Are Tax Incentives Enough to Spur the U.S. Energy Transition Forward?
Ken Irvin and Robin Lunt
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Ken Irvin:
2024 could see a big leap towards a more reliable and cleaner electric grid. The federal government is authorizing 650 million dollars in grants to more than 50 electric cooperatives across the United States this year. The goal is to help them promote grid resiliency through clean energy initiatives.

Resiliency is often defined as functional recovery in a reasonable amount of time. Will these and other incentives entice businesses to adopt clean energy, or will political uncertainty in this election year tamp down these efforts? We'll find out in today's podcast.

Robin Lunt:
Bringing competition to the market benefits consumers and causes reductions in greenhouse gases. I think the more people engage with and understand their own participation in the electric sector as customers, the more we'll advance innovation and change, and those hard conversations that need to be had about siting a solar farm in your community or building a transmission across your farmland.

Ken Irvin:
That's Robin Lunt, Chief Commercial Officer at Guzman Energy, a wholesale power provider dedicated to helping communities seeking affordable and reliable energy. In today's podcast, we'll discuss what businesses need to know about adopting clean energy and the infrastructure to make it happen amid all the legislative and regulatory uncertainty.

From the international law firm Sidley Austin, this is Accelerating Energy. We drill down on critical and late-breaking topics in energy transition and policy. We help businesses look over the horizon for what lies ahead. I'm your host, Ken Irvin.

Hello, and welcome to the second episode of Sidley's Accelerating Energy podcast. Robin, it's great to have you here today. Thanks for joining us as we kick off what will surely be a busy year for the energy sector in 2024.

Robin Lunt:
Thanks, Ken. Such a pleasure to be with you. I think there's so many moving parts, both in the industry, writ large, and then things coming out of Washington D.C., both implementation of the Inflation Reduction Act and movement at FERC. So, I think it's an exciting 2024, for sure.

Ken Irvin:
It most certainly is, and I look forward to diving into all that with you, but before we start, could you share a little bit more about your organization, Guzman Energy. You all partner with cooperatives, municipalities, companies, and Native American tribes, to help customize energy portfolios.

Robin Lunt:
Absolutely. So, I'm the Chief Commercial Officer for Guzman Energy, which means all of the contracts that we enter into, both for the customers, which are, you know, distribution utilities, so, the utilities that run the wires to people's homes and have those retail relationships, and also the contracts for power that we offtake, often through PPAs or tolling agreements.

And really, the focus of Guzman has been in the Intermountain West, Colorado, New Mexico as a starting point, and providing price certainty and more opportunity for innovation to our customers, who are those load-serving entities, distribution utilities.

Ken Irvin:
That's interesting, and it seems like a burgeoning market. I heard you describe co-ops as a great bellwether for times. How are co-ops indicative of what's percolating around the country?

Robin Lunt:
It's interesting because before I came to Guzman, I had spent some time in Washington D.C. and working at FERC, and I didn't really even know what a coop was, to be honest, and then, coming out and getting engaged with

these distribution utilities, they're much closer to the customer. So, most of them are community-owned, the cooperatives are, and then tribes are owned by their tribes, or municipalities by the city.

So, they're closer to the customer than maybe what you see in your traditional investor-owned utilities, and I think that, on one hand, co-ops were created during the New Deal to electrify rural parts of America. Many parts of America that were once rural are no longer rural, but they still have these cooperative mindsets of engaging directly with the ownership of their customers themselves. So, the people who take power from these co-ops also own the cooperative.

So, there's aligned incentives around innovation and customer service there that sometimes is missing, and you see it in the nomenclature, right, of investor-owned utilities, where sometimes customers are referred to as rate-payers rather than customers. So, there's a mentality shift when you're in a community that's, you know it's your neighbor, it's your friend, it's your brother who are also the people who are owning and running this cooperative.

So, in some ways, you can think of them as New Deal-era created, there's sort of slower cadence to the changes and innovation there, but at the other hand, they're so much closer to the customer, and I think the customers are driving a lot of transition in the energy sector. You see that with the Googles, and the Apples, and the big companies who are looking to have more renewable energy and advancing those initiatives.

