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## The Case for 'Gray Power' (Page 2)

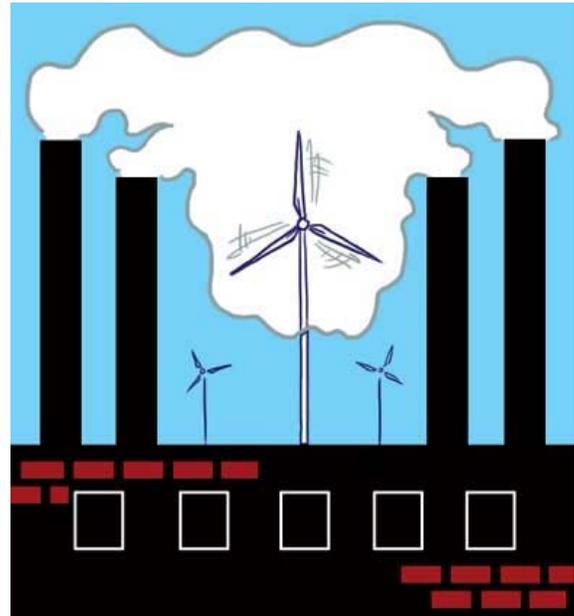
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Getting gray power out of smokestacks and onto the grid could make Ohio-- and the other high-carbon states--much better places to live and work. Ohio is not alone in its wealth of opportunities. But in order to unlock the reserves of waste energy in the other eighteen states of the Midwest and South, we'll have to overcome some significant competitive, regulatory and financial barriers.

The first problem is competitive: in Ohio and other states in the region, generating and distributing utilities have tight relationships. Rather than competing to purchase cheaper waste power, utilities see independent generators as competitors. Instead of seeing small generators as a way to increase the resilience of their grid, they feel they're subsidizing their competition. Local laws back them up: in roughly fifteen states, utilities hold a monopoly that prevents independent power producers from selling to neighboring homes and businesses directly. While some parts of the country have loosened the grip of utilities, across the Midwest and South these barriers persist, and they explain why so little of the region's potential has been exploited. Sometimes utilities don't refuse to buy power outright, but they make the process of connecting to the grid onerous or require that factory generators purchase "backup power" at prohibitively high prices. "They've got an incentive to make it as difficult as possible," said one Ohio activist. "They don't want new generators to compete with the coal facilities that the ratepayers have already paid for five times over."



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A second hurdle is perverse incentives of government regulations such as the Clean Air Act, which discourages modifications at older plants that would allow the capture of lost energy. In this way, old, inefficient plants that have been grandfathered are kept in service longer simply because they do not require permitting, and modifications to make them more efficient are discouraged. In addition, a hodgepodge of taxes and policies support "passing through" energy costs on a yearly basis through tax write-offs, while energy-efficiency investments have to be written off on schedules as long as thirty-nine years, discouraging such investments.

All these barriers can be overcome with proper federal and regional policies. Many of the obstacles arise because there is a split between federal and state jurisdiction. While federal policies encourage waste recycling, many states do not. It's no accident that nearly half the recycled waste energy now on the US grid comes from just four states: Texas, Louisiana, California and New York. Texas and Louisiana are home to refiners and chemical industries with the political heft to insist that they be able to recycle their steam. New York and California have designed policies requiring utilities to buy gray power from generators. But going state by state, regulator by regulator is time-consuming, and few companies have the resources to keep challenging a system that seems to be against them.

A stubborn barrier to gray power is that despite its enormous potential, it's largely invisible in policy discussions. The Obama agenda does encourage recycling waste energy, and of the Energy Department's \$32.7 billion in stimulus money, just \$156 million is being spent on recycling energy, called combined heat and power. But gray power does not always qualify for the same renewable energy mandates (and by extension the warm, green feelings) that wind and solar do. If it were included in those mandates (called Renewable Portfolio Standards), utilities would have a motivation to buy the power, and regulators could raise the quantity of clean power the utilities are required to buy. And while the Obama administration has been chasing green jobs and comprehensive greenhouse-gas legislation with fervor, it has overlooked the potential of gray power to provide jobs and cheap, low-carbon electricity in coal-dependent states.

AClean Power Authority--a federal agency tasked with recycling energy in the South and Midwest--would work like a utility, buying power generated from recycled waste energy and using it to meet federal, state and local government needs. The CPA would not generate the power but would buy it from entrepreneurs, manufacturers or municipalities at a price cheaper than what we'd pay for newly built coal-fired power. In the best possible world, the simple presence of government as lead purchaser would encourage utilities to buy the power themselves and build a competitive market for such electricity.

A new federal agency focused on helping states standardize regulations, make environmental permitting processes speedier and write more sensible tax laws and policies could overcome some of the barriers that have kept recycled energy off the grid. The CPA could also operate as a sort of laboratory for finding the best mix of technology, regulation and incentives to bring many megawatts of new power online. Finally, just as the federal government offers loan guarantees for builders of nuclear power plants, the CPA could offer loan guarantees or zero-interest loans to companies that install gray generation equipment, shepherding a new industry through the early years of reaching scale in the marketplace.

While the CPA seems like a radical idea, it has antecedents in New Deal initiatives like the Tennessee Valley Authority, which addressed the triple needs for cheap power, economic development and environmental preservation through electrification of the Tennessee Valley in the 1930s. Today the CPA could address the particular needs of the South and Midwest in the transition to a lower-carbon economy with more secure energy supplies. The TVA's great success was in using federal muscle to hasten what would have been a slow process of bringing power to the region via conventional generators and markets. Similarly, the coal-heavy states have been unable to get the venture capital or the alternative energy programs to break out of their high-carbon economies, and it seems unlikely that a cap-and-trade program will ease that transition. Using the CPA to target resources and capital at the region's infrastructure will allow the South and Midwest to become leaders in clean power, remaking the political geography of carbon and building a new constituency for green initiatives in the process.

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**About Lisa Margonelli**

Lisa Margonelli, who directs the New America Foundation's energy initiative, is the author of *Oil on the Brain: Petroleum's Long, Strange Trip to Your Tank* (Broadway). [more...](#)

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