2018 Tulane Engineering Forum

Sourcing Electricity: The Changing Political Landscape

Jane Sadowsky
## Framing the Discussion

<table>
<thead>
<tr>
<th>Current federal administration is reversing prior administration(s) actions:</th>
<th>Sources of Electricity Generation (DOE, FERC)</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Clean Air Standards (EPA)</td>
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<td>Paris Climate Accords</td>
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<thead>
<tr>
<th>Stakeholder response has been mixed with pushback coming from numerous stakeholders:</th>
<th>Regions</th>
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<tbody>
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<td></td>
<td>States</td>
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<td></td>
<td>Corporations</td>
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<td>Institutional Investors</td>
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What is at Stake?

Balance of Governmental Power

Federal

Regional

State

Local
What is at Stake?

Balance of Governmental Power

- Federal
- Regional
- State
- Local

Increasing Influence of Non-Elected Stakeholders...
What is at Stake?

Balance of Governmental Power

Federal
Regional
State
Local

Increasing Influence of Non-Elected Stakeholders...

...Driven by the Desires of Consumers, Notably Millennials and Younger

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Time Horizons Are Asynchronous

Short Term
- Wall Street demands quarterly performance

Long Term
- Administrations change every 4-8 years and elections are held every 2 years
- Corporate strategies need long-term focus/tax/tariff policies

Asynchronicity
Issues to be Discussed

1. PJM / NYISO / ISONE NOPR
   1a. FirstEnergy
2. Tariffs
3. Auto Emission Standards
4. CEO / Corporate Initiatives
5. Institutional Investor Impetus
FERC NOPR on Transmission Resiliency

Federal Action
- Cost recovery for power plants with 90-days fuel supply for grid resiliency

Regional Response
- ISO/RTO comments indicated past and planned retirements did not threaten grid resilience

Corporate Response
- Oil and gas, wind, solar and clean power advocates were united in opposition to plan

Analysis
- Sec. Perry’s plan would have effectively re-regulated electricity prices in regions
  - FERC rejected NOPR
  - “Bomb Cyclone” in Dec/Jan proved resiliency of system

Note:
1. DOE’s own study showed retirements had not diminished grid resiliency
FirstEnergy

Overview

- FirstEnergy urged federal government to use its emergency powers under the Federal Powers Act to order PJM to negotiate a contract to compensate coal and nuclear plants for providing reliable power and jobs using the same “grid resiliency” argument as DOE used previously

Analysis

- PJM, FERC and DOE previously rejected FE’s claims; “fundamentally a corporate issue”
- Emergency Power reserved for specific, imminent threats (such as war), not when there is no actual grid emergency
- FirstEnergy appeal has not gained traction in Congress or among other coal and nuclear operators within PJM

Current Situation

- Apr. 1, 2018: FE Solutions (coal) and FE Nuclear Operating Co. (nuclear) enter Chapter 11
- Apr. 10, 2018: Murray Coal offers to buy FE Solutions if given subsidies by the federal government
Federal Action
- New tariffs on imported panels of 30% declining to 15% by year 4

Regional Response
- NY energy plan calls for 3GW of new solar by 2023; 3X installed base at end of 2017
- April 2018: NJ sets RES of 35% by 2025, 50% by 2030; announces ZECs

Corporate Response
- Bullish technology will offset increases
- Pre-purchased all panels needed thru 2019 and beyond

Analysis
- Hurts utility scale solar the most
- Solar industry employment: 250,000+ across all 50 states
- States requiring IOU’s federal tax savings be used to offset likely rate increases

February 2018
Auto Emissions Standards

Cooperative Federalism doesn’t mean that one state can dictate standards for the rest of the country.

Scott Pruitt
Administrator of the EPA

Federal Action
- Sec. Pruitt, EPA loosens vehicle fuel standards

California Response
- Ability under CAA to set rules more stringent than federal government
  - Bilateral talks ongoing, quietly
  - Northeastern states generally follow California lead

Corporate Response
- 2017: Missed CAFE targets; lobbied for loosening rules
- 5 major auto supply groups state “in the nation’s best interest” that US stay the course
- Auto majors express support for keeping prior standards

Analysis
- Huge investments being made in new generation technology; growth depends on globality

NRDC: “Clean vehicle technology directly supports 300,000 US jobs”
Corporate/CEO Involvement

- **Announcement**
  - Targets:
    - 36% GHG reduction by 2030 = 32 million cars
    - 31% GHG reduction across supply chain
    - 100% renewable/recyclable/certified packaging by 2025

- **Implications**
  - Where McDonald's goes, the rest of the industry eventually follows

- **Analysis**
  - Goals approved by
    - Impacts 37,000+ locations in 100+ countries requiring collaboration across the board
    - Decisions were reputational and consumer driven

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We also see many governments failing to prepare for the future... As a result, society increasingly is turning to the private sector and asking that companies respond to broader societal challenges... Society is demanding that companies, both public and private, serve a social purpose. To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society. Companies must benefit all of their stakeholders, including shareholders, employees, customers, and the communities in which they operate.

In the $1.7 trillion in active funds we manage, BlackRock can choose to sell the securities of a company if we are doubtful about its strategic direction or long-term growth.

**BLACKROCK ($6.3T AUM)**

Larry Fink’s Annual Letter to CEOs

January 2018
What Happens Next?

- Continued shift in balance of power among:
  - Federal, Regional, State, Local
  - Corporate, Investors, Consumers
- Will the shifts in power be permanent?
- Will the nascent trend toward localism cause change to happen quicker, more efficiently, less costly?

Short Term
- Wall Street demands quarterly performance
- Administrations change every 4-8 years and elections are held every 2 years

Long Term
- Corporate strategies need long-term focus/tax/tariff policies

Decision-making time horizons are asynchronous
Incongruity between MAGA and corporations’ desire for global growth
Similar Dynamics Implicit In...

- Space Exploration
- Privacy
- Healthcare
- Tax Policy
- Education
- Firearms
- Infrastructure
- Consumer Protection
Thank You!