The Editors’ Desk

We are proud to introduce the inaugural issue of EBA Brief. This new publication provides an opportunity for Energy Bar Association members to share ideas and expertise with their fellow EBA members and other legal and energy professionals in succinct, peer-reviewed articles. Intended as a complement to the Energy Law Journal’s comprehensive, long-form articles, EBA Brief will focus on shorter, topical pieces, enabling authors to address issues of the day more nimbly.

This inaugural issue hits the ground running with two illuminating articles by former members of the Federal Energy Regulatory Commission. Cheryl A. LaFleur, who served as a Commissioner and FERC Chairman during a nearly decade-long stint on the Commission, provides an essay on effective regulatory decision-making. Former FERC Chairman Pat Wood, III looks back at the last 100 years of federal energy regulation and offers some observations for today’s industry based on this historical retrospective.

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*EBA Brief* could not have gotten off the ground without the EBA staff and a strong team of volunteers. This publication was conceived by outgoing EBA President Jonathan Schneider, who, along with the EBA and Foundation of the Energy Law Journal Boards, has provided the effort with unflagging support.

Our *Energy Law Journal* liaisons Bob Fleishman and Harvey Reiter offered substantial guidance, and strong editorial assistance was contributed by Articles Editor Donna Byrne and the *EBA Brief* student editors at George Washington Law School, led by Neal Matthew Anderson and Zubin Chadha.

*EBA Brief* will be published quarterly, and we encourage EBA members to submit articles of interest to the Energy Bar Association membership. Article submission guidelines are posted on the EBA website.

Finally, we would be remiss if we failed to observe that *EBA Brief* is launching during a profoundly challenging time. We hope that our readers, their families and friends remain safe and healthy during the COVID-19 emergency, and we further hope that *EBA Brief* readers will find in it another small way to stay connected with colleagues as we navigate this difficult time together.

John McCaffrey
Nick Pascale
"You Can't Always Get What You Want": Finding Consensus in Regulatory Decision-Making

- By Cheryl A. LaFleur

I was honored to be asked to write for the inaugural issue of *EBA Brief*. It was suggested that I might focus my reflections on an effective approach to regulatory decision-making. Toward that end, I am adapting a speech that I gave when I was awarded the Carnot Prize at the University of Pennsylvania Kleinman Center last fall.

In the speech, I focused not on what energy decisions we should make, but rather on how we should try to make them. In doing so, I tried to convey my own lived experience of tackling difficult decisions, based on specific examples from my time at the Federal Energy Regulatory Commission (FERC or the Commission).¹

Energy Bar Association (EBA) members are well aware of the level of controversy and disagreement in today’s energy world. These disagreements are driven by the pace and scale of energy transformation, as well as the lack of societal consensus even on the need for that transformation. Given these conflicts, it is often remarked that today’s energy issues are more challenging than ever before. But my entire time in the energy world has been characterized by change and controversy.

At the risk of an “Ok, Boomer” moment, in the 1980s, we similarly thought that the issues we faced—including the prospect of independent generation and retail wheeling—were harder to address than any our predecessors had confronted. We cannot let the perceived difficulty of the issues we face keep us from working through them together.

"MAKE DECISIONS BASED ON FACTS, NOT POLITICS AND IDEOLOGY."

With that said, my first piece of advice is: Make decisions based on facts, not politics or ideology. Easy to say, and hard to do.

The changes we are experiencing in our resource mix create winners and losers across different companies, technologies, and communities. Given the high stakes for all concerned, it can be difficult to discern the truth from the rhetoric.

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"Those who cannot remember the past are condemned to repeat it."

- George Santayana

What led to federal regulation there? First, railroads were natural monopolies in many markets, oligopolies elsewhere. They had joined together under corporate trusts and were charging customers what were viewed as excessive and discriminatory prices. Second, transport by rail was a critically important industry, the principal connection between producers and customers across a large continent. Third, these business activities took place across state lines, therefore triggering federal jurisdiction under the Commerce Clause of the U.S. Constitution. The ICC was given nuanced authority to constrain many of the railroads’ powers, requiring public disclosure of rates and prohibiting discriminatory pricing. This put an end to the practice of deep discounting by railroads where there were competing lines and actually served to stabilize revenues, which prompted further investment.

