# COMPETE

Electricity Competition **IS** the Public Interest

# Watt's Up?

## February 2009 Newsletter

### Rates Decreasing in Competitive Electricity Markets

After a short period of escalating electricity prices due to rising fuel costs, consumers in competitive markets across the country are seeing significant decreases in electricity rates, in some cases by more than 50 percent, as the costs of generating fuels have fallen from their recent historic highs. Because competitive markets respond faster to price signals, customers in these markets see reductions in their rates much more quickly than in traditional regulated-monopoly markets.

"These developments should put to rest the shallow arguments suggesting that competitive markets aren't working because electricity prices increase. In any market, prices go up and they go down in response to fundamental market forces, and consumers benefit from competition in myriad ways beyond the simple metric of price," said Joel Malina, **COMPETE**'s executive director.

For example, the New York Independent System Operator reported last month that wholesale electricity prices dropped 54 percent in New York since June. This significant decrease was a direct result of falling fuel prices. In Texas, residential electric price offers have fallen by over 28 percent since July 2008 when natural gas prices were at an all time high. Rhode Island's Public Utilities Commission approved a decrease in National Grid's electricity rates of about 14.6 percent and, as of March 1, Maine residents and small businesses should see their electricity costs drop by 10 percent.

In Pennsylvania, a state where competitive electricity markets and the expiration of below-market rate caps are currently under debate, the Pennsylvania Public Utility Commission recently released its quarterly price projection report that shows an average decrease of more than 10 percent for each class of customers compared to the commission's last projection in August 2008.

We continue to see the many non-price benefits of competition, such as increased efficiency, cleaner generation and renewables, and now we have clear evidence of consumers experiencing strong price-related benefits as well.

Complete information on the price reports can be found at www.competecoalition.com.

### COMPETE in the News

**COMPETE** Counsel and former FERC Commissioner William Massey gave an extended interview to *Inside FERC* on the subject of decreasing electricity rates in competitive markets as well as other related issues.

"I suppose the opponents of markets just thought that prices would go up and stay up regardless of the cost of fuel, but it doesn't work that way," Massey maintained. The current situation reflects the "brighter side of prices in competitive markets being tied to the cost of fuel, which is, prices are now headed downward because the cost of fuel is lower," he noted. The impacts of fuel costs are felt in regulated areas as well but are averaged in over time, Massey said. "So you see fuel cost differences in competitive markets much, much quicker."

But competitive markets provide a clear price signal that "customers can react to… in real time," he continued. Moreover, the prices "reflect competition among suppliers and, I think, pave the way for all of the good structural changes that the new administration and Congress would like to make with respect to increased renewables, smart grid and even a market-based cap-and-trade system."

While the last 18 months have seen debate raging over whether organized markets for electricity have produced higher prices than elsewhere, Massey does not see the national discussion focusing on that issue. Policymakers are recognizing "more and more that competitive markets for electricity hold the best promise for the innovation that we are going to need," he said. "I just cannot imagine that we can achieve it as well or as quickly in an old fashion regulated system."

Talk on Capitol Hill is all about renewables and transmission, Massey said, and the question being asked is: "Regardless of what your position is on markets vs. regulation, we want to know about your position on renewables and transmission."

Massey went on to point out that "it is not lost on us that [it] is a market-based system that Congress is moving to for carbon controls." The nation's environmental and energy challenges are "joined at the hip. We think a market-based system works well for meeting both challenges."

## Retail Electricity Competition Pumps Billions into Economy

Texas has seen some $36.5 billion in new power plant construction and $5.8 billion in new transmission projects in the 10 years since the state passed laws to open its power markets to competition, according to a new study by The Perryman Group. More than 41,000 megawatts of new electric generation capacity and 6,000 miles of transmission lines have been added in the past decade within the boundaries of the Electric Reliability Council of Texas, which covers about 85 percent of the state.

Over the past decade power plant construction created 854,742 person-years of employment, a common metric for measuring temporary jobs created in the construction industry, while transmission projects created 126,096 person-years of employment, according to the study. An estimated 51,766 permanent jobs were created by the economic activity spurred by the projects. Also, nearly $5 billion in new transmission projects are planned to move power from West Texas wind farms to major cities will lead to $17.1 billion in spending and 107,572 person-years of employment.

The Perryman study is available at http://www.perrymangroup.com/reports/ElectricPowerStudyFebruary2009.pdf.