And so, you see that, also, with cooperatives. So, some of our early customers wanted more local control of their power supply, and they couldn't get that from the G&T, which is a generation and transmission cooperative, which historically invested in large-scale coal power plants and then long-distance transmission lines to electrify these rural communities.

Moving forward, there's more opportunities for renewable energy, distributed energy, and local community control, both sources of energy and the renewable content, and also to manage the economic impacts of these communities, which are often underserved and a little bit less affluent than some of your cities.

Ken Irvin:
That's interesting. I know, like you said, about co-ops, right? It's a lot of local involvement. The customers are the owners and actually have a shot at being elected to the board of directors, in some cases, whereas in your large IOU, investor-owned utility, that's probably very, very close to zero kind of percentage chance there.

I appreciate that, historically, there was a lot of fossil, and out in the West, a lot of coal-fired generation. And now, it sounds like you all are helping co-ops, municipalities, green up their supply stack. Does that make Guzman a disruptor, or are you a catalyst for the change? Is the interest in renewable energy coming from the co-op end-users and owners?

Robin Lunt:
It's a combination of things. So, the Guzman model is providing certainty to the customer. So, we enter into long-term contracts with fixed prices. So, over 10 or 15 years, we're providing these co-ops a known cost for their power supply. That happens and is enabled largely through the fixed price of generation that comes from renewable energy. Any generation source that has a fuel source, coal or gas, is going to be inherently variable, depending on that commodity price.

So, a large percentage of solar and wind and batteries enables a fixed-price transaction for the customers, for the distribution utilities, and in some ways, that is often the main motivator for these cooperatives and other distribution utilities is their power supply cost is their number-one cost and historically has been entirely variable depending on the choices that are being made by their wholesale provider, and those costs get passed along to these distribution utilities.

So, I think it's a combination of economics and then renewable goals. Communities want investment in their service territory. They like to see solar farms or wind farms in their service territory, and then they like to see the price certainty, which is available through those fixed-price contracts.

Ken Irvin:
So, you can eliminate some volatility with gas or coal prices going up and down, with the changes in the weather and the global market.

Robin Lunt:
Exactly.

Ken Irvin:
That's interesting. I saw that, recently, one of Guzman Energy's clients/customers, Kit Carson Cooperative, is making headlines for their "break-up" with fossil fuel. They were also one of the co-ops selected for federal funding to enhance grid resiliency. Tell us about how it went with Kit Carson, and is that inspiration for others to follow suit?

Robin Lunt:
Kit Carson is a vanguard, they're in Taos, new Mexico, which is an interesting community, a combination of long-standing ranchers and farmers, and then people who moved there, like Julia Roberts, to live near a ski area. So, they have the combination of very wealthy people, and then longstanding community members who are invested in the economy there, and some Native American tribes, as well.

So, their leadership has been, they were one of the very first to break up with Tri-State Generation and Transmission cooperative that had otherwise been providing them power. Tri-State had asked their co-op members to extend their contracts from 2040 to 2050. So, these are like long, long-term contracts.

Ken Irvin:
That's a long term. Yeah.

Robin Lunt:
In order to fund a coal plant in Kansas, Holcomb, that actually never got built, and there were two cooperatives, Kit Carson and Delta-Montrose, both of whom who had recently left Tri-State, who declined to extend their contracts to finance the coal plant. So, in some ways, they were the first vanguard of, hey, there's alternative suppliers closer to home that we want to take advantage of rather than just extending our commitment to this G&T to be able to finance a coal plant.

Since then, Kit Carson has installed a ton of solar, a bunch of batteries, and is engaging in the marketplace there, and even exploring hydrogen, and

part of the reason that they've been able to do that is that we entered into a fixed-price contract with them, provided them rate stability, and then gave them additional opportunities to innovate within the construct of our agreement with them, our wholesale power agreement, and also giving them the financial footing to be able to make those independent decisions rather than having to go through their larger G&T power supply, which can strain the innovation that was available.

