A **Coalition** to preserve Wisconsin's Reliable and Affordable Electricity

Customers First!

the Wire

Plugging you in to electric industry changes

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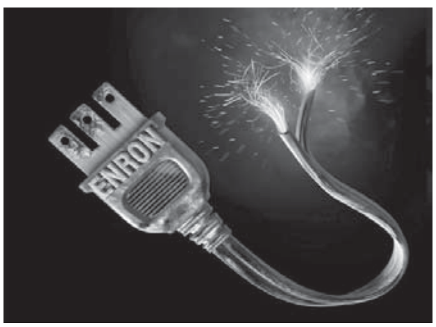
Enron again, again

Last month we noted it's still not over for one of the kingpins of the Enron operation, as Jeff Skilling continues fighting his convictions on appeal. Now we learn that a prominent TV news magazine has made a connection between last year's phenomenal energy price increases—specifically tied to oil—and market speculation that had its genesis in a 1990s Enron lobbying campaign.



In a recent edition of CBS' *60 Minutes*, reporter Steve Kroft dug into what drove crude oil prices from $69 to nearly $150 a barrel through parts of 2007 and '08 and found sources who told him the primary cause was market speculation by people and organizations with no intention of ever taking delivery of a drop of oil.

You've heard that before. You probably *hadn't* heard what got it all started. The answer, according to *60 Minutes*, was deregulation of commodity futures trading engineered by the granddaddy of electric utility deregulation, Enron.

Not that Enron was doing the speculative trading. The bogus energy giant had long since fallen into chaos and bankruptcy. But responding to Enron lobbying, the federal government in 2000 deregulated futures trading so that the buying and selling of oil contracts would be done secretly, without public or government oversight.

Michael Greenberger, former head of the U.S. Commodity Futures Trading Commission, told *60 Minutes* Enron wanted oil futures trading deregulated because it intended to set up its own futures market.

"Without the controls that had been placed on speculators, they would have the ability to drive the price of energy products in any way they wanted to take it," Greenberg said.

If correct, that would explain why last year's oil prices were going up when they should have been going down.

The *60 Minutes* report cited a Massachusetts Institute of Technology (MIT) report and data from the Department of Energy showing that supply and demand couldn't account for the run-up in oil prices: Worldwide supply was increasing at the same time worldwide demand was decreasing, and yet the price kept going up.

But demand from speculative investors, most of whom didn't actually want any oil, kept driving the futures price higher and higher.

Who was doing the buying? According to *60 Minutes*, hedge fund manager Michael Masters identified the California state pension fund, the Harvard Endowment, big institutional investors, and clients of Wall Street investment banks like Goldman Sachs, Morgan Stanley, and J.P. Morgan. In 2008, 27 barrels of oil were being traded every day on the New York Mercantile Exchange for every one barrel actually being consumed in the U.S., *60 Minutes* said.

Register now for CFC POWER Breakfast

Registration is open for the *Customers First!* Spring POWER Breakfast at the Concourse Hotel in Madison Wednesday, April 1.

This free event offers the opportunity to hear from distinguished experts on two important topics for Wisconsin energy stakeholders. One is the federal economic stimulus plan and its implications for energy customers and providers; the other concerns issues affecting transmission policy and planning.

Registration is available online at www.regonline.com/cfcpowerbreakfast2009.

More information on the half-day event is available from *Customers First!* Executive Director Matt Bromley at 608-286-0784 or mbromley@customersfirst.org.

Win one for the Shipper

Electricity consumers in nine states will benefit from a mid-February decision by the Surface Transportation Board, ordering rate reductions and reparation payments totaling an estimated $345 million from the Burlington Northern Santa Fe Railroad to Western Fuels Association and Basin Electric Power Cooperative.

The regulatory board found the coal-shipping rates Burlington Northern has been charging the utilities—at roughly six times the variable cost of providing service—to be unlawfully high and ordered them reduced approximately 60 percent.

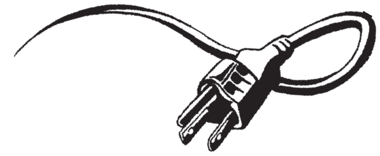
STB Chairman Charles Nottingham, who visited Wisconsin in 2007 to hear concerns from shippers with no competitive alternative to monopoly rail providers—"captive" shippers—noted the

Continued on page 2...

THE WIRE is a monthly publication of the *Customers First!* Coalition—a broad-based alliance of local governments, small businesses and farmers, environmental groups, labor and consumer groups, retirees and low-income families, municipal electric utilities, rural electric cooperatives, wholesale suppliers, and an investor-owned utility. *Customers First!* is a coalition dedicated to preserving Wisconsin's reliable and affordable electricity.

