Washington Insider -- Friday

Wind Buffets Energy Landscape

3/30/2018 | 9:17 AM CDT

By DTN's Washington Insider

Here's a quick monitor of Washington farm and trade policy issues from DTN's well-placed observer.

HOUSE AG PANEL CHAIR REBUTS DEMOCRATIC CLAIMS ON NUTRITION PROGRAM PROPOSALS

House Agriculture Chairman Mike Conaway (R-Texas) roundly dismissed Democrats' criticism of his proposed changes to the Supplemental Nutrition Assistance Program (SNAP) in the coming House farm bill, arguing the details being flouted by Democratic lawmakers and aides are not what will be in the measure. Expectations are details of the language will be released when lawmakers return the week of April 9.

"Once the American people see this, and once my Democratic colleagues see exactly what we're doing as opposed to what they've been told we're doing -- which from what I can tell is not exactly accurate -- I think they'll see the value of it and join us," Conaway told American Ag Network of his proposal to tighten SNAP work requirements and eligibility. Conaway, like other Republicans in recent days, said no one would be kicked off SNAP.

As for the contention the proposals would cut $20 billion from the program over 10 years, Conaway said he did not know where the $20 billion figure came from, referencing a figure in a Democratic document. As for the fate of the coming House farm bill, Conaway said, "Folks who want to vote against it, vote against it. And they then get to look their constituents in the eye and tell them why the safety net is not important for production agriculture, why these improvements to SNAP are not important to beneficiaries and to taxpayers."

REPORT SAID US SOYBEAN INDUSTRY, CHINA OFFICIALS DISCUSSING TRADE SANCTIONS

Representatives from the U.S. soybean industry and officials from China's Agriculture Ministry have been meeting in Beijing this week to discuss ways to keep trade sanctions from hitting U.S. soybeans and other agricultural products from sanctions, according to the South China Morning Post.

The report quoted U.S. Soybean Export Council board member Kevin Scott as saying, "The Chinese had called for the meeting and wanted to discuss soybean issues and it sounds like they don't want a disruption either in the soybean flow. I think they're trying to get that worked out."

The report also said that several U.S. ag and commodity organization representatives have been called to a meeting at the Office of the U.S. Trade Representative to discuss trade issues in a roundtable format, with the session organized by Gregg Doud, chief U.S. ag negotiator at USTR.

WASHINGTON INSIDER: WIND BUFFETS ENERGY LANDSCAPE

One of the key U.S. economic developments in recent years has been the development of the natural gas sector and the declining dependence on coal.

The shift away from coal has frequently been seen as a bridge to an era in which alternative energy would take primacy, the New York Times said -- and added "technology and economics have carved a different, shorter pathway that has bypassed the broad need for some fossil-fuel plants." It concluded that these trends are now putting proponents of natural gas on the defensive.

The New York Times said that some utility companies have "scrapped plans for new natural-gas plants in favor of wind and solar sources that have become cheaper and easier to install." Existing gas plants are being shut because their economics are no longer attractive. And regulators are increasingly challenging the plans of companies determined to move forward with new natural-gas plants.

The shifting dynamics are being seen in the Western states in particular -- driven not only by economics, but by regulation and climate as well.

"It's very erratic what we're now doing with power," Andrew Tobin, an Arizona commissioner who led efforts to block new gas plants, told the Times. "I am so nervous that we will end up building a lot of capital plant that doesn't stand the test of time."

Some feel the push to get beyond natural gas may be too much, too soon, NYT said. Officials at Arizona Public Service, the largest utility in the state, said they needed to include new natural-gas development as part of an overall mix, in part to meet the state's round-the-clock air-conditioning demands.

"Gas has got to be part of the energy equation," Robert F. Powelson, a commissioner on the Federal Energy Regulatory Commission, recently told an energy conference. He argued that even recent advances in storage did not justify an overreliance on alternative energy, however inexpensive. "Storage is great," said Powelson, a nominee of President Donald Trump and a former chairman of the Pennsylvania Public Utility Commission. "But that is not a reliable long-term solution to the energy markets."

Natural gas isn't likely to be unseated as the country's primary source of electricity generation anytime soon. In fact, utility companies plan to add more natural-gas plants than any other source, including all alternative energy sources, like solar, wind and hydropower, combined.

And the latest report by Lazard, the financial advisory and management firm, found that the cost of power from utility-scale solar farms was now on a par with natural-gas generation -- and that wind farms were less expensive still.

Lazard calculated the unsubsidized cost of wind power at 3 cents a kilowatt-hour, while natural gas and solar energy were a little more than 4 cents.

Overall, the market equation in the West is driven largely by California, the sixth-largest economy in the world, which has mandated that 50% of its power be generated from renewable sources by 2030. With a regional energy market run by the state's electricity grid overseer, the California Independent System Operator, fossil-fuel plants have had increasing difficulty selling their power into a market with low-cost solar and wind power.

At the same time, state legislatures and regulators are increasingly demanding that utilities rethink how they manage their systems to reduce carbon emissions. NRG Energy, for example, announced this month that it would close three natural-gas plants in California because of the regulatory push for clean energy.

After NRG's announcement, Calpine, a power company based in Houston, said it would suspend plans to build a natural-gas plant in California. "We cannot invest a single dollar in California," Thad Hill, Calpine's chief executive, said. "I would not call California a true competitive market."

But a big Oregon utility, Portland General Electric, has embraced clean-energy mandates to ease it off dependence on fossil fuels.

"First off for us, climate change is real and we have to diversify our mix," said Dave Robertson, the company's vice president for public policy. "We're driving more and more toward a decarbonized future. We really feel like we've got to own that. It's really where the science is taking us."

This month, PGE entered into an agreement to buy surplus hydropower from the Bonneville Power Administration -- the surplus arises largely from California's turn to other renewable sources -- helping the utility avoid construction of natural-gas plants to replace a coal facility.

"There are surpluses of energy that are looking for markets," said Brett Sims, PGE's director of strategic planning and resource strategy.

PGE's view offered a hopeful message to environmentalists, who pushed for the weaning off coal and now have done much the same with natural gas.

Mike Brune, executive director of the Sierra Club, said that there is already "a broad trend across the energy sector, mostly in the West, where coal and natural gas can't compete."

Robert McCullough, the Portland energy economist and principal at McCullough Research, said that the rapid change had caught many in the industry by surprise and that it could lead to a shorter future for natural gas.

So, this seems to be an emerging trend in the economy that has the potential to affect agriculture, including the market for ethanol -- which already is under pressure in some areas. The new structure of energy markets will be surprising to many and should be watched closely by producers as it emerges, Washington Insider believes.

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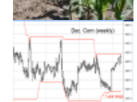

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