

COMPETE

Electricity Competition **IS** the Public Interest

Watt's Up?

September 2009 Newsletter

RTOs/ISOs Shatter Barriers to Renewable and Demand Response Resources

Organized competitive markets are breaking down barriers for renewable and demand response resources, creating new efficiencies in plant operations, improving grid reliability, providing clear and timely price signals and expanding regional planning, the Independent System Operator/Regional Transmission Organization Council (IRC) – which represents North America's 10 organized electric market grid operators – said in issuing its [2009 State of the Markets Report](#).

Responding to the report's findings, **COMPETE** Co-Chair Federico Peña observed:

"This report soundly underscores what we've been seeing in competitive markets for a long time now – increasing development of renewable energy and demand response resources. As our nation confronts difficult economic and environmental challenges, it is vitally important that we leverage these assets to their fullest possibilities, and competition is the best way to do that.

"The organized markets overseen by independent system operators and regional transmission organizations are helping us tap into the incredible potential that renewable energy offers and is creating an environment where innovation is encouraged and embraced. Similarly, demand response programs in the ISOs and RTOs are growing exponentially thanks to the clear and transparent price signals found in competitive markets."

Some significant statistics to note from the report:

Demand Response – Since 2006, ISO/RTO efforts have resulted in an 85 percent increase in available resources to draw on to maintain reliability or lower costs.

Renewable Resources – Wind generation capacity of 21,254 megawatts, or nearly 80 percent of the total wind capacity in the country, operated in ISO/RTO regions in 2008.

Infrastructure Investment – Large-scale transmission projects across multiple transmission systems have been completed or initiated in the Midwest ISO, PJM Interconnection, ISO New England, and ERCOT over the last several years.

Price Declines - The report notes that fuel-adjusted spot energy prices are declining in most ISO/RTO regions as a result of regional economic dispatch and wholesale competition. For example, the total fuel-adjusted cost of wholesale power in New York fell 18 percent from 2000 to 2008. In PJM, Midwest ISO, and New England, fuel-adjusted spot energy prices fell between 6.7 percent and 8.4 percent between 2005 and 2008, and in California, they fell 9.3 percent between 2006 and 2007.

Click [here](#) to view the full report.

Municipal Utilities and Co-op Join MISO Citing Benefits of Competitive Market

On the heels of MidAmerican Energy Co.'s September 1 integration into the Midwest Independent Transmission System Operator, MISO recently welcomed three additional new members: Muscatine Power & Water, Municipal Electric Utility of Cedar Falls, Iowa, and Dairyland Power Cooperative in Wisconsin.

"We are pleased to welcome these three transmission owning members into the Midwest ISO," MISO CEO John Baer told *Restructuring Today*. "These members will increase the reliability and efficiency of our grid while their customers will reap the benefits of our regionally managed footprint and independent energy markets."

Chuck Callies, Dairyland's vice president of power delivery, remarked on the benefits of joining MISO in the *Milwaukee Journal Sentinel*: "Dairyland recognizes that with recent regional changes and the increased efficiencies resulting from the Midwest ISO's Ancillary Services Market, membership in the Midwest ISO provides the most cost-effective solution for Dairyland and our member cooperatives at this time."

The addition of these utilities adds about 8,900 MW of generating capacity – including 1500 MW of wind generation – to the MISO footprint, whose market covers 13 states. According to reporting in *Restructuring Today*, MISO expects to invest \$1 billion in new infrastructure and improvements annually by 2013 to support power reliability and a stronger market.

EPSA Report Urges Competitive Approach in Times of Uncertainty

As Congress returned from its summer recess to resume debate on climate and energy legislation, the Electric Power Supply Association (EPSA) – a **COMPETE** member – released a report by Dr. Susan Tierney on September 8 entitled: [*Allocating Investment Risk in Today's Uncertain Electric Industry: A Guide to Competition and Regulatory Policy During "Interesting Times."*](#)

Dr. Tierney – a nationally-recognized expert on energy policy who recently co-led the Department of Energy Agency Review Team for the Obama/Biden Presidential Transition – outlines the regulatory structures necessary to overcome the many uncertainties facing electricity suppliers, from future fuel prices, to the impact of demand response and energy efficiency, infrastructure investment, and carbon regulation.

She points out that “properly structured and independently evaluated competitive procurements provide a constructive means to determine prudent resource outcomes for consumers. Competitive processes provide an important mechanism that allows the market to make offers with different risk sharing arrangements while still providing regulators with continued oversight of resource needs and decisions.... It is using these competitive mechanisms in conjunction with strong regulatory oversight that I believe is the best path forward in these uncertain and “interesting” times.”

