

# COMPETE

Electricity Competition **IS** the Public Interest

## Watt's Up?

May 2009 Newsletter

### **COMPETE, EDF Link Electricity Markets with Cap and Trade**

**COMPETE** and the Environmental Defense Fund (EDF) issued a joint statement and general principles urging members of Congress to recognize the benefits of competitive markets for electricity as they debate climate change legislation.

The May 11 joint statement and general principles expresses EDF's and **COMPETE**'s support for federal legislation enacting a uniform, economy-wide cap-and-trade program to control greenhouse gas emissions, and urges lawmakers to recognize that market-based policies provide the most cost-effective means of cutting emissions. The joint statement asks Congress to keep in mind the advantages of competitive power markets in achieving climate goals.

"Markets have proven to be the most cost efficient and effective means to deliver goods and services to consumers and will bring the same benefits to help achieve the policy goals of federal climate legislation," the joint statement says. "Market forces will ensure that investments are made in the right places with cleaner, more efficient and innovative technologies. For that reason, we believe that well-structured competitive electricity markets offer the most benefit to consumers, our economy and the environment."

Competitive electricity markets give investors and consumers the clear price signals they need to change consumption behavior and to frame decisions on investments in new low-carbon generation technologies. With those decisions disciplined by a competitive market, the risk of bad investments will be borne by investors rather than captive ratepayers, as occurred before competitive reforms.

"One of the keys to meeting our environmental goals is to ensure that investments are made in the right places with cleaner, more efficient and innovative technologies – and markets are the best way to achieve this," said **COMPETE** Co-Chair and former US Secretary of Energy Federico Peña. "Well structured competitive electricity markets offer the most benefit to consumers, our economy and the environment and we welcome the EDF's endorsement of this fact."

"A well-designed cap on carbon is the most environmentally effective and economically smart solution to climate change," said EDF President Fred Krupp. "A smart cap and competitive markets for electricity add up to a huge incentive for innovation in new technologies that reduce carbon pollution," Krupp said.

The joint statement and press release can be found at [www.competecoalition.com](http://www.competecoalition.com).

## FERC Chair Headlines COMPETE/Energy Daily Event

On May 12, **COMPETE** and The Energy Daily co-hosted a policymaker breakfast entitled, “**Meeting our Nation’s Energy Challenges through Competition and Innovation.**” The event focused on how competitive electricity markets can drive the innovation and growth in renewable energy sources needed to meet the nation’s energy goals.

Guest speakers included Federal Energy Regulatory Commission Chairman Jon Wellinghoff, Chairman of the (FERC); Richard Schmalensee, Howard W. Johnson Professor, Dean Emeritus, Applied Economics, MIT; Howard Dean, former Governor of Vermont and former Chairman of the Democratic National Committee; and Terry Boston, President and CEO, PJM Interconnection.

A standing-room-only crowd of more than 80 people attended the event, including reporters from 15 press outlets (Investor’s Business Daily, Bloomberg, The Guardian UK, Congressional Quarterly, The Hill, Environment and Energy Daily, Platts, The Energy Daily, Energy Washington Week, SNL Power Daily and more). Non-media attendees represented a who’s who of DC thought leaders on energy and environmental policy issues, including representatives from the American Council on Renewable Energy (ACORE), Solar Electric Power Association (SEPA), National Governors Association (NGA), National Center for Policy Analysis (NCPA), and Resources for the Future.

You can access a video of the event through: [www.competecoalition.com](http://www.competecoalition.com).

## COMPETE at WINDPOWER 2009



Former FERC Commissioner and **COMPETE** counsel William Massey detailed how “competitive markets have been very favorable to wind” energy during a May 6 panel discussion at the American Wind Energy Association’s WINDPOWER 2009 conference in Chicago. More than 23,000 attended the massive trade show, which featured a **COMPETE** banner reflecting our sponsorship of the event.

## COMPETE Highlights Results of PA PUC Price Survey

In a May 8 **Restructuring Today** article, former FERC Commissioner and **COMPETE** counsel Bill Massey discussed the many benefits of competitive markets and highlighted results from a recent survey by the Pennsylvania Public Utility Commission indicating that favorable price moves in the market would favor consumers if price caps were lifted today.

The survey shows that the gap between competitive market rates and regulated capped rates is closing, and in PECO's territory ratepayers would see price decreases if rate caps were lifted today.

"I think it validates what we've been saying – is that in markets, prices go up and prices go down, primarily as the results of changes in generation fuel costs and that's what's happening now," Massey said. "Fuel prices are less and demand is less and so prices are decreasing and have been for most of the past year."