Over the next century, particularly following the 1890 passage of the Sherman Antitrust Act, the nation’s first fair competition law, the ICC was given jurisdiction over oil pipelines,

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In 2013, the Obama Environmental Protection Agency (EPA) was preparing to enforce new Mercury and Air Toxics Standards for power plants which would result in closing many of the nation’s coal-fired plants. Many utilities, regulators from coal states, and Republicans on the Hill argued that closing those plants would make it impossible to keep the lights on. They called on FERC to use its authority over reliability to slow down the regulations. On the other hand, most Democrats on the Hill, the environmental community, and others disagreed and asked FERC to stand down and let the regulations go forward. FERC itself was similarly divided.

To break the stalemate, my Republican colleague Phil Moeller and I decided to convene a bipartisan task force with state regulators to better understand the rule, drilling down on the facts of how it would work in various regions. EPA Administrator Gina McCarthy offered her full support. We convened a series of workshops with the EPA, states, and other parties to talk through their concerns and figure out if there was anything FERC needed to do.

After more than a year of meetings, in response to our discussions, the EPA introduced a so-called “reliability safety valve.” If a company whose coal plant would have to close under the new regulations believed that the plant retirement could negatively affect reliability, that company could ask FERC to advise the EPA that the plant should remain open. Because we narrowed the focus to individual case-by-case fact-finding, we were able to satisfy both sides by ensuring that reliability would be protected if an extension was needed, but only where a sufficient demonstration was made.

In the end, the people who said that the new regulations could be implemented without harming reliability were right. Only a handful of plants came to FERC for extra time, and the issue died down. This fact-based approach broke a political logjam and helped the EPA regulations move forward successfully. In fact, FERC was able to use a similar process two years later when the EPA rolled out the Clean Power Plan to reduce carbon emissions. But you can’t wait for perfect facts.

"LEARN TO DEAL WITH UNCERTAINTY AND MAKE THE BEST DECISION YOU CAN."

My second piece of advice is: Learn to deal with uncertainty and make the best decision you can.
Not all decisions can be boiled down to case-by-case fact-finding. Sometimes, even after you have read all you can and heard from people on all sides of an issue, there is no clear answer. The complex energy issues that come before FERC are like spaghetti on a plate: a lot of twisted strands of different parties’ beliefs or commercial self-interests that FERC must untangle to find the public interest.

A critical part of being a regulator is learning to make decisions when the facts or the law are unclear. As Professor Scott Hempling has said, discomfort is inherent in decision-making. (Of course, that point goes well beyond energy and is true of many life decisions, but that is far beyond the topic that EBA has asked me to address!)

A prime example of dealing with uncertainty is FERC’s work on wholesale market design over the past decade, including its work to adapt market design and operating rules to new energy technologies—like demand response, renewables, and storage—that have different cost structures and operating patterns than traditional resources.

Almost by definition, when FERC considers these new market structures, it does not yet have experience with them—or a guarantee of how they will work. FERC has to do its best to assess the views of market operators and participants, listen to economic experts, and use common sense. And then, when FERC directs changes, it must monitor the outcome and adjust as facts change and experience dictates.

“...NOT DECIDING IS ACTUALLY A DECISION, AND IT’S USUALLY A DECISION TO PRESERVE THE STATUS QUO WHETHER IT IS WORKING OR NOT.”

I have always had little patience with people who need “one more piece of data” to make a decision. In fact, not deciding is actually a decision, and it’s usually a decision to preserve the status quo whether it is working or not. In the market area, requiring certainty would lead one to resist market evolution in favor of maintaining the well-understood resources of the past, even if those resources are failing to meet today’s climate imperatives or customer expectations. And change isn’t slowing down, so it will become even more important to learn to make decisions in an uncertain landscape.

My final piece of advice is: Seek compromise whenever possible with colleagues.
I know it was for Marc too—when the justices asked questions at oral argument about the net benefits test, and when Justice Kagan cited it in the opinion upholding FERC’s rule. It turned out that our work to achieve greater consensus on the FERC order helped save it.

A more controversial example relates to the Commission’s pipeline work during my last year on the Commission. In response to growing climate concerns and arguments in our dockets, FERC in 2016 began discussing in its orders not just the environmental impacts of the pipeline itself but the greenhouse gas emissions from burning the gas at the end of the pipeline. This was a practice that I helped institute and with which I strongly agreed.

Unfortunately, in 2018 the Republican-majority FERC stopped disclosing the downstream climate information in our orders, over my strong dissent and that of my colleague Rich Glick. In 2019, when there were only four members of the Commission—two Republicans and two Democrats—we were deadlocked, which threatened to keep the Commission from being able to act on any pipeline applications. Despite my disagreement with the majority’s position on climate, I tried to find a way to break the stalemate.