## More Good News for Customers in Texas

- The electric price offers for Texas residential consumers have fallen more than 28 percent since July 2008, when natural gas prices were at an all time high according to a recent analysis by the Association of Electric Companies of Texas (AECT): www.aect.net/documents/2009/20090129_IP_RetailPriceDropping.pdf. Texas serves as the most recent example of how competitive electricity markets across the nation are continuing to outperform monopoly structures.

- Texas has developed a properly structured competitive market that benefits customers. This conclusion was determined by three recent reports, one by the Analysis Group and two by the Energy Retailer Research Consortium. These studies reviewed the qualitative and quantitative attributes of Texas' competitive market, and combined to find that Texas has several key attributes: low barriers to entry, many buyers and sellers resulting in many choices for consumers, transparency of prices and options and large investment in generation and transmission – including leading the nation in renewable wind generation.

- Texans have voiced overwhelming support for competition, according to a poll released in November of 2008 indicating that nearly 80 percent of Texas energy customers favor the current competitive structure of the Texas electricity market. The poll, conducted by the Texas-based Baselice & Associates, further indicated that **support for competition escalates** when Texans learn that the competitive market encourages investment in power plants using diverse fuel sources.

More information, including a **COMPETE** press release on these items, may be found at www.competecoalition.com.

## Acting FERC Chair to Promote Renewables, Efficiency

Federal Energy Regulatory Commission Acting Chairman Jon Wellinghoff wants to use creative mechanisms within the agency's authority to promote renewable and energy efficiency. Speaking to reporters at a *Platts Energy* Podium event, Wellinghoff touched on a wide range of topics suggesting that FERC will largely focus on three goals that have been his priority since coming to the Commission: finding ways to better integrate renewable resources into the grid, demand-side distributed resources into the energy system, and boosting the efficiency of both electric and natural gas transmission and delivery systems.

Wellinghoff also said that he does not agree with the public power and other groups who contend that competitive markets are failing to produce long-term contracts that investors need to build infrastructure. The main point, he insisted, is that long-term contracts should not be put at a disadvantage in the markets.

Wellinghoff also feels that FERC should use its collaboratives with state regulators – there are three FERC-state regulator collaboratives addressing demand response, competitive procurement and smart grid – to facilitate energy efficiency and demand-side resource use both on the retail and wholesale levels. "It gives consumers choices," he concluded.

## Wellinghoff, Kelly Address NARUC

Speaking at the National Association of Regulatory Utility Commissioners' (NARUC) meeting in Washington, D.C., Wellinghoff spoke about climate change and other challenges facing the industry. "Consumers have to have choices. Not only whether they want to buy renewable energy or not, a lot of consumers want to do that, but also whether or not they want to participate in those markets in ways that can lower their total bills," he said.

After the panel discussion, Wellinghoff told *Restructuring Today* that single market clearing prices are in place in all organized markets but nobody has come forward with a better way to run markets, even when FERC was actively looking for alternatives with its competition proceeding. The bigger rents collected by low-carbon generation in ISO markets will make such plants more attractive to build, he added, and that's the goal of climate change legislation.

Also speaking at the NARUC meeting, FERC Commission Suedeen Kelly said she sees FERC focusing on electric transmission policies in the coming years.

The nation's electricity future, even in the short term, is going to be quite different from where it is today, Kelly predicted. Kelly said that the United States will be looking at an electricity future that is more carbon neutral. What that means for national electricity policy is an emphasis on more renewables, probably more nuclear power, and greater levels of demand response and efficiency — all backed up with a smart grid needed to support the integration of those kinds of resources, according to Kelly.

FERC will have to make sure that the nation will have the infrastructure in place to allow for the changes in electricity generation, Kelly said, adding that the biggest area for the commission in the next few years will be in transmission policy and implementing what Congress does. Kelly noted that the stimulus bill just passed by Congress places a tremendous focus on spending money on a new energy economy, on smart grid projects and on renewable transmission.

## APPA Comes Forward with Flawed Proposal

The American Public Power Association's (APPA) new proposal to "reform" wholesale competitive markets run by Regional Transmission Organizations is nothing more than an effort to turn back the clock on competition and would seriously undermine our nation's ability to meet energy challenges.

In a rebuttal press release issued by **COMPETE**, coalition counsel and former FERC Commissioner Bill Massey said, "APPA's proposal represents a dramatic step in the wrong direction at a critical time for our country. The U.S. utility industry will have to invest an estimated $1.5 trillion or more in the next 20 years to maintain current levels of reliable electricity service. In addition we face the likely additional costs of a new carbon reduction regime, all of which will happen in a time of deep economic uncertainty. In the face of these challenges, APPA's plan to return to cost based regulation would be a disaster. It would suppress needed investment not only in innovative new technologies such as demand response and in new forms of renewable generation, but also in the maintenance of the existing fleet, potentially threatening reliability. APPA's flawed proposal to turn back the

clock on competition would deeply undermine our nation's ability to meet these energy challenges."