Massey noted that, "In regulated areas, the prices that customers see are not in real time at all so they don't see these price fluctuations down or up in anything close to real time. It's a good thing that customers (in competitive markets) see the decreases and increases more quickly."

One of the benefits of markets such as Pennsylvania's is that the risk of poor investment decisions is placed on the shoulders of shareholders instead of captive ratepayers, as occurs under traditional monopoly regulation.

"There's a lot of utility-building now of plants. They are asking public service commissions to put these in rates just like what occurred back in the 1970's and 1980's when we had a big generation build-out and there were cost overruns, cost overhangs and lots of inefficiencies," Massey said. To avoid that, let the market do its job by letting consumers respond to prices, he urged.

## **Decade of Electric Competition a Success in Texas**

It has now been ten years since Texas opted to introduce competition in the market for retail electric power. This anniversary affords a great opportunity to look back to appreciate what has been a remarkable success story.

In 1999 the Texas Legislature passed Senate Bill 7, which set out the framework and transition plan for competition in Texas. In January 2002, the retail electric market opened for competition in most areas of the state. With the advent of competition, Texans could choose their electric provider.

Fast forward to today. Texans in competitive areas can now choose from approximately 100 service offers from about 30 different companies, with several options that are priced below the incumbent's last fully-regulated rate, even without adjusting for inflation. In the first seven and a half years of retail choice, some 84 percent of residential customers and virtually all large commercial and industrial customers in the state have made an observable choice in the market among the offerings from various competitors.

Over the past decade, with the increase in population and growth in business operations, Texas' demands for energy have significantly expanded. To help meet these growing requirements, companies in the electric utility industry have invested tens of billions of dollars to expand generation and transmission capacity. The state's renewable energy capacity has also grown rapidly, now totaling about 8,000 megawatts of wind power alone and making Texas a national and international leader in renewable energy. The investment in wind energy and other renewable sources, as well as more traditional sources of power generation and transmission, have led to billions of dollars in economic activity and tens of

thousands of jobs across the state. Achieving greater customer choice, product innovation and lower prices in such a short timeframe would not be possible without competition.

The benefits of competition continue to grow and now the total annual economic impact of electric competition is nearly \$22.4 billion in total spending, \$10.3 billion in output, \$6.3 billion in personal income, almost \$4.2 billion in retail sales, and more than 131,000 permanent jobs. The economic stimulus associated with competition now also contributes \$761.0 billion in annual State revenues and \$338.0 million in resources to various local governments across Texas.

The growth in the number of providers, innovative product offerings, and customer choice statistics are important indicators of healthy competition. In addition, the massive investments in power infrastructure by the private sector signal the success of the Texas electric power market and the value of competition. However, another key indicator about electric competition's success is the feedback from customers. With better prices, better service, and new innovative technologies available for Texans to choose, it is no wonder that a recent poll found 78 percent of Texans support the competitive electric market and their power to choose.

### **Electric Auction in Ohio Cuts Rates by 16 Percent**

Restructuring of Ohio's electric supply business worked out well for Ohio Edison customers. The price of electricity for residential customers will decrease by about 16 percent beginning June 1. Customers in other rate classes, such as businesses and customers on special rates, such as those in all-electric homes should also see a decline in their annual bill.

The lower rates are a result of a new wholesale auction process that began this month, in which electric suppliers bid for the right to sell electricity to Ohio Edison for two years. Aside from Ohio Edison customers, customers around the state are being hit with significant rate increases from other utilities.

### **COMPETE Tells OH PUC that RTOS are Delivering Benefits**

On May 22, **COMPETE** filed comments in the Ohio Public Utility Commission's investigation into whether the RTOs serving Ohio (PJM and MISO) provide value to customers and are realizing the FERC's goals to promote efficiency in wholesale markets and ensure that customers pay the lowest possible price for reliable electric service. Comments in the inquiry will be used by the PUC's "federal energy advocate" for a report on whether continued participation in the RTOs is in the interest of retail electric customers.

**COMPETE's** comments said that the "RTOs are successfully attracting the infrastructure needed to provide the reliable supply of electricity that is critical to the economic well-being and security of the nation and Ohio. They are keeping costs down, and they are the best means of meeting environmental challenges." For example, PJM's capacity market auctions have attracted over 27,000 MW of new resources and PJM's operations save \$2.3 billion annually and MISO saves between \$805 million and \$1.1 billion.

## MidAmerican Energy to Join MISO

The MidAmerican Energy Co., the largest utility in Iowa, and the Midwest Independent Transmission System (MISO) have announced MidAmerican's intention to join MISO as a transmission-owning member.

