

COMPETE

Electricity Competition **IS** the Public Interest

Watt's Up?

July/August 2009 Newsletter

Wellinghoff: 'Customer Choice' To Shape Energy Future

At the National Association of Regulatory Utility Commissioners' (NARUC) summer meeting in Seattle this month, Federal Energy Regulatory Commission (FERC) Chairman Jon Wellinghoff shared his vision of a future where "clean, reliable and affordable energy are commonplace." This future includes distributed resources such as efficiency, demand response, micro-generation and combined heat and power as the first sources of energy for consumers. And, in a shift from the past, a significant share of the energy resource mix would also include competitive procurement of large-scale wind, solar, hydro, geothermal and other renewable resources.

In order to achieve this vision of the future, Wellinghoff described a change in focus from planning around the least cost options to "environmentally sustainable energy services that provide customer choice at the least total economic and societal cost." And factored into those costs as a result of new legislation will be the price of carbon emissions. This will require a reliance on "robust and competitive markets that can fully account for and incorporate the societal costs of sustaining the environment." He went on to say, "Such carefully structured market forces will guide which supply and demand options need to be developed for a sustainable future."

Wellinghoff appealed to legislators and regulators to work in concert to put in place the structure necessary to ultimately achieve this vision.

COMPETE Launches Competition Blog

In an ongoing effort to communicate more openly and regularly with our readership and network, **COMPETE** recently launched the *Competition: Watt Matters* blog on our Web site. The blog will disseminate opinions, information and perspectives about competition in a timely and open fashion, and we invite readers to offer commentary in response to each blog post. We want to offer our readers a number of different perspectives on the subject of competition from a variety of writers, and would encourage you to consider writing or contributing to one or more blog posts. To inquire about writing or contributing to a blog, please contact **COMPETE's** executive director, Joel Malina, at malina@competecoalition.com.

You can find the blog here: <http://www.competecoalition.com/blog/>

PA PUC's Powelson Touts Competition in Pennsylvania

In a recent press report, Pennsylvania PUC Commissioner Robert Powelson touted the success and effectiveness of electricity competition in the state, noting that "customers are paying less for power today in a competitive market than they were in 1992."

Retail electricity rate caps will expire in Pennsylvania on December 31, 2009, for one of the largest utilities, with others on December 31, 2010. Some of the smaller utilities in the state have already made the transition to the market. While rate caps artificially held prices at levels that did not account for the increase in the underlying commodity prices that occurred over the past 10 years, Powelson argues that organized markets in his state will encourage suppliers to compete for business with lower rates.

He also credits the decision by the state to restructure the industry by adding a renewable energy portfolio standard and allocating funding for green power sources. These changes have been successful because of the state's regulatory climate and public policies to support the industry. It's helpful that Pennsylvania Governor Rendell supports competition and, according to Powelson, "he understands that if we want more renewable energy built, there has to be a competitive market with a healthy regional transmission organization."

In addition to the influx of renewables and green energy, the state also experienced a 400 percent increase in demand response being bid into the market.

"(Competition) is a new paradigm – all economic decisions are off the back of rate payers. It makes generation, transmission and distribution assets more efficient and customer focused."

MidAmerican To Join MISO: Competition's 'Poster Child'

FERC cleared the way for MidAmerican Energy Co. – the largest utility in Iowa – to be integrated into the Midwest Independent Transmission System Operator (MISO) on September 1.

Just before the July 16 vote, Chairman Jon Wellinghoff remarked that MidAmerican's integration into MISO "is a poster child for the fact that markets are working." As reported by *Inside FERC*, Chairman Wellinghoff went on to say: "Organized markets expand energy supply options through increased access to renewable energy resources, such as the strong wind power resources that have been and will be developed in the MidAmerican service territory."

Commissioner Philip Moeller commented that, "this has been a banner year for organized markets when you consider that we have had some positive developments in the Southeast, we've had the Nebraska public utilities join the Southwest Power Pool, we've had a successful launch of the California [market redesign and technology upgrade] market and we have had some other positive events in the MISO market."

