

COMPETE

Electricity Competition **IS** the Public Interest

Watt's Up?

June 2008 Newsletter

FERC Examines Rising Electricity Costs Nationally

Electricity costs are increasing nationally due to global economic pressures on generation fuels and construction costs, and those cost pressures are occurring regardless of market structure, according to a Federal Energy Regulatory Commission (FERC) staff report. At a June 19 meeting in Washington, D.C., FERC staff reported that power prices are rising in all areas of the country because of increasing fuel and construction costs, and this has little or nothing to do with wholesale electricity markets run by regional transmission organizations. All five FERC commissioners firmly advocated market-based policies to confront this national challenge.

FERC Chairman Joseph T. Kelliher stated: "Competition policy was rooted in the conviction that competition does a better job controlling costs than regulation, that competition does a better job developing and deploying new technologies, that competition does a better job improving operating performance, and competition properly shifts risk from consumer to market participants. Those truths still apply today, and competition policy is best suited to address the hard realities we are confronting today."

Commissioner Philip Moeller said: "Now is not the time to reduce competitive pressures in the wholesale electric markets, as any such decrease in competition will lead to higher costs."

Commissioner Suedeen Kelly cited the staff presentation as underscoring "the importance of (FERC's) continued commitment to competition and markets."

Commissioner Jon Wellinohoff noted: "Rising costs for electricity are fairly uniform in hitting everywhere around the country. It's not that we have higher increases in RTO regions and not (outside of) RTO regions. Inside and outside organized wholesale markets, it's happening across the country."

"The command and control methodology of the 1970s did not produce good results for ratepayers, and I think we need to stay the course on organized markets and on competitive wholesale markets, and I'm very pleased to hear my colleagues support that as the answer," said Commissioner Mark Spitzer.

The Commissioners stressed that FERC will continue to develop market-based policies to promote demand response and energy efficiency in the marketplace, as these demand-side solutions will complement market incentives for supply-side solutions. "Investing in energy efficiency and demand resources and bolstering our commitment to renewable energy resources that do not have fuel costs are

essential to stabilizing our country's energy prices," Commissioner Wellinghoff said.

The staff report found that forward power prices are much higher across the country this summer than last, and that there is little reason to believe this summer is unusual. It may just be the beginning of considerably higher power prices that will last for years. The primary reasons are drastically higher prices for coal and natural gas and soaring prices of steel, cement, labor and other costs relating to building new power plants. Further, power generated from coal and natural gas will become increasingly expensive as the U.S. moves to cap carbon dioxide emissions.

The FERC staff presentation is available at <http://www.ferc.gov/EventCalendar/Files/20080619114705-A-3.pdf>

COMPETE Commends FERC Review of Prices

COMPETE's press release commending FERC's review was picked up by *InsideFERC*. "FERC is to be commended for examining the rapidly rising costs of building new electricity generation. The Edison Foundation projects that to meet U.S. electricity demand it will require \$1.5 trillion in new electricity infrastructure over the next 20 years. This is more than three times the market capitalization of the U.S. electric industry, and does not include the cost of curbing carbon. It is imperative that this significant investment be disciplined by markets that assign risk to investors rather than captive ratepayers. By embracing market innovation, we can ensure these significant investments are made efficiently and at less risk to consumers. Competitive electricity markets will help manage and guide the substantial investments required to meet our future electricity demand while providing the market incentives to help address climate change. At a time when policy makers are promoting market innovation to curb carbon emissions, it makes no sense to turn away from the innovation well-functioning electricity markets provide today."

Competitive Market Boosts Wind Power in PA

The competitive electricity market in Pennsylvania, which kicks into full gear in 2010 with the expiration of rate caps, has spurred the growth of wind generation in the state. Pennsylvania has nine wind farms – all built this decade with four more facilities under construction with expected completion by the end of the year. By ending state-sanctioned utility monopolies, the market gives wind farms direct access to environment-minded consumers willing to pay for "green" power. Dozens of universities throughout the state are using wind power for a portion of their energy needs as are thousands of individual consumers. "The voluntary market for renewable energy is very big and has great prospects," said Rob Gramlich, policy director at the American Wind Energy Association, a **COMPETE** member.

NE Survey Finds Continued Support for Competition

The New England Energy Alliance released its annual regional survey on energy issues, which found that concerns about the economy and environment are influencing consumer preferences and energy choices. Almost **80 percent strongly support competition and market-based programs and favor the**

concept of choosing their electricity supplier and would switch suppliers for savings of just 5 percent or \$60 dollars per year. Voluntary or market-based solutions for increasing energy efficiency and for improving the environment are also favored as opposed to mandated consumer-funded government programs. Further, 84 percent favor the construction of large wind farms to meet regional electricity needs. Fifty percent of the consumers surveyed believe the economy is the most important issue facing the region, followed by high gasoline prices. Despite economic concerns, 77 percent are concerned about climate change. Most are willing to turn down thermostats and take other low-cost steps to conserve, but most are not willing to give up their cars to carpool.

