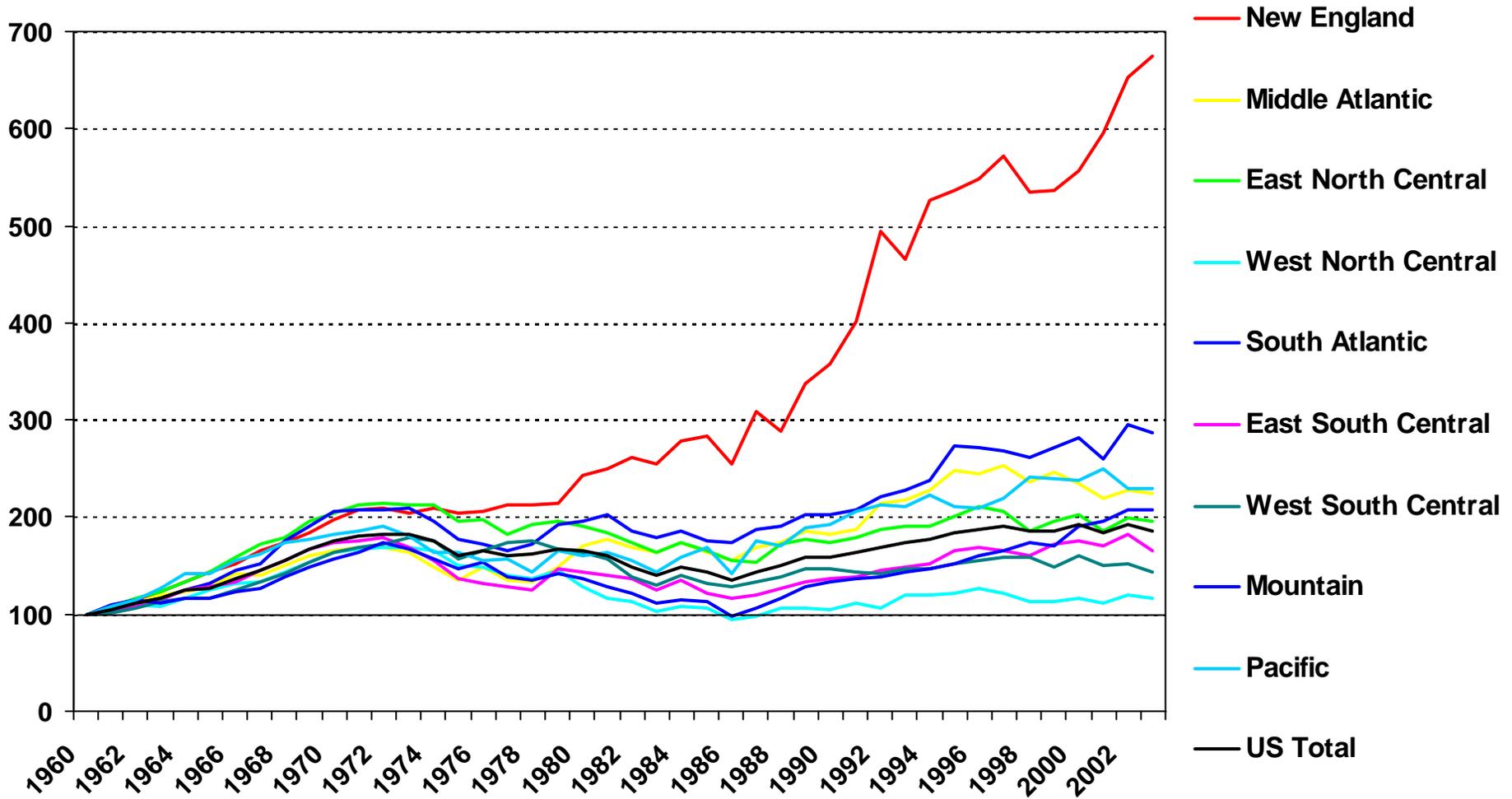
The Challenge of Energy Policy in New England