Ultimately, in specific cases in which I believed that a pipeline was needed and in the public interest, I voted in favor of
approving the pipeline—but then also calculated the downstream greenhouse gas emissions myself and disclosed that information in a concurring statement. Of course, I couldn’t always compromise. As in any negotiation, you have to know your bottom line. In cases in which I didn’t believe the pipeline was in the public interest, I refused to support approval, even if that meant the order could not go out.

I tried hard to do the right thing, but this approach was far from perfect, and I agonized about it. Indeed, true compromise often necessitates discomfort. If you accept some of another person’s ideas, you either vote for something with which you do not fully agree or settle for less than you think is ideal. But without a willingness to accept that discomfort, it may be impossible to achieve compromise.

I know that these personal experiences by no means provide a magic formula for solving disagreements about our energy future. But they are the best ideas I have for how to make decisions and find solutions on contentious issues, so I offer them in that spirit. Thank you for the opportunity to contribute to the *EBA Brief*, and for all that EBA does to provide a forum for consensus building on the important issues of the day.

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**End Notes**

1. Any successes recounted in these stories reflect the contributions of the wonderful advisors I had in my office at FERC, as well as the larger FERC staff and my colleagues. Thanks especially to Steven Wellner for reading and improving early drafts of the speech and this essay. Any mistakes are my own.

**ABOUT THE AUTHOR:**

Since October 2019, Cheryl A. LaFleur has served on the Board of Directors of ISO–New England, Inc. Previously, LaFleur was one of the longest-serving Commissioners on the FERC, serving from 2010–19. She served as Chairman from 2014–15 and as Acting Chairman from 2013–14 and during 2017. Earlier in her career, LaFleur had more than 20 years’ experience as a leader in the electric and natural gas industry. She served as executive vice president and acting CEO of National Grid USA, responsible for the delivery of electricity to 3.4 million customers in the Northeast.

LaFleur is a frequent speaker on energy and leadership issues. She has a J.D. from Harvard Law School, and an A.B. from Princeton University. She is married to William Kuncik, a retired attorney, and has two adult children and one grandchild. In her spare time, she is an avid fan of Boston sports, especially the New England Patriots and the Boston Red Sox.
telecommunications, and bus and motor carriers. (In 1934, the regulation of telecommunications industries was moved to the newly-established Federal Communications Commission (FCC)). Following numerous successful challenges to its rulings by the regulated industries, the ICC also got clearer statutory authority from Congress. Over time, the growth of motor carrier transportation (i.e. the trucking industry) and development of the interstate highway system introduced genuine inter-modal competition into transportation. Over time, Congress repeatedly lightened the regulatory regime on railroads and motor carriers, to the point that the ICC was abolished in 1995, with its few remaining duties delegated elsewhere.

In the burst of federal regulatory expansion during President Franklin Roosevelt’s tenure, Congress passed the Natural Gas Act in 1938. It gave authority to the FPC to regulate the rates of interstate natural gas transmission. This power also came to include the approval of new pipeline routes. The FPC’s role in the natural gas industry expanded greatly in the 1950s when the U.S. Supreme Court held that the sale of natural gas at the wellhead was subject to federal regulation. A generation later, after price controls caused massive natural gas shortages, Congress unwound this decision with, first, the Natural Gas Policy Act of 1978 (NGPA), and then, the Wellhead Decontrol Act of 1989. These legislative fixes were driven in large part by a recognition that price controls, as well as bifurcated intrastate and interstate markets, did not serve customers well. Meanwhile, the Federal Energy Regulatory Commission (FERC), successor to the FPC, was streamlining its regulation of the interstate natural gas pipeline industry by clearly separating the regulated pipeline transportation functions from affiliated (and non-affiliated) competitive supply and sales functions. Perhaps the most successful of all of the 20th century competition efforts, FERC’s restructuring of the natural gas pipeline industry has spurred investment by, and spread benefits to, all segments—producers, marketers, pipelines, and customers of all sizes.

In the same time period, oil pipeline regulation, which was moved to FERC in 1977, was changed by Congress to a more “light-handed” regime. The Energy Policy Act of 1992 (EPAct92) set forth a price index adjustment mechanism to the maximum rates charged by most interstate oil and refined products pipelines. As happened in the railroad industry, and later on in the natural gas pipeline industry, oil pipeline companies constructed competing delivery networks.
in growing markets across the continent. Viewing pipe-on-pipe competition alongside rail and motor carrier competition, FERC found a number of regions to be competitive, lessening the level of price and service regulation. Today, some common carrier regulation remains appropriate, but the role of the regulator is significantly reduced compared to the past.