"This perspective was recently confirmed by FERC after a rigorous two year review in which scores of parties, including APPA, provided comment. In the end, FERC reached the conclusion that the RTO markets are producing benefits for consumers including increasing demand response programs, the development of renewable energy, improved power plant operating efficiencies resulting in cost savings, and enhanced reliability."

## Wind Sector Sets Record for New Capacity in 2008

According to the **American Wind Energy Association** (a **COMPETE** member), U.S. capacity to generate power form wind turbines grew by a record 8,358 MW in 2008, even as AWEA was warning of an uncertain outlook for the industry in 2009 due to the current financial situation.

The growth last year increased U.S. total wind-power capacity by 50% and represented an investment of $17 billion, according to AWEA, which said the expansion put wind along with natural gas as the leading sources of new power generation in the country.

The amount of wind-power capacity brought online in the fourth quarter alone - 4,112 MW - exceeds annual additions for every year except 2007, AWEA said. U.S. wind generating capacity stands at 25,710 MW, producing enough electricity to supply the equivalent of nearly 7 million homes.

Texas, with 7,116 MW of wind power capacity, is the leader among states, followed by Iowa, with 2,790.

## Wind/Solar Associations on Transmission Challenges

The **American Wind Energy Association** and the Solar Energy Industries Association released a joint paper entitled "*Green Power Superhighways: Building a Path to America's Clean Energy Future"* that outlines barriers that hinder investment in transmission infrastructure and identifies potential policy solutions to address those challenges.

"With renewable energy deployment expected to continue its rapid growth, curtailment of wind generators due to a lack of transmission capacity is only likely to worsen over the coming years," the 28-page paper said. "Given the long lead time for planning, siting, and building new transmission infrastructure, the time for action is now."

According to the report, the federal government must take the lead in setting guidelines and providing resources for an electricity grid. A state-based regulatory structure cannot plan a coherent national grid, said the report, which recommended that FERC be the lead agency in approving transmission lines and that separate approval by the states not be required. The industry organizations contend that a national policy is necessary to speed up the permitting and construction of transmission lines.

SEIA President and CEO Rhone Resch said that the two groups are "not recommending any one particular fix" but rather hope to launch conversations among policymakers at all levels. "There is a critical role that the federal government needs to play in ensuring that these new transmission lines are not only planned accordingly in the right location but are financed properly and, frankly, built in an expedited manner," he said.

The paper is available at www.awea.org/GreenPowerSuperhighways.pdf.

## $80 Billion in Stimulus Package for Energy Efficiency

Included in the recently passed federal stimulus package is $80 billion in spending, loan guarantees and tax incentives aimed at promoting energy efficiency, renewable energy sources, higher-mileage cars and clean coal. Below are some of the highlights:

**ENERGY EFFICIENCY:** Homes and buildings soak up 40 percent of the energy generated in this country — more than vehicles. Of the $25 billion provided for energy efficiency, more than half is aimed at helping low-income families weatherize 1 million homes and helping governments at all levels retrofit public buildings.

**RENEWABLE ENERGY:** In addition to new money for research into alternative fuels, the measure provides roughly $20 billion in tax incentives for wind, solar, hydroelectric and other renewable power sources.

**SMART GRID:** The measure invests $11 billion in grants and $6 billion in loans to modernize the electric grid and increase its capacity to deliver power generated by renewable sources.

More information may be found in the 60-page OMB Memo on Implementing the Stimulus Act at www.whitehouse.gov/omb/assets/memoranda_fy2009/m09-10.pdf.

## PJM: Climate Legislation Could Increase Electricity Prices

A new first-of-its-kind study, "*Potential Effects of Proposed Climate Change Policies on PJM's Energy Market,*" released by PJM, the largest U.S. grid, covering 13 states and the District of Columbia, concluded climate legislation could increase electricity prices in the PJM Interconnection anywhere from $7.50 per megawatt hour (MWh) to $45/MWh in 2013, depending on specific scenarios.

The study analyzed how different carbon prices would affect wholesale electricity prices. The study relied on "the leading legislative proposals of the 110th Congress," together with EPA and Energy Information Administration carbon price projections ranging from $10 to $60 per ton and typical residential electricity use of 750 kilowatt-hours per month. Market-wide increases in power costs would range from $5.9 billion to $36 billion, the study concluded.