So, I think, absolutely, I mean, Kit Carson is a lightning rod, and we love them. I think you'll see a ton of innovation there and a great opportunity. You know one of the things that they…they were early adopters of battery storage. We discharged that for them, and it's a balance of supplying resiliency to their distribution system and then also buying and selling in and out of the CAISO EIM, which is part of New Mexico.

So, there's an evolution in the markets that enable and fund some of that innovation as well. So, that's where I see, going back to your first question, these co-ops as being vanguards. If they have the opportunity to be flexible and experiment a little bit, then they can bring new revenue opportunities to their communities and advance those initiatives.

Ken Irvin:
Colorado has a mandate to move toward renewable energy and off of fossil fuel. Is that helping with that effort at the vanguard there and helping with flexibility? How do you see Colorado's efforts, toward moving toward their goals of 80 percent renewable by 2050?

Robin Lunt:
Absolutely. It's 80 percent by 2030.

Ken Irvin:
Oh, 2030. I stand corrected.

Robin Lunt:
They're driving really soon, really quickly, and every time you turn around, there's a new legislative effort. I think we'll see something directionally trying to get to net zero carbon emissions by 2050 here in Colorado. You know Colorado is really uniquely situated because we have the Eastern Plains that has excellent wind resource, and then we also have incredible

sun, and so, there's a cost-effective opportunity to invest in those reductions that might not be available in other places.

The other thing about Colorado, and really, the West that's understated and misunderstood, or not as well understood as I would've expected, when I was in D.C., I didn't get…I didn't realize that in some ways it's the Hawaii of the West, that it's isolated, but in other ways, it's incredibly well-connected to a variety of markets that are not necessarily aligned.

So, if you think about this past weekend, where it was incredibly cold throughout the country, really, Colorado and the Guzman platform is positioned to move power in and out of SPP, which is the Eastern Interconnection right at our border, and then to Arizona, so Four Corners, which moves in and out of California, and then also up Mid-C, which is the Pacific Northwest.

Ken Irvin:
You're like the grand junction of power, right? Like, there's Grand Junction in Colorado where the railroads met. Now, you're the grand junction of power.

Robin Lunt:
Absolutely. I think it's a surprising and underappreciated element of the Colorado location, and really the Guzman platform is that we have incredible resources, natural resources. There's also a bunch of gas production here in Colorado and then the opportunity to move things in and out of various markets, which creates a stability. When there is volatility in one region, you can move things around to create the stability for the customers.

Ken Irvin:
That's fascinating. You've mentioned Washington. Let me bring you back to Washington D.C. 2024 is a major election year for everybody. It seems that the Inflation Reduction Act and the tax credits that allowed has really been something that industry has embraced and taken advantage of. Is that something that you're seeing as well, and as you think about those tax credits, going forward, do you have concerns about, I'll call it instability in the political landscape here?

Robin Lunt:
You know, Ken, I'm a pragmatic optimist. So, I tend to think that things will go well and that the direction of renewable energy is something that is positive for enough people and beneficial to America and a cross-section of political perspectives and will continue to advance. I think the Inflation Reduction Act was very helpful to creating new opportunities for renewable energy.

It came at a time when inflation was significantly raising prices. So, it's not like you saw, oh, suddenly, everything is much cheaper. You sort of saw a stabilization rather than a reduction in prices for wind and solar and storage, and then, the full implication of some of the opportunities there, like the direct pay options for nonprofit co-ops who are owning their projects, I think it's still a little bit yet to be seen, but I think it's a good opportunity.

And I hope that there won't be some big whiplash in terms of policy in Washington that would revoke some of those incentives, or drive them in another direction, because we've seen stability in policy approaches is really what enables commercial innovation and the implementation of new renewables that drives beneficial economic outcomes for consumers and the country.

Ken Irvin:
You're listening to Sidley Austin's Accelerating Energy podcast. We're speaking with Robin Lunt, Chief Commercial Officer at Guzman Energy, about energy transition and the investments and ins and outs for customers and companies.