Commissioner Suedeen Kelly touted six main benefits to flow from the integration of MidAmerican, including:

- Improved system reliability
- A more diverse generation portfolio
- New transmission assets
- Greater flexibility and reliability in the ancillary services market
- Better support for the operation of wind generation in MidAmerican
- Elimination of pancaked rates

State Regulators Chide Study Critical of Competition

A July 15 Synapse Energy Economics study purporting to assess potential impacts of pending federal climate and energy legislation was a topic of interest among state regulators meeting in Seattle this month. Many regulators expressed concern that the National Association of Regulatory Utility Commissioners had joined anti-competition advocates such as the American Public Power Association, the National Rural Electric Cooperative Association and the National Association of State Utility Consumer Advocates to sponsor a flawed study asserting that competitive generators will reap “windfall profits” under a climate cap-and-trade program.

Barry Smitherman, chairman of the Texas PUC, and Pennsylvania Commissioner Robert Powelson issued a statement chiding the study as a “veiled attempt at criticizing competitive markets.”

“Organized competitive markets with a single clearing-price structure, such as ERCOT and the PJM power pool, have experienced record increases in renewable and low or non-emitting generation sources, and investments in smart grid technology, demand response and energy efficiency,” the Smitherman/Powelson statement said. “These positive increases are the result of the competitive market, and not the result of federal mandates. Competitive market structures promote clear price signals which support innovation and investments in clean and efficient generation and smart grid technology.”

The regulators also took issue with the study’s flawed methodology.

“The Synapse analysis takes a simplistic approach to energy markets. Most power in ERCOT and PJM is sold in a bilateral market, and not a spot market as the study assumes. In addition, ERCOT and PJM have shown record increases in renewable power generation over the past few years, while all generation and emission data in the Synapse analysis are from calendar year 2005,” the regulators noted.

You can read the full statement on the **COMPETE** Web site:
www.competecoalition.com

Competitive Markets Drive Innovation and Produce Savings for Colleges and Universities

Faced with energy costs that have risen almost 38 percent in one year, colleges and universities are optimistic about a new cost saving energy procurement strategy. "Managed Heat Rate" is an innovative product that capitalizes on the benefits of competitive markets to deliver long-term savings in excess of traditional fixed-price electricity contracts. Available in states with competitive electricity markets, "Managed Heat Rate" can help schools – which are looking for cost efficiencies in all areas of operation – reduce the volatility and expense of electricity procurement.

For more information about this program, see the white paper developed by ARAMARK Higher Education and Amerex Energy Services at www.aramarkhighered.com.

COMPETE Member Touted at Demand Response Meeting

The Demand Response Coordinating Committee (DRCC) hosted its 2009 National Town Hall Meeting on Demand Response and Smart Grid in Washington, D.C. in mid-July. More than 350 members of the demand response and smart grid community participated, including representatives of utilities, technology companies, ISOs, Congress, federal and state agencies, environmental groups, and research and consulting firms.

COMPETE member Steve Elsea from Leggett & Platt served on a panel at the Town Hall. He talked about the important role that pricing plays in enabling companies to successfully participate in demand response programs. "Without a price signal, we're not going to participate. Organized markets are creating price unbundling and transparency. Demand response hasn't worked as well for us with regulated utilities as with organized markets."

Dan Delurey, DRCC Executive Director, congratulated Leggett & Platt for its use of demand response. "You get it," remarked Delurey, "demand response is an integral part of the way you do business."