"...THE EPACT92 LAID THE LEGAL GROUNDWORK FOR THE UNBUNDLING OF THE POWER INDUSTRY TO COME."

The EPAct92 dealt with many other energy matters besides pipeline ratemaking, including energy efficiency, natural gas imports and exports, and tax incentives for renewable energy. Of particular interest are the provisions facilitating wholesale power competition. FERC was given clear authority to implement open transmission access across the nation’s utility systems. In addition, the Public Utility Holding Company Act of 1935, a New Deal era law intended to curtail the market dominance of vertically integrated utilities, was amended to allow for Exempt Wholesale Generators. By creating a class of mostly unregulated generators, the EPAct92 laid the legal groundwork for the unbundling of the power industry to come.

For me, clarity about the role of the modern regulator came from newly elected Texas Governor George W. Bush.

In early 1995, while interviewing me to be his appointee to the Public Utility Commission of Texas (PUCT), he said: “Pat, the utilities care more about what we [pointing to himself and the Texas Senate and House] think than what their customers think. That’s wrong and we’re going to change it. Get us to a market.” Needless to say, I took the job because his customer-focused rationale resonated strongly with me. Plus, having served as a Commissioner’s counsel at FERC during the development of the last of the major natural gas restructuring rules, Order No. 636, I had a good template for how restructuring a network industry could be successful for customers.

The 1978 Public Utility Regulatory Policies Act was a major impetus for the development of the cogeneration industry along the highly industrialized Houston Ship Channel. The experience there, and elsewhere, made it clear that generation was no longer a natural monopoly, if it ever was. Tracking developments at FERC to open the nation’s interstate utilities to wholesale competition, in 1995 Texas opened up its non-federally jurisdictional power grid to non-utility generators and power marketers, and a
wholesale power market began to develop. This happened across the country over the next decade. Now, most of the country is served by independent grid operators which assure reliability and open access to transmission grids while facilitating transparent trading in regional power markets. Texas and a number of other states also have concluded that, as with generation, power sales are not a natural monopoly, and they have opened up their exclusive retail franchises to competition as well. This unbundling is ongoing at a state-by-state level, sped along by the advent of low-cost renewable energy, plentiful natural gas supplies, and economical battery storage combined with heightened public interest in environmental issues. Meanwhile, the remaining regulated network has required ongoing investment to ensure reliability and facilitate competitive markets.

Interestingly, the other major industry under PUCT jurisdiction was telecommunications. It is there that I learned much about the role of disruptive technology. Even though the major national phone monopolies were broken into separate local and long-distance voice businesses in the early 1980s, state and federal regulators continued using policy-based rate structures bearing little resemblance to actual costs. New technologies and business models arose to take advantage of this arbitrage opportunity and pressures quickly rose across the whole system. This led Congress to take action by passing the Telecommunications Act of 1996, which had a significant impact on the entire U.S. economy. Taking unbundling to a new level, the FCC in implementing the new Act, broke up the wireline networks of the local carriers (the “Baby Bells” and GTE), which had been historically regulated for telephone service at the state and local level, into piece-parts. State commissions set the prices for these network elements in novel arbitration proceedings and made them available at wholesale to competitors. Once that effort was finalized and competitors that were primarily the national long-distance carriers could enter local markets, the local carriers were given permission by the FCC to enter the long-distance voice markets.

The FCC’s attempt to jumpstart telecommunications competition akin to FERC’s natural gas and power models was short-lived, however, as technology and scale enabled new entrants, particularly cable TV companies and wireless carriers, to economically compete with their own fully independent networks. Competition centered on content, end-user equipment, and the network itself, rather than just price. Today, wireline voice telephone service, which, like electricity, was one of
the most essential services of the 20th century, is almost an afterthought as large nationwide telecommunications carriers compete to sell bundles of internet, cable/satellite TV, wireless service, and security systems to customers. The speed of this shift from a heavily-regulated, twisted-copper-pair, monopoly network world to one bristling with competing next-generation internet-based systems has been breathtaking. And today’s antitrust concern about the market power of popular internet platforms bears little resemblance to what underpinned the regulation of natural monopolies in the 20th century. But as with the other industries noted above, the telecommunications transformation is not complete—a significant remaining concern is the slow deployment of the new technologies in rural areas of the country, as the prior subsidy support systems have eroded.