Click [here](#) to view the full report.

WCEE Audience Hears COMPETE’s Views on Electricity Competition and Climate Change

Competitive electricity markets and a market-based cap-and-trade program to reduce greenhouse gas emissions are “joined at the hip,” **COMPETE** Counsel and former FERC Commissioner William Massey told a recent gathering of the Women’s Council on Energy and the Environment. WCEE, an active and well-established non-partisan, policy neutral organization that focuses on women, energy and the environment, hosted a lunchtime discussion for its members on: *Competition and Climate: What electricity markets offer for a carbon constrained economy*. The discussion attracted 30 attendees from a wide spectrum of interests, including legal experts, consultants, renewable energy developers and electricity company representatives.

“Congress is moving toward developing a market for carbon emission allowances with clear price signals, and organized power markets deliver reliable price signals for electricity, so the two markets are a logical fit,” Massey observed.

The **COMPETE** coalition believes the best way to achieve our nation’s carbon reduction goals for the electric power industry is through the innovation and operational efficiencies that come with competitive markets. **COMPETE** and the Environmental Defense Fund issued a [joint statement](#) that expressly recognizes the synergy between reducing carbon and well structured markets.

“If Congress wants to get the biggest bang for the buck in reducing carbon, meaning significant changes in the behavior of both investors and consumers, we need to see good price signals for both emission allowances and electricity,” Massey told the WCEE audience. “Excellent price signals for electricity occur in organized competitive markets.”

Massey also spoke to renewable energy’s role in a carbon constrained economy. Organized markets specifically have attracted more than 73 percent of wind power investments, even though only 44 percent of the nation’s wind capacity is within these markets. Wind producers are attracted disproportionately to the RTO markets because of their excellent market structure, Massey noted.

FERC Report Finds Increased Demand Response in Organized Markets

On September 10, the Federal Energy Regulatory Commission (FERC) released its fourth annual report on demand response and advanced metering, drawing heavily from a FERC staff report entitled: *A National Assessment of Demand Response Potential*, which was submitted to Congress in June (and can be found [here](#)).

The new report, which fulfills a legislative mandate from the Energy Policy Act of 2005, summarizes significant findings from its June Assessment as well as regulatory activities and actions taken by the Commission and state policy makers over the last year.

Some of the findings include:

- Demand response's role in organized markets grew significantly in recent years, especially in PJM and ISO New England.
- PJM's most recent Reliability Pricing Model capacity auction cleared 7,047 megawatts of demand response, up from 1,365 megawatts in the previous auction.
- ISO-New England's second Forward Capacity Market auction cleared 2,778 megawatts for the 2011-2012 capacity year – or 8 percent of the region's total supply needs, up from 6.7 percent in the previous auction.
- Thus far, 19 states announced or pursued advanced metering pilots or full roll-outs, and nearly all of those are coupled with dynamic pricing.

Click [here](#) to view the full report.

Kohl's Named "Green Power Partner of the Year"

Kohl's Department Stores – a **COMPETE** member – was named the "green power partner of the year" at the annual Green Power Leadership Awards on September 14 in Atlanta, Georgia. The award is sponsored by the U.S. Environmental Protection Agency (EPA), Department of Energy and the Center for Resource Solutions to honor organizations that advance the development of renewable energy. Kohl's was recognized for its leadership role in buying green power.

According to press coverage of the award in the *Milwaukee Journal Sentinel's* business blog, Kohl's ranks second among retailers and fourth among Fortune 500 companies on EPA's list of green power purchasers, with a total 2009 purchase of 600.99 million kilowatt-hours. That amount is more than double Kohl's prior green power commitment, and is enough to meet half of the company's electricity needs.

The green power purchases are part of a broader effort to address both the company's carbon footprint and to save on energy costs. As reported in the *Journal Sentinel*, Tari Emerson, Kohl's senior energy manager remarked: "Through steps to make its stores and other buildings more energy efficient, the company has saved \$37 million over the past three years."

Rhode Island Businesses Find Value in Pooling Electricity Purchasing Power

Members of the Greater Providence Chamber of Commerce in Rhode Island now benefit from better electricity pricing and access to increased energy product options after launching an electricity aggregation program with Constellation NewEnergy called the Providence Power Program.

According to Constellation NewEnergy's Web site, the ability for the Greater Providence Chamber of Commerce to pool the resources of its members will result in a higher volume, more consistent electrical load requirement that can yield better pricing options for all participants.

Providence Power Program members will also have access to more electrical service options, such as participating in demand response programs that compensate businesses for reducing electricity usage during periods of peak demand. The renewable energy products offered through the program provide businesses with simple, low cost ways of meeting their sustainability objectives.

