

# COMPETE

Electricity Competition **IS** the Public Interest

## Watt's Up?

October 2009 Newsletter

### **Innovation, Environmental and Consumer Benefits of Competitive Markets Highlighted at Capitol Hill Briefing**

On October 23, **COMPETE** hosted a policy briefing for staff from Capitol Hill, the Federal Energy Regulatory Commission (FERC) and stakeholders from industry and the environmental community. An expert panel representing diverse perspectives provided insights into the benefits of organized markets for achieving goals related to efficiency, innovation, conservation, cost effectiveness and consumer choice.

Federal Energy Regulatory Commission Chairman Jon Wellinghoff and Pennsylvania Public Utility Commissioner Robert F. Powelson offered federal and state regulatory perspective. Both noted the accumulating body of evidence demonstrating that competitive electricity markets – which provide the incentives and mechanisms needed to spur innovation and economic and environmental solutions – offer the best path forward to meet national energy and environmental policy goals.

“Competition is good, more competition is better, efficient and full competition with the demand and supply side included in that competition is best. We’re seeing tremendous innovations because of markets,” said Chairman Wellinghoff. “Markets empower consumers by increasing their ability to access those innovations, and by allowing them to control their bills and their costs,” he stated.

Chairman Wellinghoff also addressed the markets’ inherent ability to generate significant environmental benefits. “Markets will help us meet our carbon targets and reduce our overall carbon foot print. It’s extremely important for the synergies we have that these markets are there for us. Markets will deliver the most cost effective solutions when policies [requiring renewable energy generation] come about,” he concluded.

Commissioner Powelson noted that prior to 1996, Pennsylvania utility rates were 15 percent higher than the national average. “We had antiquated generation assets and with those reliability issues. Over the last 10 years utility customers have enjoyed billions in savings because of competitive markets, and the investment flow in generation assets has been nothing short of spectacular,” Powelson said.

The policy briefing was facilitated by former FERC Commissioner and **COMPETE** Counsel William L. Massey. In addition to Chairman Wellinghoff and Commissioner Powelson, it featured:

- **George Waidelich**, Safeway Vice President of Energy Operations, who addressed the consumer benefits of competitive markets.
- **Judith Judson**, director of regulatory and marketing affairs for Beacon Power, who addressed the role markets play in promoting innovation, such as the flywheel electricity storage technology Beacon Power is deploying in competitive markets.
- **Jeff Bladen**, Gamesa Energy Vice President, spoke to how price transparency and large regional-scope generation dispatch helps to significantly facilitate market entry by wind producers.
- **Mark Brownstein**, deputy director of the energy program for the Environmental Defense Fund, who discussed the important role of competitive electricity markets in any market-based greenhouse gas emissions reduction program Congress may mandate. Earlier this year, **COMPETE** and EDF issued a [joint statement](#) urging Congress to support market-based policies for climate change and electricity.

To view a video of the event, please visit the **COMPETE** Web site at [www.competecoalition.com](http://www.competecoalition.com).

## Competition Nets MISO Consumers Close To \$200 Million in Annual Economic Savings

At the beginning of October, the **COMPETE** Coalition released a new study estimating that competitive market reforms adopted by the Midwest Independent Transmission System Operator (MISO) produce \$1.72 billion in economic savings over a 10 year period. MISO serves more than 40 million consumers in 13 states and the Canadian province of Manitoba.

The study, "[Generation Cost Savings From Day 1 and Day 2 Market Designs](#)," prepared by The Brattle Group, used MISO's experience in adopting competitive market reforms as a case study to evaluate the economic benefits provided by Regional Transmission Organizations (RTOs). The study assessed the economic gains as MISO progressively adopted competitive reforms on energy dispatch, eventually adopting the so-called "Day 2" market structure prevalent at RTOs in the Northeast and Mid-Atlantic regions and recently adopted in California.

At an event to unveil the study, former FERC Commissioner and Counsel to **COMPETE** William Massey observed, "In addition to the tangible economic gains, there is a growing body of persuasive evidence that well-structured organized competitive markets translate into greater operational efficiencies, attract ever-increasing renewable and demand response resources, incent innovative solutions, and provide broad benefits to consumers and the economy."

Utilities are increasingly recognizing the benefits of the RTO structure and are joining competitive markets in growing numbers. Wisconsin's Dairyland Power recently announced plans to join MISO, following on the heels of MISO's integration of MidAmerican Energy and Iowa municipal utilities in Cedar Falls and

Muscatine. Meanwhile, two Nebraska municipal utilities have announced they will join the Southwest Power Pool's RTO.