The question-by-question results are graphically available at www.newenglandenergyalliance.org.

Pending MI Legislation Would Raise Prices – No Upside

A recent study released by the Mackinac Center/University of Michigan looks at the drawbacks of proposals in the Michigan Legislature to limit competition among electricity suppliers and mandate greater use of renewable energy, such as solar, wind or hydroelectric power. The study found that such legislation would significantly raise electricity rates without improving reliability or the environment. The study documents the lower electricity prices that resulted from Michigan's partial deregulation of electricity in 2000 and argues that the public would be better served if policymakers removed regulatory obstacles to a fully competitive electricity market. The choice program that began in 2000 among electricity providers has yielded substantial cost savings for customers even though higher natural gas prices have reduced some of that savings recently.

Michigan consumers and the state economy would be hit hard if the Legislature returned to monopoly utility regulation. The real threat to affordable and reliable electricity is shielding utilities from market forces. More competition and less regulation offers the best way to serve the public.

The Mackinac Center study, "Proposals to Further Regulate Michigan's Electricity Market: An Assessment," is available at <http://www.mackinac.org/article.aspx?ID=9471>

In a related matter, seven former Michigan Public Service Commissioners, including Democrats, Republicans and Independents, including three former chairs of the commission, who served from 1970s to 2007, announced their opposition to major parts of the energy package now before the Senate. "We believe these bills have serious flaws and would create unnecessarily high rates for Michigan ratepayers without providing for proper levels of electric development in our state," said the seven commissioners.

For more information, please visit www.customerchoicecoalition.com.

Electricity Competition the Right Direction for TX

No market structure can guarantee lower prices while commodity costs are rising, but the good news for Texas is that because of competition, Texans have much more control over how they spend their energy dollars, **COMPETE** Co-Chairmen Don Nickles and Ron Kirk observed in an op-ed published by the *Pasadena (TX)*

Citizen. Texas leads the nation in customer choice, providing new incentives for the long-term investment needed to meet growing demand, and driving the construction of new and more diverse sources of power all while reducing harmful emissions, the op-ed noted. Texas is also poised to deploy advanced metering systems that will enable innovative new competitive products and services to help customers manage their energy usage.

Texas customers have dozens of plans and providers to choose from and Texans are choosing in record numbers. More than 4 out of every 5 residential customers have made a choice in the competitive market. By exercising their power of choice, customers are saving money, using innovative programs to help them cut their electricity use, and receiving other benefits like access to more renewable energy. Texas is the leader in wind generation and the rate of growth in the state is staggering. Texas will have nearly 9,500 megawatts of wind generating capacity by the end of this year --- nearly 7,000 megawatts more than California, which ranks second in wind generation.

The entire op-ed can be found at www.competecoalition.com.

In other Texas news, the Texas Governor's Competitiveness Council has released a study entitled, "2008 Texas State Energy Plan," putting forth a number of recommendations in an effort to assure that Texas remains competitive in the 21st global economy. Among the study's recommendations is that the state should resist efforts to re-regulate its retail electricity market and instead adopt the recommendations laid out in the plan, while retaining the oversight of the Texas PUC and ERCOT over the market.

The report is available at <http://www.governor.state.tx.us/gcc/files/DRAFT-TexasStateEnergyPlan.pdf>.

Smart Grid = Good Business

Silicon Valley tech companies are applying the rules of the Internet to improve the country's power distribution. The advancements – referred to as smart grid technology – seek to tackle many of the problems associated with the U.S. electric grid, which loses about 7 percent of the energy produced annually through transmission lines, theft and mechanical problems. These companies are focusing on ways to develop technologies that promise to cut peak electric power demand by 15 percent. A Pacific Northwest National Laboratory study estimated that these technologies could save \$80 billion over 20 years. Emerging technology and lower costs has created a smart-grid market over the last two years that could grow to multiple hundreds of billions of dollars globally.

More information can be found at <http://gridwise.pnl.gov/moreinfo/faqs.stm>.

More Rate Increases in Vertically Integrated States

Residential customers of **Georgia Power** will pay an additional \$2.93 a month because of a deal between the company and the state. The Georgia Public Service Commission voted 3-2 to allow Georgia Power to recoup \$222 million from residential customers to pay for rising fuel costs. Approval of the year long charge came after the initially proposed surcharge was partially shifted away from

industrial consumers and onto residential consumers. A decision will be made next year on whether to establish seasonally adjusted fuel cost rates.