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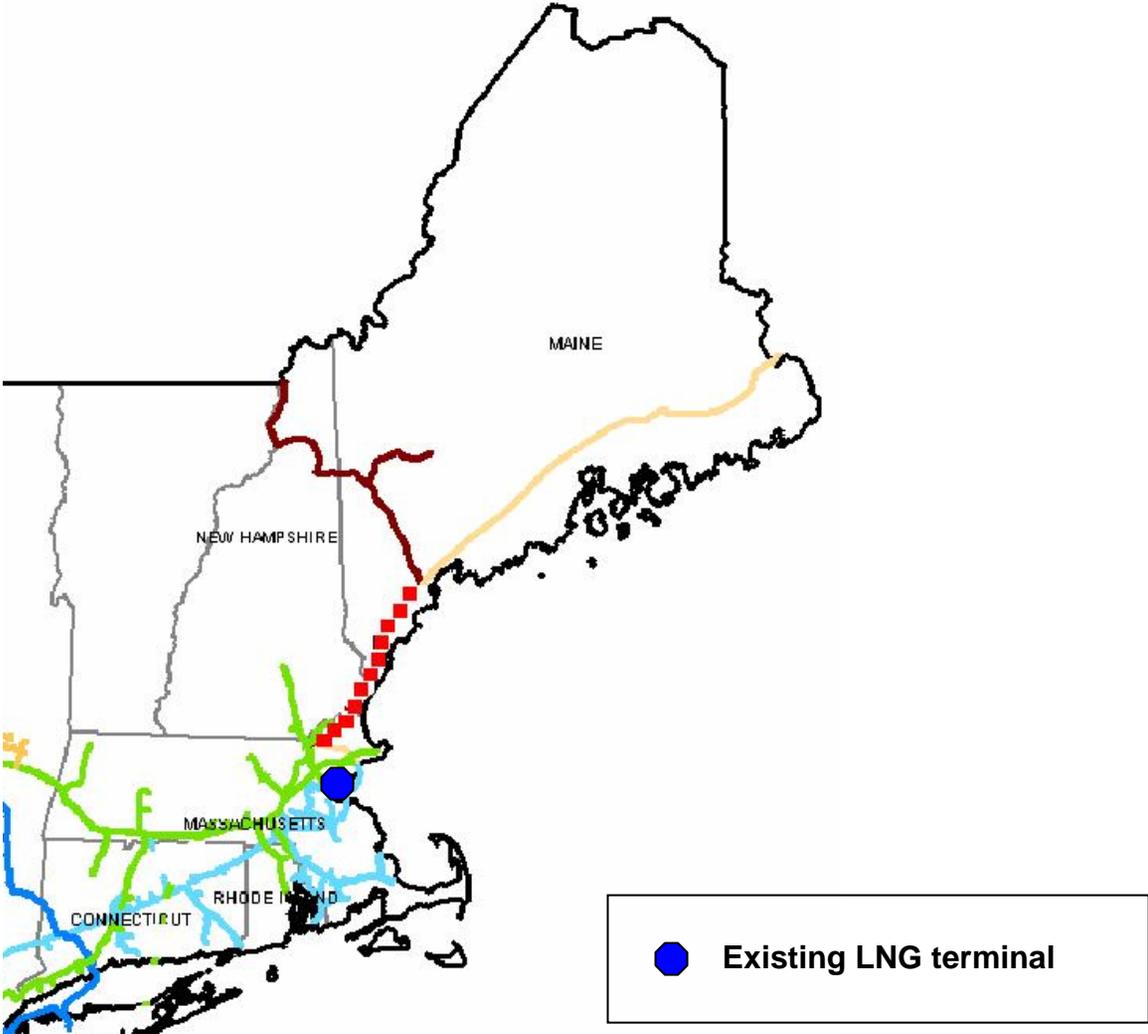
Presented at "Fueling the Future: Energy Policy in New England"
Federal Reserve Bank of Boston
December 2, 2005

New England's natural gas consumption is growing quickly relative to other regions