In addition to measurable cost savings, the report also indicated that a "Day 2" RTO competitive market design enhances the reliability of electric power delivery, leading to fewer emergency events.

## **COMPETE Co-Chair Federico Peña Keynotes Wharton Energy Conference**

Federico Peña, former U.S. Secretary of Energy and **COMPETE** co-chair, addressed more than 400 students and energy industry professionals at the third annual Wharton Energy Conference in Philadelphia on October 30. Fellow keynote speakers included Michael Allman, CEO of Sempra Energy (a **COMPETE** member) and H. Jeffrey Leonard, president of the Global Environment Fund.

In his remarks, Peña spoke about the world being at a crossroads, where it must continue to produce copious amounts of energy to support a burgeoning population while dramatically limiting the amount of climate-altering carbon released into the atmosphere. He highlighted statistics from an analysis by the Brattle Group which shows that meeting demand in the U.S. alone over the next two decades will require a \$2 trillion investment in transmission and distribution systems and new generation facilities – not to mention additional costs for controlling carbon emissions.

The path forward, he continued, is market competition, which places risk fully with investors and not on the shoulders of captive rate payers. Under competition, the investor looks to market signals to justify an investment, providing a strong incentive for wise decision-making given that the risk of a poor investment will be borne by the shareholder, not the consumer.

He also pointed out that electricity produced in competitive markets is inherently cleaner given that markets spur greater investment in clean energy generation. He noted that more than 70 percent of installed wind energy capacity is within the organized markets despite those regions representing just 44 percent of the total U.S. wind energy potential. Markets spur innovation – including demand response and energy storage technologies – because price signals and proper assignment of investment risk provide the incentive for least-cost solutions and not-traditional outcomes.

Visit the **COMPETE** [Web site](#) to read Secretary Peña's full remarks.

## **Illinois Celebrates 10 Years of Retail Electricity Competition**

On October 22, the Illinois Competitive Energy Association (ICEA) – a **COMPETE** member – sponsored a symposium to mark a decade of retail electricity competition in Illinois.

"Following the Illinois General Assembly's bold policy decision to put Illinois on the path toward customer choice and competition, the Illinois Commerce Commission (ICC) carefully guided the industry through a major restructuring to create a new

competitive electric market,” said Kevin Wright, president of the ICEA and former ICC chairman and commissioner.

A group of leading national, regional and local experts representing the many aspects of electricity generation, distribution and utilization spoke to the more than 150 in attendance about the development of competitive markets and customer choice and the outlook for the future, including:

- **Greg Baise**, President, Illinois Manufacturers’ Association
- **Chris Hendrix**, Director of Markets and Compliance, Wal-Mart
- **Craig Nelson**, Vice President, Ameren Illinois Utilities
- **Charles Jackson**, Executive Director, Illinois Environmental Council
- **William Massey**, former FERC Commissioner and counsel to the **COMPETE** Coalition
- **Philip R. O’Connor**, former Chairman, Illinois Commerce Commission, President, PROactive Strategies
- **William P. McNeill**, Vice President of Energy Acquisition, Commonwealth Edison
- **John Shelk**, President, Electric Power Supply Association (EPSA)
- **Chris Thomas**, Senior Policy Analyst, Citizens Utility Board
- **David Vite**, President, Illinois Retail Merchants Association
- **Torsten Clausen**, Director of the Office of Retail Market Development in the Illinois Commerce Commission

**COMPETE** members Constellation, Direct Energy, and MC Squared Energy Services moderated panels at the symposium. According to the 2009 Retail Market Development Annual Report distributed by the ICC at the event, the number of customers buying from alternative retail electric suppliers has more than quadrupled since 2006. Approximately 73 percent of non-residential users and more than 90 percent of large industrial and public sector energy users are now buying power from retail suppliers, instead of the regulated utility. Over 50 percent of all kilowatt hours consumed in Illinois are provided by alternative suppliers. Most recent statistics show that these numbers continue to rise, especially in the small commercial market segment.

The retail electricity market in Illinois has become among the most robust nationwide and has delivered customer savings estimated to be in excess of \$1 billion over the past 10 years. The ICEA says that, when prices are adjusted for inflation, all Illinois consumers pay less now for electricity than they did in 1997. Illinois electricity prices, which were above the national average in 1997, are now below the national average.

## **California Public Utilities Commission Takes Step Toward Greater Competition**

On October 11, California Governor Schwarzenegger signed legislation (SB 695) directing the California Public Utilities Commission (CPUC) to implement a phased and partial reopening of the direct access market.