The report is available at:
www.pjm.com/documents/~/media/documents/reports/20090127-carbon-emissions-whitepaper.ashx.

To help put the PJM context in perspective, **COMPETE** has put together a background paper, attached to the newsletter.

## More Rate Increases in Vertically Integrated States

The **Bonneville Power Administration**, which sells electricity to more than 140 regional utility companies in Montana, Idaho, Washington and Oregon, announced it will increase rates by 7 to 8 percent, beginning October 2009. The rate hike will cover increased operating costs and to protecting the region's salmon. BPA cites the general economic downturn, which has hurt sales, and higher operating and maintenance costs of the hydro system as additional reasons for the hike.

After increasing rates by 7.2 percent in July 2007, **Duke Energy** is planning to seek approval this year for additional rate increases in the Carolinas. Duke plans to ask for the hike midyear and if approved would take effect January 1, 2010. Duke is citing rising costs of operations and maintenance as well as to cover a number of major capital investments.

Citizens of **Rocky Mount**, North Carolina will experience **two rate hikes** in six months. The city Council approved a 3.25 percent increase effective in March – that's after an 11.5 percent hike in September 2008. In addition, commercial and industrial customers will pay about 6 percent more as well.

## COMPETE Opinions

**COMPETE** submitted letters to the editor that ran recently in various newspapers. We wanted to share these with you to both 'arm' you with their strong messages and also to encourage you to submit your own opinion pieces to your local newspapers.

**Electricity Markets Are Working Fine**
Don Nickles, **COMPETE** Co-Chairman
Washington Post
February 22, 2009

The Post got it half right in examining prices for electricity in our area ["A Winter of Discontent Over Utility Bills, Metro, Feb. 13.] http://www.washingtonpost.com/wp-dyn/content/article/2009/02/12/AR2009021203661.html.

Falling prices for natural gas and other power generation fuels have about halved the wholesale cost of electricity in our region, and there is a lag in passing on these cost decreases to residential retail rates. But it is simply wrong to assert, without any attribution, that restructured electricity markets are to blame.

The cost of electricity has risen in recent years in the face of unprecedented increases in the cost of the fuel used to generate it. Now that the global market forces driving fuel costs have eased, bringing down the cost of electricity at the wholesale level, consumers have an opportunity for relief in their monthly bills. But keep in mind that the wholesale cost of electricity is only one portion of the electric bill we pay every month and that lower wholesale costs won't be reflected in those bills until the expiration of long-term arrangements entered into when fuel costs were high.

When electricity costs went up, restructured electricity markets were unfairly blamed. Now that market forces are driving electricity costs down, restructured electricity markets get the blame because there is a lag in the impact at the retail level. The bottom line is that competitive markets for electricity are working well. Costs go up and come down in response to fundamental market forces, particularly global economic pressures that affect fuel costs.

Don Nickles, Chairman and Chief Executive, The Nickles Group

**Pennsylvania Should Not Deregulate Electric Rates**
By William L. Massey
The Bulletin, PA
February 11, 2009

To the Editor:

In response to Tom Knox (op-ed, "Pennsylvania Should Not Deregulate Electric Rates," Feb. 2), it is important to understand that Pennsylvania electricity consumers have yet to see the full benefits of competitive markets because competition hasn't been allowed to work freely.

There has been a decade of artificial rate caps at levels well below the real cost of electricity. This has deterred competitors from entering the market and shielded consumers from the reality of the rising cost of generation fuel in a global energy market. But no state, whether a regulated or competition state, can ultimately escape the impact of fuel cost changes and it is a fairy tale to assert otherwise.

Moreover, recent reports are showing that, in fact, electricity prices are decreasing as the cost of fuels is falling from historic highs. Just last week, the Pennsylvania Public Utility Commission released its quarterly price projection report with figures that reflect significantly lower market prices than those in assumptions released just last August.

Likewise, consumers in New York are seeing significant rate decreases, with a report last month indicating that electricity prices dropped 54 percent since June. Much of the same is coming out of other competitive markets including Texas, Rhode Island and Maine, among others.

The conclusion is obvious: the price of electricity is closely connected to the costs of fuel in a global energy market.

But price is only one measure of success. Competition has spurred the development of renewable wind energy and related jobs in Pennsylvania. Before competition, there were no wind projects in the state. According to the American Wind Energy Association, more than 70 percent of wind resources are in competitive markets like Pennsylvania, despite the fact that only 44 percent of wind energy potential is found in these areas.