MISO President and CEO John Bear said, "This decision is a significant development for the region and demonstrates that MidAmerican Energy recognizes the value we can deliver them. MidAmerican Energy's membership in the MISO brings most of Iowa into our organization and will increase overall system reliability," he said. "Another member increases the effectiveness of our markets by providing greater efficiencies. This allows us to extend the benefits of a regional grid to even more customers throughout the Midwest."

MidAmerican's decisions were driven in large part by the ease with which wind resources are integrated into the MISO market. Bill Fehrman, president of MidAmerican, said "Joining the Midwest ISO makes good business sense for our customers because it provides access to the ancillary services market to support our leadership position in wind generation and helps ensure the company has a wider opportunity to buy and sell electric power,"

## Rate Decreases in States with Restructured Markets

The Electric Power Supply Association (EPSA) – a **COMPETE** member - released an updated compilation of "Rate Decreases Seen in States with Restructured Electricity Markets." The document states that after a period of steady increases in electricity prices nationwide regardless of state regulatory structures, consumers in states with restructured electricity markets are beginning to see rate decreases as the costs of fuel and other commodities involved in electricity generation have leveled off or decreased. Customers are benefiting from the transparency and rapid responsiveness of restructured markets to changing conditions and lower demand. Below are just a few examples of falling electricity prices in states with more open markets:

Customers of **Western Massachusetts Electric Company** will see a decrease in their electricity bills beginning in July as a result of offers from competitive procurements. Continued drops in supply rates have resulted in four consecutive price drops since October 2008. Beginning in July, prices for residential customers will drop 27.5 percent from current rates, while small commercial and industrial customer prices will drop 24 percent.

According to the **New York ISO**, falling fuel prices and electricity demand have also elicited a drop in prices. For the month of April 2009, the average price of wholesale electricity dropped 13 percent from prices in March and almost 50 percent from prices in January. Currently average wholesale electricity prices are the lowest since May 2002.

**Ameren Illinois Utility** customers will be paying less for electricity this summer, after the company announced an 8 percent drop in prices beginning June 1. The decrease comes as a result of a sharp decline in wholesale electricity prices following a reduction in general energy demand.

**ComEd** customers in Illinois can expect to see a 7.5 percent drop in electricity prices beginning in June 2009. A dramatic drop in the cost of electricity purchased through a competitive procurement process is responsible for the decrease in residential electricity prices.

Residential customers of **Baltimore Gas & Electric** will see their monthly electricity rates drop beginning October 1, 2009. Commercial and industrial customers of BG&E could potentially see their rates drop as much as 18 to 33 percent as a result of recent competitive power procurements.

These recent rate reductions refute the claims of critics that past rate increases were the result of restructuring and were caused by wholesale competitive markets. The reductions show that the earlier increases were in fact the result of underlying market conditions such as increases in fuel and other costs. Competitive power markets reflect both rising and falling commodity prices for generation inputs. When underlying market conditions cause prices to rise, consumers are not kept in the dark and instead can respond more readily than in states with substantial time lags in how and when rates are adjusted. The rate reductions in restructured states are in sharp contrast to rate increases that continue in many states that elected not to restructure.

In addition to the new rate decreases document, information on rate increases in vertically integrated states is available on EPSA's web site: [www.epsa.org](http://www.epsa.org).

## **More Rate Hikes in Vertically Integrated States**

**Kansas City Power & Light** wants to raise electricity rates by \$95 million or almost 16.4 percent, possibly as soon as September 1. The deal must be approved by the Missouri Public Service Commission.

**South Carolina Electric & Gas Co.** customers will see an increase of nearly 4 percent on their next bill. SCE&G needs to pay for increased coal-hauling costs, which doubled after the utility's rail contract expired.

Other South Carolina customers will also be facing higher bills if **Santee Cooper** has its way. The State-owned power provider is considering a 7.5 percent increase for its almost 2 million residential electricity customers beginning in November, followed by a 7 percent increase in November 2010.

## **COMPETE Member Opinion**

We are pleased to call your attention to the following letter-to-the editor of Crain's Chicago Business authored by **COMPETE** member Kevin K. Wright of the Illinois Competitive Energy Association. We encourage all **COMPETE** members to submit opinion pieces in support of electricity competition to local newspapers.

## **Now isn't the Time to Unplug Retail-Electric Competition**

Crain's Chicago Business  
April 27, 2009

Unfortunately, *"Unplugging dereg?"* (Crain's, April 13) by Steve Daniels was long in casting doubt over competitive electricity markets and short in telling how successful customer choice and competition have been in Illinois.