As analyzed by Dan Douglass of Douglass & Liddell, a **COMPETE** member, the bill provides for a 3-5 year reopening of the direct access market with a cap on total direct access equal to the rolling 12-month peak direct access load experienced by

any investor-owned utility. Historically, statewide direct access load peaked at about 16 percent and is currently at about 8.5 percent. Unlike the original direct access program that commenced in April, 1998, the reopening will be limited to non-residential customers.

Full text of the bill can be found [here](#).

## **COMPETE Blog**

On the heels of the direct market access legislation signed by California Governor Arnold Schwarzenegger, **COMPETE** member George Waidelich of Safeway authored this [blog](#) for the **COMPETE** web site.

### ***One Small Step Forward***

Have we rounded the corner? California Gov. Arnold Schwarzenegger has signed legislation broadening the scope of retail power competition in California. While but a small step forward that still keeps residential customers captive to monopoly suppliers, it is an encouraging move in the right direction.

To a certain extent, electric competition has been on the defensive since California became the first state in the nation to open its electricity market to competition. It worked rather well for a couple of years until it cratered spectacularly in 2000 because of market design flaws not because of 'customer choice'. Unfortunately, California became the poster child for the case against competitive reforms for electricity purchasing, rather than what it was – a stark example of the wrong way to restructure a competitive electricity market.

California's crash-and-burn market meltdown was followed by a rise in natural gas prices, electric price caps and economic and financial pressures on electricity prices across the nation distorting successful competitive power market reforms elsewhere in the country. Some states that had opened up their retail power markets, notably Virginia, Arizona and Michigan, re-monopolized and closed the door to competitive options for consumers.

But now here's a truly encouraging development in California. And it comes at a good time, as natural gas and electricity prices have retreated to historic lows and the current economic environment is encouraging companies to be innovative in how they control operating costs, new opportunities for California businesses to source electric commodity supply from the competitive market are around the corner presenting opportunities for access to lower-cost energy.

California FINALLY has completed reforms of its wholesale power market that were begun BEFORE the power crisis began. It took 10 years but, hey, better late than never, and better to take one step forward than two steps backward. Opening the window to greater competitive power options for California businesses is but the latest in a growing string of encouraging signs nationally that the dark days brought on by California's energy crisis and the subsequent collapse of Enron are receding behind us.

The opportunity to save more money in California helps companies like Safeway invest in the areas that are important to our customers – like price and

sustainability. In the meantime, **COMPETE** will continue to shine a bright spotlight on the economic and environmental benefits of competition.

*Contributed by: George Waidelich (Energy Operations, Safeway Inc.)*

We welcome blog submissions by our members. If you are interested in authoring a piece for our blog, please email Joel Malina or Marla Viorst at [malina@competecoalition.com](mailto:malina@competecoalition.com) or [viorst@competecoalition.com](mailto:viorst@competecoalition.com).

## **COMPETE Awards: Call for Nominations!**

In January, 2010, **COMPETE** will launch a new, annual awards program that will recognize significant accomplishments in the private and public sectors that promote and advance the cause of competitive electricity markets.

The **COMPETE** Awards will recognize organizations, companies and individuals who have helped to spur significant advancement in one or more of the following areas:

- Increased access to and availability of renewable electricity sources through organized markets
- Advances in demand response programs and smart grid technologies via organized markets
- Increased investment to spur innovation and competitive pricing for residential, business and industrial consumers
- Gains in efficiency and conservation through the use of market mechanisms
- Development of new, cutting edge technologies
- Promotion of market mechanisms as the most effective means of reducing carbon emissions

Each year, there will be five award recipients, each representing one of the following important stakeholder groups: Federal policymaker, State policymaker, commercial or industrial customer, innovator and renewable energy advocate or environmental NGO.

We welcome your input into the nomination process. Please feel free to send suggestions for nominees to [malina@competecoalition.com](mailto:malina@competecoalition.com) or [viorst@competecoalition.com](mailto:viorst@competecoalition.com).

## **Save the Date!**

On Thursday, December 3, PennFuture – a **COMPETE** member and one of Pennsylvania's leading environmental advocacy organizations – is hosting a conference entitled: *Competitive Electricity Markets: Benefits for Consumers and the Environment*. To be held in Harrisburg, Pennsylvania, the one-day event will focus on how competitive electricity markets allow customer choice and provide fertile ground for renewable energy, energy conservation and demand response.