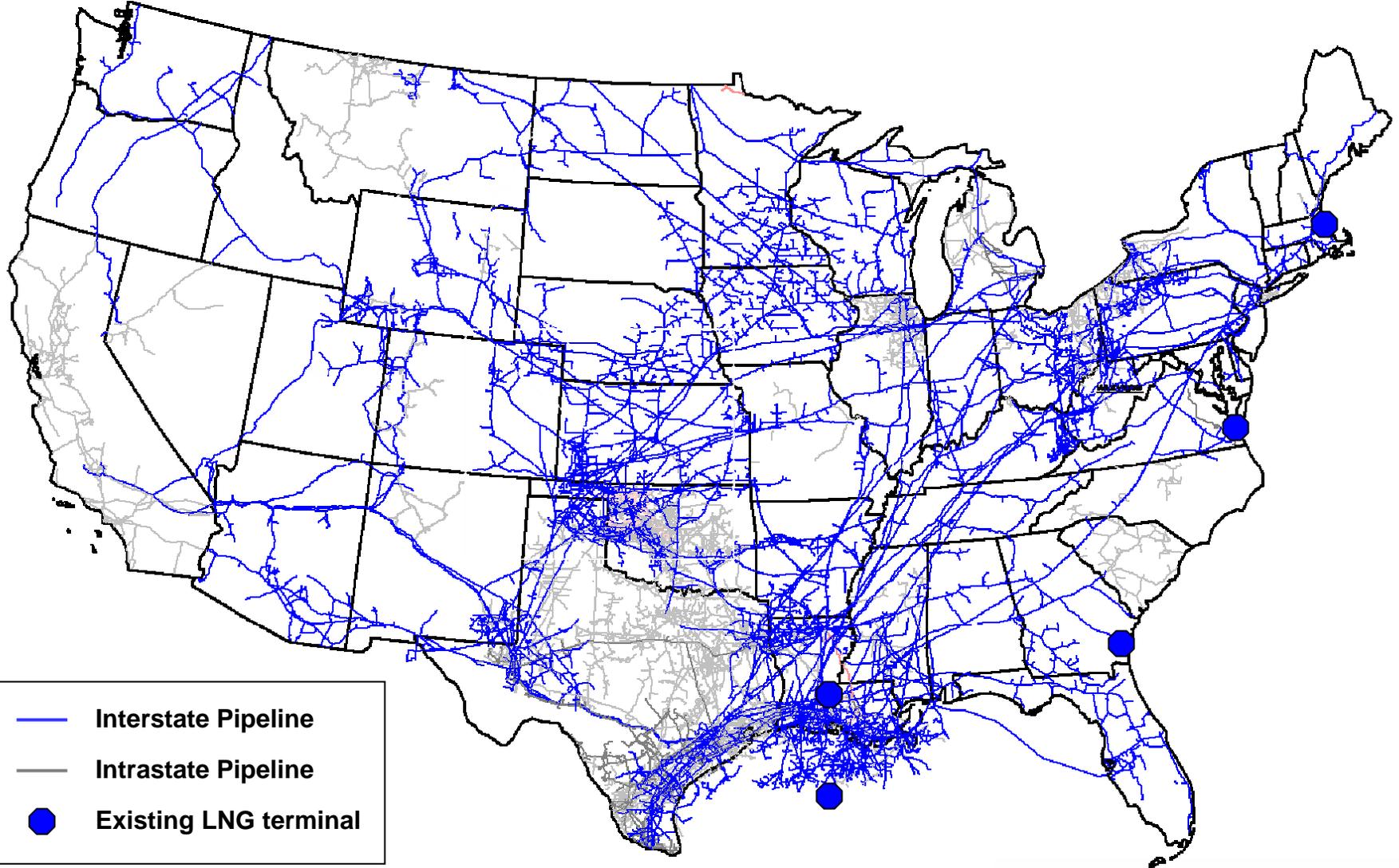
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The region has natural gas infrastructure...