DOE Report Gives Competitive Markets High Marks

On July 20, the U.S. Department of Energy issued its first annual "Smart Grid System Report," which underscores the benefits of organized markets in terms of consumer empowerment, management of independent grid variables and introduction and management of new technologies. Some of the key findings include:

- Correctly designed and operated markets efficiently reveal cost-benefit tradeoffs to consumers by creating an opportunity for competing services to bid.
- The exchange of real-time prices and market data allows utility customers unprecedented access to information that, when acted upon, may impact energy costs and promote electric system savings.
- A smart grid, with "smart" meters, appliances, and real-time information exchanges between customers and service providers uses dynamic pricing programs to encourage energy efficiency and load shifting.

The full report can be found at:

http://www.oe.energy.gov/DocumentsandMedia/SGSRMain_090707_lowres.pdf

DOE Lab Study Finds Most Growth of Incentive-Based Demand Response Occurred in Competitive Markets

A study by the Lawrence Berkeley Laboratory prepared for the Office of Electricity Delivery and Energy Reliability, Permitting, Siting, and Analysis at the U.S. Department of Energy found that “most of the growth in incentive-based DR resources has occurred in organized wholesale markets administered by ISOs/RTOs.”

The study points out that “Overall, the development of open and organized wholesale markets coupled with direct policy support by the Federal Energy Regulatory Commission has facilitated new entry by curtailment service providers, which has likely expanded the demand response industry and led to product and service innovation.”

The full study can be found at: <http://eetd.lbl.gov/EA/emp/reports/lbnl-2124e.pdf>

COMPETE and COMPETE Members in the News

Co-Chair Federico Peña in D.C.

On July 27, **COMPETE** Co-Chair Federico Peña participated in a round of media interviews in Washington D.C. to discuss competitive markets and their role in addressing climate change issues. As cap-and-trade legislation makes its way through Congress and the Administration continues its focus on clean energy investment, the former Energy Secretary’s perspective was particularly valuable and timely.

Below are links to broadcast interviews with E&E TV and Clean Skies TV.

E&E News: <http://www.eenews.net/tv/2009/07/27/>

Clean Skies TV: www.cleanskies.com/videos/conversation-federico-pe%C3%B1

ICC Report Boasts Advances in Competition

The Illinois Commerce Commission’s Office of Retail Market Development published its annual report on July 1 highlighting specific accomplishments in promoting retail electric competition, which included a number of significant advances and benefits for non-residential customers. Tom Wolf, Director of the Illinois Chamber of Commerce Energy Council, touts these findings in a letter-to-the-editor that ran in the *Chicago Tribune’s* online publication as well as in the *The State Journal Register* in Springfield, Illinois and the *Daily Herald* newspaper in Northern Chicago.

July 21, 2009

As we use our air conditioners more and more in the upcoming dog days of summer while fearing the subsequent electric bills, a little perspective might be in order.

Bit by bit something is happening that no one thought possible; competition has come to the electricity marketplace - especially for Illinois businesses. During the past 10 years choices in the way we purchase electricity have transformed before our eyes. In a little-noticed annual report from the Illinois Commerce Commission's Office of Retail Market Development, a very rosy picture of retail competition for non-residential customers is painted. For example:

- More than half of all kilowatts consumed in Illinois are being sold by someone other than the incumbent utilities, ComEd and Ameren.
- Three-fourths of the non-residential kilowatts are being sold by new competitors.
- There are 37 licensed competitive electricity retail suppliers in Illinois; 24 registered and 19 active in ComEd service territory and 13 registered and 11 active in Ameren service territory.

The way Illinois businesses buy power has completely changed in one decade. Although a single provider has been the norm in the residential electricity market so far, there is no doubt this genie is out of the bottle.

There has been some talk in Springfield recently about re-regulating the electricity marketplace for residential customers. This double-standard is most likely unworkable in the real world and, more importantly, backward thinking.

Just because residential competition hasn't emerged yet doesn't mean it won't. Competitive forces naturally went for the biggest users of electricity first, which happened to be business customers. Telecommunications providers did the same thing, but they eventually moved into the residential market with great results for consumers.