Participating in the event will be policy makers, consumers, entrepreneurs and other experts – including a number of **COMPETE** members – to provide perspectives on all aspects of the markets as Pennsylvania prepares for full retail competition.

To date, confirmed speakers and panelists include:

- John Hanger, Secretary, Pennsylvania Department of Environmental Protection
- Nora Brownell, former Pennsylvania Public Utility Commissioner and former Federal Energy Regulatory Commissioner
- James Cawley, Chairman, Pennsylvania Public Utility Commission
- Andrew Kleit, Professor of Energy and Environmental Economics, Penn State University
- Andrew Ott, Senior Vice President for Markets, PJM
- Jeff Bladen, Vice President for Market Planning and Strategy, Gamesa
- Eric Thumma, Director Policy and Regulatory Affairs, Iberdrola
- Audrey Zibelman, President and CEO, Viridity

Admission is free, so [register today](#).

## Rate Increases in Vertically Integrated States

**Oklahoma** will see electricity rates increase 11.95 percent on January 1, 2010 as Grand River Dam Authority – a state-owned utility – seeks to service its debt resulting from weak economic activity.

Residential customers in **Wyoming** will see their electricity bills go up \$19 per month if Black Hills Power – which services 2,700 customers in northeastern part of the state – has its rate increase request approved by the Wyoming Public Service Commission. The rate increase is designed to recover costs associated with new plant development expenses.

Customers in **North and South Carolina** may see increases in their utility bills if Duke Energy Carolinas receives approval for its proposed \$315 million – or approximately 8 percent – base rate increase. The rate hike, if approved by the North Carolina Utilities Commission, would take effect in two phases: the first in January 2010 and the second a year later.

## Membership Update – COMPETE at 391

**COMPETE** membership continues to grow, having reached 391 this month. We would like to welcome and extend our thanks to Axsess Energy Group (Northborough, MA), Demand Response & Energy Consulting, LLC (Delanson, NY), FirstEnergy Solutions (Akron, OH), Gateway Energy Services Corporation (Montebello, NY), PG&L, LLC (Flower Mount, TX), Wearthly Ideas, LLC (Phoenix, AZ), and Source and Summit Co. (Annapolis, MD); Northeast Energy and Commerce Association, Inc. (Needham, MA); and Galvin Electricity Initiative (Aptos, CA) who have joined since our last newsletter.

## COMPETE New Member Profile

Stop & Shop, which operates over 375 stores throughout 7 states in the Northeast, has taken numerous steps to protect the environment:

- Green Products — Its stores offer a variety of "green" household and cleaning products in stores.

- Star Power! — Stop & Shop was named an ENERGY STAR LEADER in 2007 by the U.S. Environmental Protection Agency (EPA) as a result of their success in improving energy performance across its buildings.
- Energy Efficient Attributes — Stop & Shop was recognized for energy-efficient day lighting, T5 florescent lighting systems, automatic occupancy sensors, and refrigeration systems with high-efficiency fan motors.
- Greenhouse Gas — Energy use in refrigeration and food storage is necessary to provide safe, fresh quality food, so Stop & Shop has been working to reduce greenhouse gas emissions in its stores, distribution centers and transport.
- Energy Saving Innovations — Newer stores are designed with reflective roofs, which reduce heat absorption and use less air conditioning in the summer, and special dimming systems that dim lights based on the amount of daylight harvested.
- Partners in Power — The company partnered with energy solutions developer, EnerNOC Inc., to reduce power consumption and thereby help reduce stress on the electric power grid during high peak demand and prevent blackouts.

Learn more about Stop & Shop's recycling and environmental work [here](#).

### Did You Know?

The [2009 State Energy Efficiency Scorecard](#), released October 21 by the American Council for an Energy-Efficient Economy (ACEEE), put a mark in the "win" column for competitive markets. Of the top 10 states in energy efficiency, eight belong to RTOs or ISOs that operate competitively. The report emphasizes that utilities in competitive markets have overcome initial doubts about demand-side programs and that their spending on demand-side efficiency programs has boomed.

"By embracing a wide range of cost-effective energy efficiency strategies, the leading states are demonstrating that efficiency is their 'first fuel' to meet energy demands while growing their economies," said Maggie Eldridge, ACEEE research associate and lead author of the report. "States continue to raise the bar with comprehensive strategies to improve efficiency in their buildings, industry, and transportation systems. They are the 'living laboratories' of energy efficiency."

### America: Powered by Competition

*The **COMPETE** coalition represents 391 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).*