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CVEC and the EPA Carbon Regulations

On Monday, 1 June, the federal Environmental Protection Agency (EPA) announced plans for rulemaking regarding reductions to carbon dioxide emissions for power plants. There will be a significant debate in the United States for the coming months and years about the plan. CVEC members and other interested parties might ask about the impact on CVEC and its power costs.

The short answer is that there will not be an impact on CVEC in the next few years. CVEC has already arranged for almost all energy necessary for 2015, and for about 75% of the energy it will need for 2016. The amount of energy with the price and terms already locked in varies, but includes more than 30% of annual needs out through 2024. The prices for this energy area generally already set and will not be impacted by the new regulations.

The long term impact on CVEC will be the same as the impact on the overall wholesale electric energy market. If the prices in the market go up 10% due to the rule, or to other factors such as natural gas pricing, then CVEC will generally expect the prices on its future contracts to be 10% higher. Because of the diversity in the CVEC approach to building its power supply portfolio, the higher prices will have a slower impact in raising the CVEC power supply prices.

CVEC does not own or have contracts specific to the output of coal-fired power plants. The contracted energy coming from specific sources are from a natural gas plant and a wind energy project. Many of the contracts only guarantee electricity from the overall market at a set price without a specific source of the power.

The long term impacts are impossible to predict at this time. Most analysts' prediction at this time is for increased costs in the wholesale power markets, including the PJM region in which CVEC resides. In addition to the impact on the overall market pricing for electricity, the rulemaking will likely affect the gas markets. The level of impact will depend in part on the ability of the gas industry to react with increased production. The location of the required new gas plants will also have an impact, either increasing or decreasing the amount of power passing through certain transmission line paths. The costs and/or benefits to the changing source locations on the transmission grid are unknown.

In summary, CVEC members will see no impact from the new rules in the next few years, followed by a slower increase over the next decade. Long term impacts are unknown due to the complexities of the rulemaking, but most analysts predict some increase in the overall electricity markets. Generally CVEC members can expect energy prices for the Cooperative to follow trends for the regional wholesale markets. Locations of new power plants to replace retired coal plants in our region could have some impact on future prices due to increased or decreased congestion on the transmission grid.