



**NEBRASKA POWER ASSOCIATION
POLICY STATEMENT ON EXTERNALITIES
(Adopted December 2013)**

The Nebraska Power Association (NPA) was established in 1980 to provide a forum for the Nebraska electric utility industry to discuss issues and provide services to all utilities in the state. NPA is a voluntary organization representing all segments of Nebraska's consumer-owned electric utility industry.

The Nebraska public power industry has a long history of providing Nebraska residents and businesses with affordable, competitive, and reliable electricity. One of the key drivers for low rates has been a statutory framework requiring the most economically feasible generation resource decisions.

Externalities

Current statutes provide that applications for new generation facilities must be approved by the Nebraska Power Review Board (NPRB) based upon a finding that the application a) will serve the public convenience and necessity, b) can most economically and feasibly supply the electric service resulting from the proposed construction (often referred to as the "least cost" standard), and c) will not result in a duplication of facilities or operations (Neb. Rev. Stat. §70-1014). This economic-based standard has resulted in low-cost resource decisions that have enabled Nebraska's electric utilities to consistently provide some of the lowest electric rates in the country.

Some believe an economic-based standard prevents significant public power investment in renewable resources. They would like this standard to be revised to include an evaluation of "externalities"—benefits and costs that may not be included in an economic based assessment. The premise is that an evaluation of externalities, particularly environmental externalities, will result in a more favorable consideration of renewable energy resources and less favorable consideration of fossil fuel-based resources.

The NPA opposes a requirement to evaluate externalities because it is duplicative, overly burdensome, and may have unintended consequences. A consideration of externalities is unnecessary in the NPRB approval process as these factors are considered in the myriad of regulations that must be met in order to permit, construct and operate a generation facility. Such an evaluation will unnecessarily add to the time and cost required to approve new generation, including approval of new renewable generation facilities. The NPRB does not have the staff expertise to evaluate externalities. These additional costs would ultimately be borne by ratepayers as the

NPRB's budget is wholly supported by assessments on the public power utilities. It should also be noted that NPRB recently approved an application for a 400 MW wind farm under the existing economic based standard, further illustrating that changes to the NPRB approval process to promote renewable energy development are unnecessary.

Externalities are generally regarded as a method to drive investment away from fossil fuel-based resources and toward non-emitting resources, such as wind and solar. However, this movement is already occurring as a result of new Environmental Protection Agency (EPA) regulations. These regulations effectively assure that no new coal-fired generation facilities will be built. Environmental externalities are addressed in these regulations, making it unnecessary to require an evaluation at the state level.

All generation facilities must comply with EPA air and water regulations. The very purpose of such regulation is to mitigate the impacts of the regulated activity. It is unclear what additional benefit would be derived by a state-based evaluation of externalities.

Requiring an externalities assessment may also have unintended consequences. The NPA is concerned that assessments of externalities tend to focus on the adverse impacts associated with electric generation, ignoring the many benefits provided by low-cost and reliable generation. Some externalities cannot be reliably measured or verified and these assessments will significantly increase the cost and time necessary to get an application for new generation approved including renewable resources. This may ultimately discourage investment in new, cleaner resources.

Legislation – LB 567

In 2013 Senator Ken Haar introduced LB 567 which requires an evaluation of a broad list of externalities. Specifically the bill requires that for applications before the Nebraska Power Review Board (NPRB) related to generation involving more than \$100 million of investment or 20 megawatts (MW) in capacity, the applicant must make a showing, in addition to establishing public convenience and necessity, that the benefits of the project outweigh the risks, including consideration of the following:

- 1) Health and environmental impacts of the proposed generation facility, including impacts on air and water quality, including projected health care costs;
- 2) Economic impact to communities located near the proposed generation facility and the State of Nebraska, including job creation and tax revenue;
- 3) Impact on water usage from the proposed generation facility, including the amount of water to be used, source of water, and the impact on agriculture and domestic use;
- 4) Risk analysis related to the life-cycle costs of generation, including projected fuel costs, regulatory compliance costs, and other related factors; and
- 5) Economic impact of obtaining fuels from outside the State of Nebraska.

The following is an analysis of each of these provisions.

“Health and environmental impacts of the proposed generation facility, including impacts on air and water quality, including projected health care costs.”

This is an incredibly broad and vague criterion. Take the term “impact” for example. “Impact” is an undefined term here. Presumably, it means *any* impact. Provisions such as these generally lead to litigation, also adding considerable unnecessary expense.

However, it is duplicative to require an assessment of air and water impacts because, as noted above, any generation facility must already comply with Environmental Protection Agency (EPA) air and water regulations.

Projected health care costs,” would be one of the most difficult provisions to evaluate. There are no definitive scientific studies linking electric generation to specific conditions or diseases and the NPA is concerned that many of these externalities cannot be reliably measured or verified. To illustrate, let’s imagine an application for construction of a new large wind farm. There have been reports of residents near other large wind farms experiencing headaches, dizziness, and vertigo. To what length must a utility address this “impact” in its application? How is it measured? What does the NPRB do with the information?

Economic impact to communities located near the proposed generation facility and the State of Nebraska, including job creation and tax revenue.

The economic impact included in the assessment of externalities often takes into account the positive economic development produced from renewable energy projects while failing to account for any negative economic impacts which should be included in a true assessment of the externalities. For example, if the development of renewable energy project results in the closure of an existing generation facility resulting in the loss of specialty jobs, will those negative impacts be assessed as well?

The provision is not clearly defined and it is unclear how economic impact is measured.

Impact on water usage from the proposed generation facility, including the amount of water to be used, source of water, and the impact on agriculture and domestic use.

Information related to cooling water needs is already included in generation applications to the NPRB. The primary concern with this provision is the “impact on agriculture and domestic use.” There is no guidance for how this impact is to be measured. This type of evaluation also seems to be beyond the purview of the NPRB.

Risk analysis related to the life-cycle costs of generation, including projected fuel costs, regulatory compliance costs, and other related factors.

Utilities conduct risk analysis on an ongoing basis. Decisions are made-based on the best information available at the time of the decision. Utilities also utilize a number of resources and methodologies to project fuel costs, but there are always factors outside of the utilities’ control that can influence and change cost projections.

The vague language at the end of this provision, “and other related factors,” is very problematic. This could allow interveners to continue to raise additional factors in order to delay an application.

Economic impact of obtaining fuels from outside the State of Nebraska.

This provision appears to be aimed at the utilization of Wyoming coal for Nebraska’s coal-fired power plants. This provision seems solely aimed at the cost of the fuel without recognition of the necessary baseload role provided by Nebraska’s coal-fired power plants and the reliability that they provide.

Conclusion

The NPA is opposed to legislation requiring an additional evaluation of externalities in the approval process for new generation. The current federal regulatory environment is challenging Nebraska’s electric utilities in many ways. The utilities are trying to maintain a high level of reliability within a new regulatory environment that disfavors carbon-emitting resources. These carbon-based resources continue to be a critical component of Nebraska’s diverse generation portfolio until there is a technically feasible and reliable alternative.

As Nebraska’s utilities continue to evaluate and integrate renewable energy alternatives in an effort to reduce reliance on carbon-based resources the NPA urges the Legislature to refrain from measures such as an externalities assessment. The NPA is very concerned these assessments will likely result in litigation and divert time and resources away from programs and activities that are critical to a long-term strategy that lessens Nebraska’s dependence on carbon-based fuels and allows for continued low-cost reliable electricity.

Adopted by the NPA Board of Directors December 2013.