The program is particularly beneficial for small- to medium-sized businesses – a majority of the Chamber's membership – to access the benefits that might normally only be available to large commercial and industrial customers.

For more information about this innovative program, please click [here](#).

COMPETE in the News

Co-Chair Federico Peña in the Lansing State Journal

On Sunday, September 20, the *Lansing State Journal* ran an op-ed by **COMPETE** Co-Chair Federico Peña, addressing Michigan's law re-monopolizing 90 percent of the state's electricity load. In particular, Peña notes that "Customers locked out of the market are particularly frustrated because steep declines in wholesale energy prices are one of the few financial bright spots in the midst of a devastating economic downturn, one that's hit Michigan particularly hard."

Opinion: Electric competition cap hurts Michigan

Lansing State Journal

By Federico Peña

September 20, 2009

Many large electricity buyers and employers in Michigan recently got a rude surprise when they turned to the electricity marketplace to take advantage of falling energy prices. They found themselves locked out of the competitive market and, as a consequence, locked into higher electricity costs at the monopoly utility.

The problem stems from a state law passed last year that placed a cap of 10 percent on the amount of electricity that could be supplied by the competitive marketplace in 2009.

In the Consumers Energy service territory in western Michigan, the cap was reached in mid-August. Those customers who signed contracts under the cap will

enjoy lower energy bills while those who did not are now forced to accept higher costs.

For many, the ramifications are potentially severe. Higher energy bills sap budgets and that can lead to job losses. Customers locked out of the market are particularly frustrated because steep declines in wholesale energy prices are one of the few financial bright spots in the midst of a devastating economic downturn, one that's hit Michigan particularly hard.

For example, Dennis C. Dornbush, president of Sintel, Inc., a large sheet metal manufacturer in Spring Lake, Michigan, expects to see a \$100,000 annual increase in his company's electricity bill next year. Dornbush wants the freedom to shop for a better price but state law prohibits it. Many other businesses find themselves in a similar predicament.

For now, the trouble is concentrated in Consumers Energy's territory but the cap applies to all Michigan utilities. Commercial and public sector customers in the larger Detroit Edison territory could be at risk this fall if the cap is reached and they, too, are locked out of the marketplace.

It's clear the 10 percent cap on competitive energy purchases was short-sighted. The Michigan Legislature closed the door on electricity competition at the worst possible time from an economic perspective, but the cap on competition also directly undercuts Michigan's long-term clean energy objectives. Industry and academic research confirms that investment in clean energy sources is occurring far more rapidly in competitive energy markets, as opposed to those governed by monopolies.

Gov. Jennifer Granholm recently hosted a clean energy forum in Saginaw and it's difficult to envision the state progressing on its clean energy goals if the forces of competition are held in check by arbitrary caps.

The Legislature should move quickly to reconsider the cap on competition. The cap should be greatly expanded to meet customer demand or eliminated altogether. It would be a painful lesson if Michigan's economy is forced to shed even more jobs because an unnecessary cap locked employers out of significant savings on their electricity bills. It would be doubly painful if a rejection of competition compromised the state's long-term clean energy future.

View the original article [here](#).

Executive Director, Joel Malina, in the Washington Times

On Wednesday, September 9, the *Washington Times* published a letter-to-the-editor by **COMPETE** Executive Director Joel Malina. The letter responded to a September 1 article, "Nuclear Power Plants Face Big Profits in House Bill," overlooked the value of clear price signals offered by current cap-and-trade legislation being considered in the U.S. House Representatives.

LETTER TO EDITOR: Sign of the Times

The Washington Times

September 9, 2009

A recent article about generator profits under proposed "cap-and-trade" legislation took too narrow a view ("Nuclear power plants face big profits in House bill," Page 1, Sept. 1). We should be looking not at profits but at price signals from well-functioning markets that in the long run will provide consumers with least-cost outcomes and innovation that no government regulatory program can provide.

If consumers are going to reduce electricity use and buy electricity from low-carbon energy suppliers, they will be guided by clear price signals in competitive markets. Government-protected monopolies stifle innovation and the transparent price signals that provide accurate real-time information, which allows generators and consumers to make decisions about reducing emissions and improving efficiency, as intended under a market-based cap-and-trade program.

Furthermore, the study referenced in the story is deeply flawed because it fails to account for investment in low-carbon energy sources that a market-based cap-and-trade program would encourage. The report's flawed assumptions prompted criticism not only from power providers but also from state utility regulators in Texas and Pennsylvania.