Westar Energy is seeking a rate hike of 15 percent on residential customers in both its north and south regions. The average residential customer would see a monthly increase of \$9.62 in Westar's northern region and a \$10.34 hike in its southern region. Westar filed with the Kansas Corporation Commission to request an increase in its rates to recover the cost of investments made in new natural gas plants and equipment to meet customers growing energy needs as well as recovering costs of restoring its system following last December's ice storm.

Residential customers of **Progress Energy** may see their bills jump from about \$97 to nearly \$113 per month – a 16 percent increase. If the North Carolina Utilities Commission approves the request, the rate increase will go into effect on December 1. Progress is seeking to cover the cost of fuel needed to run its plants saying that most of the increase is caused by rising coal prices. Progress uses coal to generate about half of its electricity in the Carolinas. The price of coal has risen 160 percent this year.

Florida Power & Light Co. is seeking an increase of 16 percent. If approved, the increase will add close to \$20 per month to the average residential customer's bill. The company filed a petition with the Florida Public Service Commission asking for the increase to cover an estimated \$746 million in additional fuel costs. It uses natural gas to generate about half of its electricity and says costs have risen 32 percent.

Membership Update – COMPETE at 239

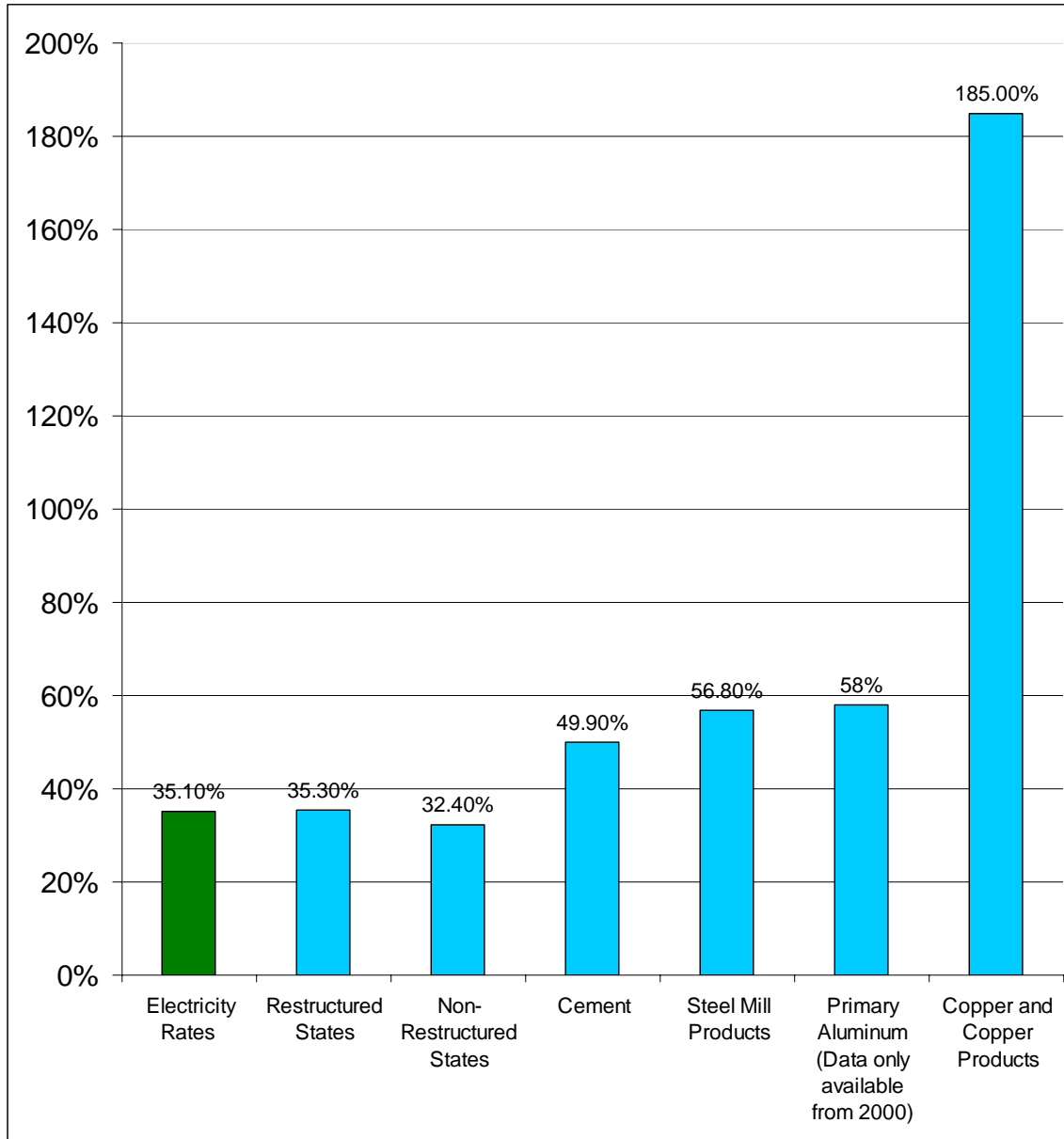
COMPETE membership continues to grow. Today we stand at 239 members. We would like to welcome and extend our thanks to BoRE, Inc. (Lexington, MA); Conergy (Philadelphia, PA); Coalition of Energy Suppliers (Springfield, IL); iMonitorEnergy (Lake Forest, CA); Intermountain Wind (Boulder, CO); Power Management Company (Rochester, NY); Power Management Company New England, LLC (Plymouth, MA); SaveOnEnergy.com (Dallas, TX); StarTex Power (Houston, TX); Texas Energy Aggregation (Waco, TX); Wind Energy Corporation (Elizabethtown, KY); and World Energy (Worcester, MA) who have joined since our last newsletter.

