



## Utility Procurement of Wind Resources

*Improved wind power technology has increased its reliability and lowered production costs.*

Improvements in technology during the last few years have increased reliability and lowered the cost of producing wind energy sufficiently to encourage many utilities to secure contracts for wind-generated power. However, as the electric industry faces increased competition, some utilities have canceled plans to contract for wind power and, in other cases, have revoked the acceptance of winning bids for wind power production. While these actions reflect the short-term cost concerns of some utility resource portfolio managers, long-term benefits to electricity consumers and producers alike are at risk during the transition phase of market restructuring.

Because wind resources are not subject to fuel price fluctuations or the risks of potentially expensive environmental regulations (as are traditional fossil fuel generation methods), wind energy offers long-term price stability in addition to pollution-free energy generation. Restructuring of the electric industry likely will provide both large industrial and smaller commercial and residential consumers with a choice of electricity suppliers and resource portfolios to suit their needs and preferences. In this competitive atmosphere, price stability and environmental benefits may become as important as short-term price reductions, especially to residential and commercial customers. These factors suggest that withdrawing support for renewable energy, including wind power, may not be a wise long-term business decision.

### Enhancing customer choice

Policymakers should become familiar with several issues that are likely to surface during the transition to a restructured electric market. Provision of customer choice of electricity generated from different sources allows the public to express its support for renewable energy. Market research indicates that residential and smaller commercial customers are likely to support renewable energy production. Consideration may be given to laws and guidelines that encourage small customer aggregation and reduced transaction costs for smaller customers.

*Accurate information must be made available to both buyers and sellers of electricity.*

To establish fair and efficient markets, accurate information must be made available to both buyers and sellers of electricity. If buyer information is exclusively retained by the former monopoly utility, competition will be restricted. To ensure that customers will receive accurate information about the source of electric utility portfolio options, entities that distribute electricity should be required to provide customers with costs, benefits and risk data on their electricity supply. Because renewable energy options are less familiar to the public, such information will help customers to understand the available options.

### **Contract flexibility**

Wind developers and utilities will have to agree to contracts that create adequate flexibility for all parties involved. Contracts that contain provisions for early buy-outs or flexible prices, adjustable according to short-term market prices, may be necessary in a competitive environment.

### **Upgrading the system to accommodate renewables**

Often, wind plants are built in remote locations. Transmission requirements for connecting a wind plant to the electric grid must be explicit in contract negotiations. If this connection requires extending or reinforcing a power line, the costs should be reasonable to preclude discrimination against renewable energy. If wind power plants can be located near distributed load centers, the plant should be compensated for the value of avoiding transmission line losses and overloading that would have resulted had power been dispatched from central power stations.

*As markets are restructured to foster competition, environmental issues may become more important.*

### **Environmental issues**

Environmental issues will demand the attention of policymakers as markets are restructured to foster competition. States may consider establishing incentives to cease operation of older, high-polluting generation plants and prevent the reintroduction of old, retired plants. Others may impose pollution caps to protect air quality and to encourage the introduction of new, cleaner technologies such as wind power.

### **Regulatory stability**

Regulatory stability will be crucial throughout transition and the early stages of a restructured industry. Financing for new generation facilities, like wind power facilities, will depend heavily upon a reasonably stable regulatory environment. For wind power to compete, conditions under which facilities will operate must be clear so that estimations of revenue can be made with at least some degree of certainty.

### **Large and small generators**

Abuse of market power by those who control large generation operations is another area of concern. Utility commissions and state legislatures may choose to support competition by ensuring ease of participation for small generators. Some states do not want to allow large industrial generators to discourage or prevent entry into the supply market by nonaffiliated or smaller generators. Canceling contracts with renewable energy providers or establishing discriminatory participation requirements in evolving "power pool structures" should not be allowed. Decisions concerning the separation of ownership or management of utility functions (generation, transmission and distribution) will determine barriers to entry for power suppliers.

This brief was summarized by Jeff Dale, National Conference of State Legislatures, from a *Wind Energy Series Report* by Jan Hamrin, Hansen, McQuat & Hamrin Inc.

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