We already have seen competitive markets realizing the outcomes that a federal cap-and-trade program is designed to bring about, predominantly renewable energy development and increased efficiency in the production and use of electricity. By focusing on generator profits instead of price signals, The Washington Times missed the forest for the trees.

Joel Malina
Executive director
Compete Coalition
Washington

View the original piece [here](#).

Rate Decreases in Competitive Markets

PJM's wholesale market has seen price declines of about 40 percent from last year, which is expected to continue for the rest of the year, according to the Energy Information Administration.

As reported by Mark Williams in the *Associated Press*, "If you reside in the Northeast, West or in a central state like Texas where rates are based on spot prices, you stand a good chance of getting some relief." Williams points out that consumers in monopoly markets will not see as much benefit, where utility bills are calculated based on long-term arrangements and do not respond in real time to changes in market forces.

In **Texas**, 250,000 customers of **COMPETE** member TXU Energy saw their rates decrease by 15 percent in August to their lowest levels in more than eight years.

These prices are reflective of the steep price declines in natural gas, which makes up a significant portion of TXU's portfolio.

Rate Increases in Vertically Integrated States

Salt River Project in **Arizona** is considering an 8.8 percent increase on rates, despite a steady drop in demand and fuel costs. Phoenix-based utility APS is also looking to increase rates by 7.9 percent starting January 1, 2010.

In **Minnesota**, several area communities will see a hike in their electricity rates next year. Southern Minnesota Municipal Power Agency's board of directors has approved a 4 percent increase in its wholesale electricity rate, effective January 1, 2010. The company cites the higher cost of fuel, debt service and state mandates for renewable energy.

Residents of **Banning, California** will face a 20 percent rate hike due to a recent decision by the City Council.

Ashland, Oregon residents will see a 4 percent increase in electricity bills due to a 7.5 percent increase in the wholesale power rates offered by the Bonneville Power Association. Further price hikes are likely, in part because BPA plans to charge utilities significantly higher rates if they need more power than they use now. A 6 percent rate hike is being considered for next year.

Membership Update – COMPETE at 382

COMPETE membership continues to grow, having reached 382 this month. We would like to welcome and extend our thanks to Accent Energy (Dublin, OH); Acclaim Energy Advisors (Houston, TX); Beacon Power Corporation (Tyngsboro, MA); Business Energy Partners, LLC (McKinney, TX); Citizens for Pennsylvania's Future (PennFuture) (Harrisburg, PA); Commercial Environmental Services LLC (Oak Grove, MN); Customer Choice Coalition (Michigan) (Lansing, MI); Energy Advisory Services (Bozeman, MT); Evolving Energy Systems LLC (Dallas, TX); Eye on Supply (Sandwich, MA); MXenergy (Annapolis Junction, MD); Perrigo Co. (Allegan, MI); Quadrillion R E (Tenafly, NJ); Stop & Shop (Quincy, MA); VIASYN Inc. (San Ramon, CA); and Wawa Inc. (Wawa, PA) who have joined since our last newsletter.

COMPETE New Member Profile

Beacon Power's products and services illustrate the impact that competitive markets have in supporting innovative technology. In Beacon's case, it's the company's flywheel-based energy storage system, the Smart Energy Matrix™, which was developed in conjunction with the U.S. Department of Energy, California Energy Commission, the New York State Energy Research and Development Authority, and various ISOs. Beacon's flywheel technology improves the reliability and efficiency of major electricity markets by providing frequency regulation service in a clean, highly responsive way. It stores energy from the grid when there is excess and then returns it when a deficit occurs, effectively "recycling" electricity to smooth out supply-demand imbalances.

The Smart Energy Matrix™ reacts instantaneously to ISO control signals based on varying conditions throughout the day, executing extremely smooth transactions

to solve an important problem facing many power suppliers. In addition, because it consumes no fuel this technology has low variable operating costs and produces zero direct CO2 greenhouse gas or other emissions. Beacon has two MW of flywheel energy storage now operating on the ISO New England grid, with the first MW having gone online in November 2008. The company is also planning to build full-scale 20 MW Smart Energy Matrix™ regulation plants within New York ISO and the PJM Interconnection.

Did You Know?

The first ever “electric highway” has been unveiled along California’s Highway 101, making a zero-emissions trip from San Francisco to Los Angeles a reality. The 240-volt, 70-ampere charging stations provide the fastest recharge time available in a public setting, allowing electric vehicle drivers to charge up in 1-3 hours. As the first of its kind in the nation, advocates hope to encourage increased use of electric cars and make the electric charging corridor concept a reality.

To learn more, read the original article [here](#).

America: Powered by Competition

*The **COMPETE** coalition represents 382 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.*