In time, competitive sellers of electricity will find a way into the residential marketplace just as telecommunications companies did. It would be shortsighted to let impatience halt the march to a fully competitive electricity marketplace that promotes consumer preferences and benefits.

*Tom Wolf, Chicago
Director, Illinois Chamber of Commerce Energy Council*

Ohio Thrives in Wholesale Market

[Coverage of **COMPETE's** filing with the Ohio PUC on the benefits of RTOs, as reported by *Restructuring Today*.]

Ohio's participation in the region's wholesale power markets is providing value to consumers by attracting needed infrastructure, encouraging innovation, keeping costs down and presenting the best means of meeting pressing environmental challenges, the Compete Coalition said in a filing with the Ohio PUC.

The filing is a point-by-point rebuttal of recent comments submitted by the Industrial Energy Users-Ohio in the PUC's inquiry into the benefits of organized wholesale electricity markets, PJM and MISO and FERC policies.

As part of Senate Bill 221 that changed the Ohio power market, regulators were charged with conducting such an inquiry.

Benefits of competitive markets highlighted by Compete included:

- Demand response in the organized markets has displaced the need for over 23,000 mw of generation;
- Access to renewable energy resources is increased in organized markets with over 70% of installed wind capacity, despite these areas representing only 44% of wind energy potential;
- Rates are decreasing in organized markets such as PJM, where prices, when adjusted for fuel costs, are 23% lower than they were 10 years ago, and
- The heat rates of coal-fired generators in ISOs and RTOs improved 9.4% between 1998 and 2007.

To see the filing and coverage in full, visit the Web site at:

<http://www.competecoalition.com/>

Rate Decreases in Competitive Markets

Citizens' Electric Co.'s **Pennsylvania customers** will soon be seeing a dip in their electricity bills as a result of a rate decrease request made by Citizens to the state's PUC. The rate adjustment will mean that a monthly bill for a residential customer using 500 kWh of electricity will decrease by \$6.90 or 11.81 percent.

This summer, **Houston-area Texas** customers who participate in Reliant Energy's monthly flex plan will see a 20 percent savings in their electricity bills, and another 250,000 residents in Texas will see their electricity rates reduced by up to 15 percent in August. TXU Energy, based in **Dallas**, is taking advantage of lower wholesale rates to benefit its customers. The company is also offering lower rates to new customers and existing customers who are interested in considering longer terms plans, and recently announced plans to provide affordable electricity to low-income residents during the hot summer months.

Residents in **Illinois** are already experiencing a 7.5 percent reduction in their electric bills – \$6.36 on average – thanks to competition. According to ComEd – the Chicago-based utility that services many residents and businesses in the state – global economic forces have had a huge impact on supply-demand dynamics for commodities, which have resulted in falling prices for electricity. "In light of these market forces, (ComEd) customers reap the timely benefit of lower prices," Anne Pramaggiore, ComEd's VP for customer relations, said in recent press reports.

The Commonwealth of Massachusetts will be able to save \$10 million on electricity costs due to its successful bid for more than 363 million annual kWh of electricity from Direct Energy. The online auction was conducted on May 25 by World Energy Solutions and Science Applications International Corporation (SAIC), and resulted in contracts to power many of the State agencies, including

Department of Conservation and Recreation, State Police and the Turnpike Authority.

Monmouth County, New Jersey also benefited from the purchase of electricity through an online auction held June 25. The winning bidder was Pepco Energy Services of Delaware, which will supply electricity to Monmouth County-owned buildings at an expected savings of \$3 million over the next two years.

Rate Increases in Vertically Integrated States

Arizona residents may see another increase in their electricity rates by October of this year. Toward the end of last year, the Salt River Project increased rates by 3.9 percent and they are now considering an 8.8 percent increase for approximately 900,000 customers. The expected cost per household would be \$12/month or \$150/per year. This is in conjunction with a 5 percent increase in revenue for the company between 2008 and 2009.