One area where I've been very curious to watch and see is electric vehicles, and in particular, electric school buses. Places like Durango, Colorado, and others across the country have been rolling out electric school buses. There's subsidies and support from the federal government, as well, to transition to big yellow batteries, I like to call them. They're safer, cleaner, more cost-effective, easier to maintain.

What's your perspective on electric vehicles in the markets that you're serving? Do you see an uptick, and do you see the energy sector, the

power sector, responding? I hear concerns that vehicle sales are going at a pace faster than charge points are going, and that could lead to problems.

Robin Lunt:
Yeah. This is an area close to my personal heart. We have Rivians. My husband has a Rivian YouTube channel called “Rivian Dad.” So, we spend a lot of time thinking about this.

Ken Irvin:
That’s a small plug for Rivian Dad there, right?

Robin Lunt:
Exactly. It’s interesting because it was super cold this weekend, and so, it was a question of what’s the impact of the weather on EVs, right, because super-cold temperatures do diminish the range and the efficiencies of electric batteries, and you know, school was cancelled yesterday because it was so cold in Colorado, and so, if you had an electric school bus, are you doubling down on your exposure to weather in those situations?

And my view is absolutely not, and you see it in the way that electric vehicles are designed to be able to be optimized over time. So, you see this in Teslas and in Rivians, and I imagine in electric school buses, as well, but there’s these over-the-air updates which change the software configurations. So, you can like precondition a battery so that it’s warmed up before you drive it, which means you don’t lose that efficiency element from the weather.

So, in general, I think EVs are super exciting. You’re right that the utilities and the infrastructure needs to advance in order to enable that, and I think that that’s a fundamental challenge and opportunity across the sector. It’s not just we need more charge points and Electrify Americas and electric changing opportunities, but we also need more transmission, and more batteries, and more resilience across the board.

One hope that I have is that EVs will engage consumers with electricity in a different way, because if somebody were to say to me, like, hey, will you only run your dishwasher at a certain time because that’s when the grid needs it? Like, it’s hard for me to think of the dishwasher like that because I

have this ingrained interaction with it, which is like, dinner's over, I'm running the dishwasher so it's ready tomorrow.

But you know, I do pay attention to gas prices. When I'm in California, I'm surprised how much more expensive that is than in Colorado, and so, the vehicle is a way for consumers to engage in a different way with the fuel associated with that. You pay attention to efficiency. You pay attention to charging in a different way, which I think is an opportunity for us to both decarbonize the transportation sector and also have consumers engage with the impact of their decisions around transportation in a more robust way than maybe the way we will have around our houses.

Ken Irvin:
Transmission, which is another issue that's concerning to me, right? On our first episode, we talked with Larry Gasteiger about the need for that, and I think all of the leadership at FERC acknowledges we need to build more transmission, and I'm aware of studies that finds an irony that if we don't build the transmission, the IRA could lead to more GHG emissions, because it's causing electric demand to be built in places where it won't be renewable generation and thus increasing, ironically, demand for fossil electric generation.

Are we getting enough transmission incentivized? The Inflation Reduction Act and the infrastructure law aimed at trying to spur more transmission development, but it seems, perhaps, that like DOE, the U.S. Department of Energy, and the Federal Energy Regulatory Commission, are going a little slower than the folks would like to see? What's your perspective on transmission development, especially out West, there?

Robin Lunt:
Yeah. I mean transmission is so challenging, partly because of the jurisdictional bifurcation, right? The states have siting authority. There's a bunch of federal land. There's transmission incentives, which can be askew. I think Commissioner Christie just talked about that, the incentives that were paid for transmission that never got built. I think that it is incredibly important and is one of those unsolvable problems, in some ways.

I think part of what I think about from our vantage point, here, in the West, is that the first step is probably maximizing the efficiency of the use of the existing transmission system, which with bifurcated ownership and a lack of organized transmission grid here, there is additional inefficiencies there.