COMPETE Member Profile

Staples, Inc. is the world's largest office products company. With 76,000 associates and 2007 sales of USD 19.4 billion, Staples serves consumers and businesses ranging from home-based businesses to Fortune 500 companies in 22 countries throughout North and South America, Europe and Asia. Headquartered outside of Boston, Staples operates more than 2,000 office superstores and also serves its customers through mail order catalog, e-commerce and contract businesses.

Did You Know?

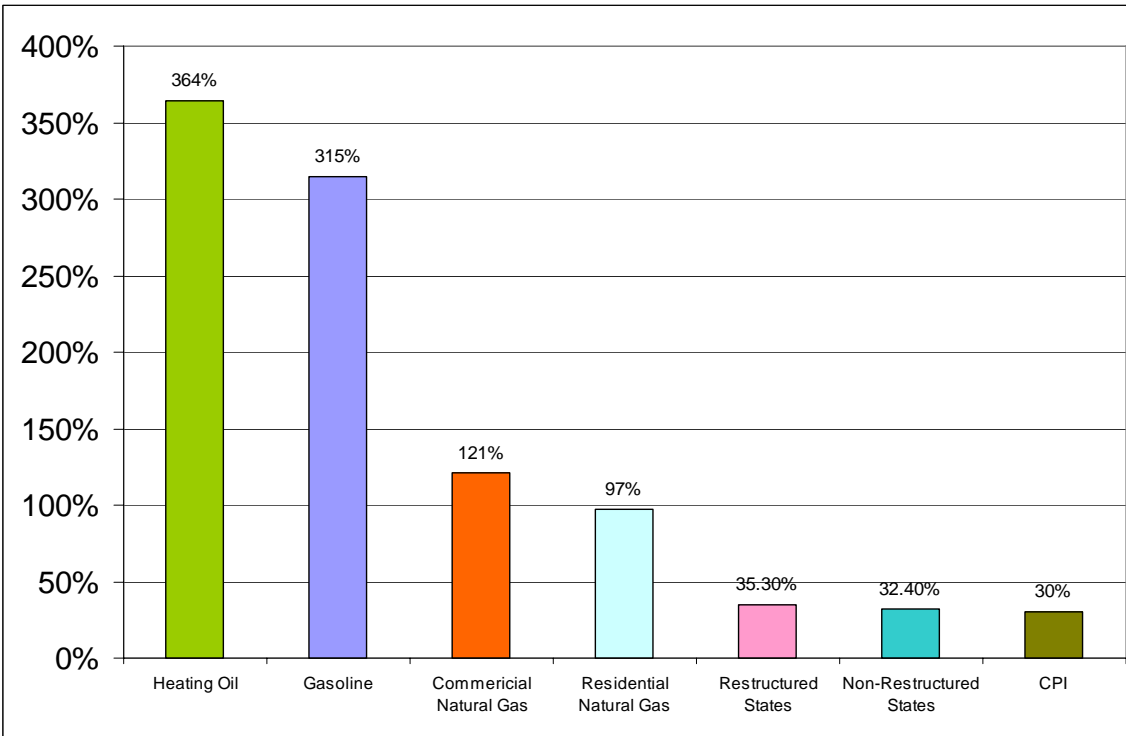
Prices: Electricity vs. Heavy Industries (1999-2007)



Note: Percentages reflect changes in average annual prices.

Source: Bureau of Labor Statistics, U.S. Energy Information Administration

Prices: Electricity vs. Fuels (1999-2007)



Note: Percentages reflect changes in average annual prices.

Source: Bureau of Labor Statistics, U.S. Energy Information Administrations

America: Powered by Competition

The **COMPETE** coalition represents 239 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.