In fact, the numbers demonstrate that Illinois' competitive retail-electricity market is one of the most successful in the country: Thirty-eight alternative retail electric suppliers are licensed to provide service to medium to large commercial customers and industrial customers, and eight are licensed to offer service to residential and small commercial customers; and 90% of schools, local governmental agencies and commercial, retail and industrial customers take service from someone other than their local electric utility. The number of customer's purchasing power from alternative retail electric suppliers has quadrupled since October 2006 and continues to grow every day (over 56,000) with more than 50% of the kilowatt hours consumed in Illinois being sold by alternative suppliers.

These statistics are not surprising given the benefits of competitive electricity markets, which include empowering customers to make electric purchasing decisions that best meet their objectives and risk-tolerance levels, and customers' ability to take advantage of favorable market pricing, such as the significant reduction in electric prices that we have witnessed over the past six months.

Now is the time to support policies that encourage and expand development of competition for all customers, including residential and small-commercial. Now is not the time to turn back the clock on competitive electricity markets.

Kevin K. Wright, President  
Illinois Competitive Energy Assn., Springfield

## **Correction**

In our April, 2009 newsletter, we erroneously attributed an opinion piece that ran in the April 15, 2009 Lansing State Journal to David I. Fein of Constellation Energy. The piece was in fact an editorial, reflecting the opinion of the paper's editorial board.

## **Membership Update – COMPETE at 347**

**COMPETE** membership continues to grow. Today we stand at 347. We would like to welcome and extend our thanks to ABUZZ Media, Eau Claire, WI); Alumatech Fabricating (Evansville, IN), Comfort Systems USA (Indianapolis, IN); Blue Realty (Riverdale, NJ); Cypress Energy Inc. (Frisco, TX), Dajalabe Engineering (Coos Bay, OR); Gamesa Energy USA (Austin, TX); The Green City Development Group (East Point, GA); K-VICPEA, LLC (Elkridge, MD); Metromedia Energy, Inc. (Eatontown, NJ); Numax Energy Consultants (Ronkonkoma, NY); PwrCast Inc. (Newberg, OR); Renewable Energy Systems (Broomfield, CO); Suffolk University (Boston, MA); Texas Power (Arlington, TX); and Washington Gas Energy Services, Inc. (Herndon, VA) who have joined since our last newsletter.

## **COMPETE New Member Profile**

Gamesa is one of the world's largest wind turbine manufacturers, having installed more than 16,000 wind power megawatts in 20 countries. Together with other

Spanish renewable energy developers, the company is highly committed to promoting renewable energy in the United States.

For more than two decades, Gamesa has been working with communities worldwide to build wind farms that protect the environment and provide residents with affordable, clean electricity. That mission continues today in Pennsylvania, Gamesa's U.S. headquarters, where the company has invested more than \$200 million and employs 1,160 workers statewide. These jobs exist because communities and local landowners support wind development, which is why Gamesa works closely with residents to ensure significant economic and environmental benefits are realized locally.

## Did You Know?

PJM Interconnection has launched a one-stop resource to better understand renewable energy resources on the PJM power grid.

The Renewable Energy Dashboard at [www.green.pjm.com](http://www.green.pjm.com) is a user-friendly snapshot of the amount and type of generation that currently provides power to the 51 million people in the PJM region. The dashboard also features a map indicating where proposed renewable energy projects are planned and a summary of how much electricity has been produced by renewable sources since 2005.

Wind generation accounts for nearly half of the approximately 100,000 megawatts of new electricity proposed to be built in PJM, according to the dashboard. In addition, biomass—a relatively new renewable energy resource to the grid—joins proposed solar photovoltaic, captured methane, hydro, wood and others considered as renewable sources in the planning process. The amount of renewable energy proposed changes throughout the year as new projects are added and some are withdrawn from the process.

The information for the dashboard was gathered in large part from the Generation Attribute Tracking System (GATS), a system developed by PJM affiliate, PJM-EIS. Many states in the country, and most in PJM, have developed target goals for renewable energy, or renewable portfolio standards (RPS). The states within PJM track the amount of renewable generation they produce or buy through the GATS. The GATS, which began tracking renewable energy production in 2005, produces a certificate for each megawatt-hour of renewable power produced. The certificate can be traded with other states to meet RPS requirements.

To learn more about the status of renewable energy in PJM, visit [www.green.pjm.com](http://www.green.pjm.com).

## Editor's Note

All of us at **COMPETE** wish to extend our best wishes and deepest appreciation to Vicki May who has served as Deputy Director of the coalition since its inception in 2005 and who is moving on to other ventures in Santa Fe, NM. Among her many activities in support of **COMPETE**, Vicki authored all 45 editions of our "Watt's Up?" newsletter. Thank you, Vicki!

## America: Powered by Competition

*The **COMPETE** coalition represents 347 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](http://www.competecoalition.com).*