...but not as much as some other regions

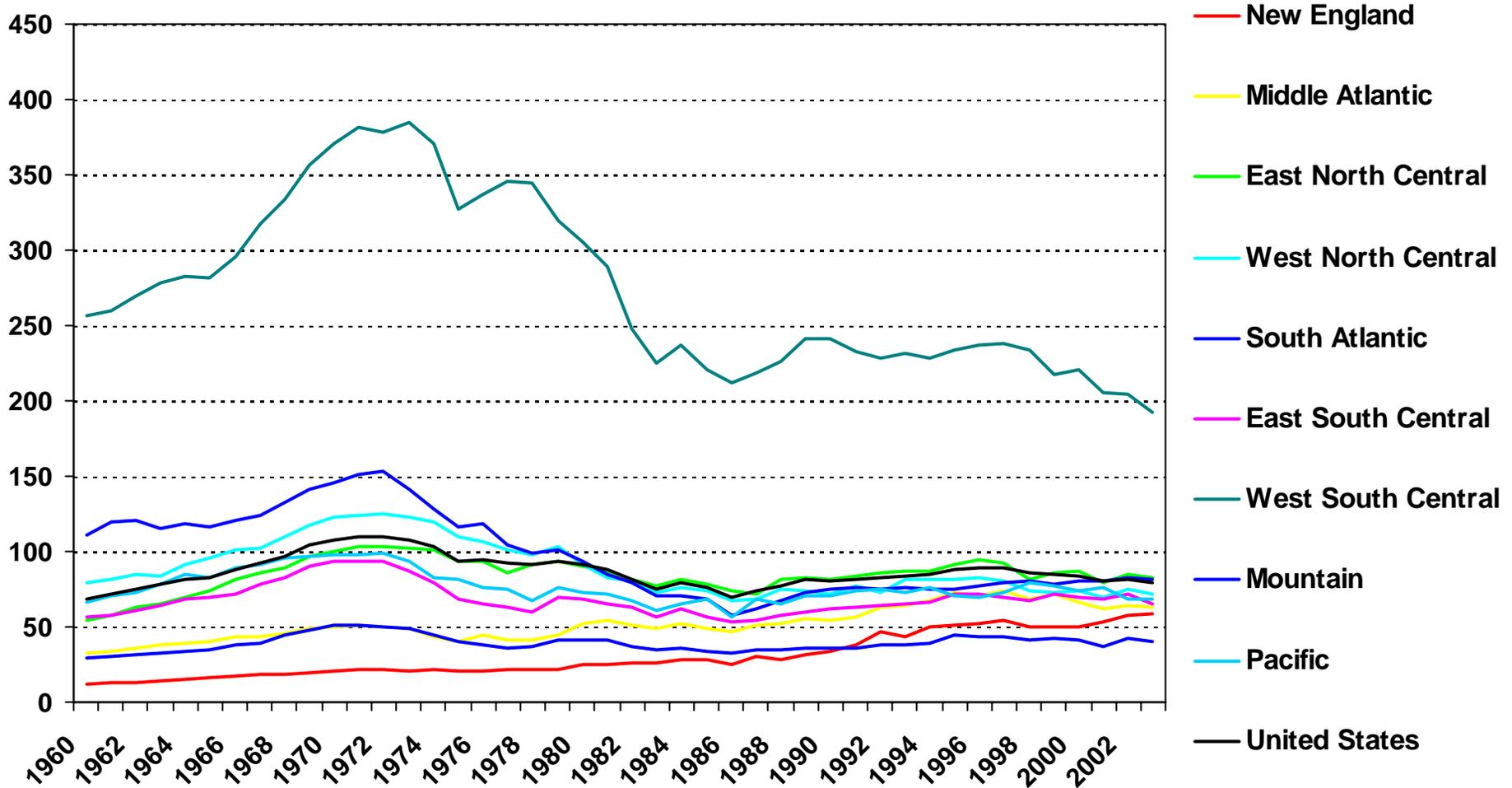


Why natural gas? Markets and policy

- Relatively abundant supply
- Supply perceived as more geopolitically stable
- Declining prices in early 1990s
- Changes in policy
- In electrical generation: cheaper, cleaner, and easier to build

Per capita, New England's gas consumption is typical

Million Btu per person



Is New England over-reliant on natural gas?

- 2004 cold snap caused major problems
- Adequate, but not ample, supply for the next 5 years
- More customers are competing for the same supply
- Potential effects on reliability

What is reliability?

- Short term: the system works well on a day-to-day basis and protects against disruptions
- Long term: the right infrastructure in the right place at the right time
- Private markets don't usually produce enough reliability

Policy for reliability: Maintain fuel diversity

- Ensures that the region is not too reliant on any one source of fuel
- Options
 - Increase supply of natural gas
 - Restrict how natural gas is used
 - Encourage renewables
 - Promote new technology development

Policy for reliability: Reduce demand

- Reduces need to expand capacity
- Options
 - Calculate rates in real time
 - Promote energy efficiency

Incentives for investment

- Building energy infrastructure is expensive and risky
- Since deregulation, particularly difficult in electrical generation
- Less than 1,000 MW of capacity is planned between now and 2008

Policy for reliability: Improve investment incentives

- Ensure that generators face appropriate incentives to invest in new infrastructure
 - Requires some form of capacity markets that reward generators for providing additional capacity
 - LICAP is one option, but not universally popular

Policy for reliability: Facilitate infrastructure siting

- Take into account both local and regional needs when siting new infrastructure
 - Clarify who has regulatory authority over siting decisions
 - Ensure that the process protects the public interest and is fair to all parties without undermining reliability

Fueling the future

- Governments and market have long worked together to ensure reliability
- New England state governments can and should take an active role in ensuring system reliability
- Without this, the region puts its economic prosperity at risk