The Challenge of Energy Policy in New England

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

Index 1960 = 100

Source: Energy Information Administration
The region has natural gas infrastructure...

Source: Energy Information Administration, FERC
...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

- New England
- Middle Atlantic
- East North Central
- West North Central
- South Atlantic
- East South Central
- West South Central
- Mountain
- Pacific
- United States

Source: Energy Information Administration
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