Wisconsin residents will see annual increases of 7 percent beginning in 2010 from a pending rate increase request by We Energies. If approved, this will result in an annual increase of \$64 with another \$44 increase the following year. We Energies points to a deepening recession that is slowing sales of electricity, forcing the company to cover its losses.

South Dakota Public Utilities Commission is reviewing a request from Xcel Energy to grant an increase in base electric rates in order to raise electric retail revenues. As a result, the typical residential electric consumer will see a net increase of 12.4 percent, or \$8.55 per month, while commercial and industrial customers will see increases of 10–14 percent.

Arkansas Electric Cooperative, a statewide cooperative group, has submitted a \$25.9 million increase in the wholesale rates that it charges its 17 member co-ops for power. If approved, this would raise rates by 4.3 percent raise in wholesale rates and passed through to co-ops customers.

Rocky Mountain Power has requested another rate increase for **Utah customers**. They asked state regulators for a \$67 million increase in electricity rates beginning in February 2010, which will result in average customer bill increases of 4 percent. The company has received permission from state regulators for three rate increases in three years, raising rates by nearly \$200 million during that timeframe.

Due to drops in revenue in its out-of-state sales, **Nebraska Public Power District** is seeking a 6.5 percent increase in rates for its wholesale customers, including 52 towns and 25 rural districts. An increase for retail customers, which includes about 80 communities, is also under consideration.

The Bonneville Power Administration in **Portland, Oregon** will increase its wholesale electricity rates 7 percent starting October 1. This could result in residential rate increases by some utilities, including Clark Public Utilities in **Vancouver, Washington**. Clark expects to see a significant increase in its power supply costs because of BPA's action, and may have to pass these increases onto its residential, commercial and industrial customers.

Membership Update – COMPETE at 367

COMPETE membership continues to grow, having reached 367 this month. We would like to welcome and extend our thanks to Red Arrow Wind Energy (Hubertus, WI); Nelson Mullins Public Strategies Group (Boston, MA); New Leaf Energy (Rockford, IL); Saporito Energy Consultants, Inc. (Jupiter, FL); Rich Hessler Solar Sales Training (Huntington Beach, CA); The Sign Center (Orlando, FL); Freescale Semiconductor (Tempe, AZ); Planet Forward LLC (Western Springs, IL); E:SO (Houston, TX); Innoventive Power LLC (South Orange, NJ); OfficeMax (Naperville, IL); and Sustainable Living Consultants (Olympia, WA) who have joined since our last newsletter.

COMPETE New Member Profile

With more than 20,000 employees working in 20 countries, 6,200 patents and 10,000 customers who have purchased 18 billion semiconductors, **Freescale Semiconductor** embodies the economies of scale which can be utilized effectively in competitive energy markets. Freescale, headquartered in Tempe, Arizona, started as a part of Motorola (which still uses Freescale's chips) before spinning off in 2004 and quickly became a global force in its own right.

In addition to Motorola, Freescale's semiconductors are embedded in prestigious brands like BMW, Whirlpool, Datang, Dolby, Logitech, Electrolux, Toshiba, and Pioneer products. They are also used in some of today's cutting edge demand response technologies and have twice been honored by GM with its annual supplier's award.

Did You Know?

COMPETE member TXU Energy is a company leading the way with consumer-friendly, two-way demand response consumer products. The new iThermostat hooks into a customer's home broadband connection, enabling users to go online to program and monitor energy consumption. The thermostat also has a control function allowing the energy distributor to help manage peak load by, for instance, turning off the air conditioner for a 10- to 15-minute cycle during high usage periods.

Unlike other similar devices, the iThermostat can plug straight into the system without needing to rely on other smart grid technology. Alongside the iThermostat, TXU offers the Power Monitor, an energy dashboard device which helps customers see their own meter information. These serve a critical low-cost step in providing the type of benefits a smart grid can but at a fraction of the cost: iThermostat costs only \$75.

America: Powered by Competition

*The **COMPETE** coalition represents 367 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.*