"IN A FEDERAL SYSTEM, JURISDICTION IS MESSY."

So, what lessons have I taken away from this volatile century of federal regulation of networks?

1. In a federal system, jurisdiction is messy. States sometimes have non-economic goals that conflict with those of the federal government. And, when clarity from Congress or the courts finally arrives, it can get quickly overridden by technology advances, as we have seen in telecommunications policy and, more recently, with distributed energy resources.

"TECHNOLOGY IS RELENTLESS."

2. Technology is relentless. It doesn’t respect ratemaking principles, or stranded investment, or customer equity.

3. Economics carries the day. Subsidies are ephemeral. They have been effective at jumpstarting desired results like rural service, shale/tight sands gas production, renewable energy, and affordable residential service, but once they begin to markedly distort the overall markets, erosion by arbitrage is inevitable. Explicit payments to support public policies are preferable to hidden, embedded subsidies.

4. Sufficient infrastructure comes first, then competition, then deregulation—in that order.

5. Markets require balanced and vigilant oversight. The threat of burning in hell isn’t enough to throttle back bad behavior.

6. Networks enable new networks, and those new networks can look very
different (e.g., telecommunications / Internet, railways, pipelines, power grids). To the extent they are regulated, their services should be unbundled as much as can reasonably be done, and a collaborative process should be used to design standards for interconnection, interoperability, and reliability.

"REGULATORY CAPTURE IS REAL."

7. Monopoly regulation starts out as a form of customer protection, but often turns into monopoly protection. Regulatory capture is real.

8. Finally, each of these industries is deeply affected by the public interest, so the government will always be involved. Customers are the bosses, and when they are forgotten, they know how to get their elected officials’ attention.

End Notes

11. President George H.W. Bush’s comments on signing the Wellhead Decontrol Act of 1989 are instructive: “Natural gas, methane, one of the best fuels on the world’s energy menu -- it’s clean, it’s efficient, relatively abundant. But for 35 years, consumers and producers of natural gas have struggled under the burden of oppressive price regulations, and this was directly responsible, in my view, for the damaging natural gas shortages of the seventies and for gas market distortions that exist to this very day. And it is instructive to look at what natural gas price controls brought us: shortages, not increased supplies; higher gas prices, not the lower consumer prices that their supporters promised. And what was true for oil deregulation in 1981 is also true for gas deregulation in 1989. Experience shows that deregulation works to serve consumers and to serve an expanding economy. And it's a tribute to the American political system that, after decades of disagreement over the merits of gas decontrol, we can gather here today to state a clear message for all to hear: We've learned from the past. We are united in the conviction that the best way to deal with our energy problems and serve the American people is to let our market economy work.” President George H.W. Bush, Remarks on Signing the Wellhead Decontrol Act of 1989 [July 26, 1989], transcript available at http://www.presidency.ucsb.edu/documents/remarks-signing-the-natural-gas-wellhead-decontrol-act-1989.
Energy infrastructure developer Pat Wood, III has a long career in energy. He is the past Chairman of the Federal Energy Regulatory Commission and of the Public Utility Commission of Texas. Today, as principal of Wood3 Resources, Wood’s development focus is on new power system infrastructure. He is President of Hunt BEE Network, an energy storage business. Wood is also Lead Independent Director of integrated solar company SunPower and Director of utility construction firm Quanta Services. Wood holds a B.S. degree from Texas A&M University and a J.D. from Harvard Law School. He serves on the Executive Board of Big Brothers Big Sisters Lone Star, the National Petroleum Council, the National Renewable Energy Laboratory External Advisory Council, and the Texas A&M Smart Grid Council. He and his wife, Kathleen, are the parents of four sons, and they are proud to call Houston home.
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The Energy Bar Association (“EBA”) is committed to the goals of fostering an inclusive and diverse membership and increasing diversity across all levels of the Association. Attorneys and energy professionals in the energy field are welcome to join our ranks, regardless of race, creed, color, gender (including gender identity or expression), sexual orientation, family and marital status (including pregnancy), family responsibilities, religion, national origin, age, personal appearance, political affiliation, veterans status, disability, source of income (government, solo, corporate, firm practice), or place of residence or business (geographic diversity) and are encouraged to become active participants in the Association’s activities.

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