Also close to our heart is this recent order that came out of FERC that will direct how co-ops exiting from Tri-State Generation and Transmission pay their fair share of debt to exit from Tri-State, and that had a component to that order which basically required the exiting customer to pay for their transmission-related debt and then get a credit over time, but if they don't use the transmission, then they just forfeit the credit, and I think that that's just designed for inefficient transmission, right, usage, because Tri-State has the money already, so, why would they need to enable that transmission to be utilized by either those exiting members or by third parties?

So, I think that transmission and the efficient use of it, and the build out of new transmission, is something that needs to be forefront of mind and often gets lost in the context of independent decisions, and you have unforced errors around it.

You know I was at FERC for the implementation of Order 1000, and I don't think we've seen a lot of competitive transmission resulting from that, and you have seen a bunch of incentives for that that have been unforced. So, it's tricky because well-intended policy initiatives lead to perverse results.

And there needs to be sort of a look at it from a holistic standpoint to think, okay, what is it that we're trying to do, and what are the compromises that we're willing to make. For example, some sort of federal siting authority to make that happen, or other things to advance that initiative, but we would need the political will to get it done. That seems to be lacking.

Ken Irvin:
Yeah. There's definitely a political divide about the Federal Energy Regulatory Commission having siting authority for the transmission lines under the Federal Power Act, like FERC enjoys for gas pipelines under the Natural Gas Act. I'm aware of a couple senators who will die on that hill, unfortunately, so, I think that's a conundrum that's hard to figure out about

right now, but one of the things that you mentioned was technology, more efficient optimization.

We've seen things where FERC is allowing dynamic line ratings and other new technology. I might've heard, and correct me if I'm wrong, but I might've heard a hint of maybe we should RTO more of the West? You know should there be more organized markets, or you don't think that brings much to the table?

Robin Lunt:
No, I think that organized market and the management of the transmission system that would be centralized would be very beneficial in the West, where there are transmission lines that are jointly owned, for example. So, you could have 3 or 4 owners of a key transmission line on a constrained path, and there's availability of transmission, but it's little pieces that belong to each owner.

So, you'd have to apply for the transmission from WAPDA, and then from Tri-State, and then from PSCo, and then try and bundle that together. So, there's inefficiencies in the system as-is. RTOs are not a panacea. There's cost impacts to creating that administrative body, but the inefficiencies that exist in the West are something that need to be addressed, one direction or another, and I tend to think an RTO would advance that in a valuable way.

Ken Irvin:
Robin, this has been terrific. The object of our podcast here is to help clients see down the road and over the horizon. When you're looking ahead, what are your greatest goals for progress? What are you telling your clients to look out for in 2024 and beyond?

Robin Lunt:
So, in general, I think 2024 is an exciting time, and the thesis that Guzman has is that bringing competition to the market benefits consumers and causes reductions in greenhouse gases. I think the more people engage with and understand their own participation in the electric sector as customers, the more we'll advance innovation and change, and those hard conversations that need to be had about siting a solar farm in your community or building transmission across your farmland. Those real human-nature questions that are often blocking infrastructure development.

I think the more people can engage in that discussion and recognize that they can contribute to the next generation, the better off we will be, and the more we can cut through the political partisan dialogue that might overlay it, and that's part of, coming full-circle, why I think cooperatives and municipalities and tribes are such an important vanguard is that they are closer to the problems and closer to the consumer. And so, they can innovate in a way that might be more difficult for other business models to do.

So, I would say pay attention to electricity, listen to the geeky podcasts about decarbonization, recognize that there's always trade-offs, but that we, as a society, as individuals, can make a difference in terms of what our future holds.

Ken Irvin:
We've been speaking with Robin Lunt, Chief Commercial Officer of Guzman Energy, about the benefits of clean energy, clean energy transmission for businesses and consumers, and the challenges and opportunities that lie ahead. Robin, it's been terrific talking with you. Your perspective is very unique and so informative. Thank you for taking time to talk.

Robin Lunt:
Thanks, Ken. It was a pleasure.

Ken Irvin:
You've been listening to Accelerating Energy. I'm Ken Irvin. Our executive producer is John Metaxas, our managing editor is Karen Tucker, and our associate editor is Liz Rennie. Subscribe on Apple Podcasts, or wherever you get your podcasts.