I testified in December before the Pennsylvania PUC alongside consumer representatives about the real benefits provided by competitive electric markets.

Generators operate longer and more efficiently. Big employers like Wal-Mart talked about major energy savings, which not only help them provide jobs but let them pass savings on to customers.

State manufacturer Leggett & Platt touted the efficiency and flexibility of competition to control energy costs and preserve jobs. These and other consumers strongly favor competitive electricity markets.

Returning to the failed system of monopoly utility regulation won't avoid global fuel prices, won't provide job growth and won't help meet our enormous energy challenges with clean energy sources and other innovations. Competitive markets hold the best promise for addressing these challenges.

William L. Massey, Counsel, **COMPETE** Coalition, Washington, D.C.

**Competition**
By William L. Massey, Counsel Compete Coalition
Meriden Record-Journal, CT
February 11, 2009

Editor: Competitive electricity markets are not to blame for escalating rates ("Electric Division to Congress: Give us a break!" R-J, February 4). As the costs of global fuel prices increase or decrease, so does the cost of electricity, in all states – both regulated and competitive. And in fact, competitive rates are falling. The New York ISO reported in December that wholesale power prices dropped 54 percent since June. Falling fuel prices in Rhode Island, Maine and Massachusetts have also resulted in lower wholesale prices in those markets.

In any market, we all know that prices go up or down in response to fundamental market forces. Because competitive markets respond faster to fuel price changes, customers in these markets see reductions in their rates much more quickly than in traditional regulated areas. For example, in contrast to rates falling in competitive markets, regulated states like Missouri and Colorado increased rates by nearly 28 percent, last year alone, and other regulated states are not far behind.

Electricity competition spurs innovation and provides other benefits. More than 70 percent of wind our wind facilities are in competitive markets despite the fact that only 44 percent of wind energy potential is in these areas, according to the American Wind Energy Association. Other benefits, like increased reliability and demand response, are also characteristic of competitive markets. As of September 2007, more than 1,200 MW of demand response resources spurred by competitive markets are being used to help protect power system reliability in New England. Markets and competition provide innovation, greater renewables, reliability benefits and opportunities for customers to respond to price signals.

It's hard to imagine getting the necessary innovation for a thriving clean energy economy under a system of monopoly regulation.

William L. Massey, Counsel Compete Coalition, Washington, DC

## Membership Update – COMPETE at 289

**COMPETE** membership continues to grow. Today we stand at 289 members. We would like to welcome and extend our thanks to ChooseEnergy.com (Lewisville, TX); David Gardiner & Associates, LLC (Washington, D.C.); Eco Technology Systems (Chippewa Falls, WI); ENCAP Development, LLC (Acton, MA); Future Energy Development, LLC (Rochester, NY); Lake Effect Energy Corporation (Harbor Springs, MI); ProActive Energy Concepts (Sunset, UT); re-Source Innovations (Columbia, MO); and Universal Systems of America, Inc. (Las Vegas, NV) who have joined since our last newsletter.

## COMPETE New Member Profile

ChooseEnergy.com was founded in 2005 to offer Texas electricity consumers a simple way to do comparison shopping and allow Texas electricity providers to bid for their business.

Residential and business customers can compare offers made by different Texas electricity companies and switch to their choice of preferred provider in just a few clicks. Choose Energy, created by energy professionals, gives consumers the power to save money on electricity while making educated choices based on accurate, up-to-date, comparable information.

## Did You Know?

According to a recent study, 80 percent of Americans are unaware that the light bulb as we know it is on the way out and efficiency standards for light bulbs will increase dramatically three years from now. Are you one of them?

The phase-out of the iconic light bulb begins in three years as a part of the 2007 federal energy bill and will require that the typical 100-watt bulb be replaced by one that provides the same amount of light with 72 watts. The new bulbs include those with light-emitting diodes, or LEDs, made from semiconductors, and compact fluorescent bulbs, which are known for their twisty, tubular shape.

While the initial cost of switching over could be a jolt to some consumers, a recent study by Rensselaer Polytechnic Institute estimates global financial savings from LEDs could exceed $10 trillion within 10 years because they last much longer.

### America: Powered by Competition

*The **COMPETE** coalition represents 289 electricity stakeholders, employing nearly seven million American workers, including customers, suppliers, generators, transmission owners, trade associations, and economic development corporations – all of whom support well-structured competitive electricity markets for the benefit of consumers. For more information, please visit www.competecoalition.com.*