If you have questions or comments about THE WIRE or the *Customers First!* Coalition, please call 608/286-0784.

KEEPING CURRENT



With CFC Executive Director Matt Bromley

A big chunk of the $787 billion federal economic stimulus money approved by Congress and signed into law by President Obama last month will be steered towards energy-related programs. How this money will affect energy consumers is clearer in some areas than others.

The stimulus plan's most immediate impact on ratepayers and consumers is likely to come from the grants and tax credits intended to promote energy efficiency. Included in the package is $5 billion for home weatherization grants for low- and middle-income families—grants that according to the White House and congressional leaders will result in an average savings of $350 per year on the home energy bills of one million families. Also included is $300 million to provide consumers with rebates for buying energy efficient Energy Star appliances to replace older, less efficient ones, which should help lower energy bills.

Bromley

Consumers should also directly benefit from the billions of dollars the federal stimulus package gives to state and local governments for energy efficiency and conservation programs. State governments will divvy up $3.1 billion in state energy grants for efficiency and renewable energy programs, and local governments get $3.2 billion. Exactly how consumers will see this money will be mostly left up to state and local officials, but existing efficiency and conservation programs are likely conduits to funnel some of the money to energy users.

What's less likely to cause an immediate impact on energy costs, but is nevertheless intended to lower utility bills over the long haul, is the stimulus plan's investment in the nation's energy infrastructure. More than $11 billion is set aside to improve the nation's electricity grid, such as the construction of 3,000 miles of new transmission lines to help relieve congestion and bring renewable energy to load centers. The White House is calling for some of the money to be used to install 40 million "smart meters" that can provide power use information in real time encouraging more cost-effective use of energy.

Clean energy gets a lot of attention in the stimulus package. According to the White House, the stimulus plan's investments in clean energy are expected to double the nation's renewable energy generating capacity over three years. The plan creates a Clean Energy Finance Authority that, combined with renewable tax credits, will leverage an additional $100 billion in private investment in the renewables sector.

Those interested in learning more about the stimulus plan and its potential impact on ratepayers may wish to attend the *Customers First!* POWER Breakfast April 1 in Madison. Details about the event are provided elsewhere in this edition of *The Wire*.

Shippers win

Continued from front page...

decision was both bipartisan and unanimous and said customers had been—"bearing the burden of these unreasonably high transportation rates in their monthly electric bills, a burden they should no longer be forced to bear."

As the single largest award ever given a captive shipper by the STB, the decision requires Burlington Northern to promptly pay back $100 million for overcharges from 2004 through 2008 and to negotiate the amount of additional damages. The benefit will flow to customers in Colorado, Iowa, Minnesota, Montana, Nebraska, New Mexico, North and South Dakota, and Wyoming.

Robert Szabo, executive director of Customers United for Rail Equity (CURE) called the decision a great victory but noted it had taken more than four years and cost the plaintiffs $9 million to prosecute their case.

Szabo said captive shippers lacking the means to contest a case for such an extended period underscore the need for legislation making the rate-challenge process more accessible.

"The vast majority of captive rail customers continue to be denied access to the STB due to the cost, time, and complexity of the STB rate-challenge process," he said, noting that no captive agricultural shipping rate has been challenged at the agency in 27 years.

Transmission operators see big bucks for infrastructure

East of the Rockies and west of the Mississippi there's a lot of wind energy potential—enough to supply 20 percent of eastern U.S. electricity requirements by 2024, according to regional transmission operators.

They also say we'll need a trillion dollars worth of construction to realize the benefit. The Joint Coordinated System Plan released last month anticipates $1.1 trillion in capital costs for new generation facilities and $80 billion to build 15,000 miles of new transmission lines.

The plan represents the product thus far from a collaborative effort launched in 2007 by the Midwest Independent System Operator (MISO), Pennsylvania-New Jersey-Maryland Interconnection (PJM), Tennessee Valley Authority (TVA), Mid-continent Area Power Pool (MAPP), Southwest Power Pool (SPP), and key members of the Southeast Reliability Corporation (SERC).

Even under a "reference scenario" of 5 percent wind energy by 2024, a situation the study regards as "business as usual with respect to wind development," a need for 10,000 miles of new extra-high voltage transmission lines at a cost of $50 billion, and $700 billion in capital costs for generation are foreseen.

"The transmission required under this scenario enables renewable and base load steam energy generated in the western side of the Eastern Interconnection to reach a wider area and has the potential to reduce energy costs to Eastern consumers," the February report says, adding that the required investments "may have benefits that exceed costs on an aggregate interregional basis."

Both scenarios envision transporting more wind energy from the Dakotas and Minnesota to northeastern and southeastern states. Wisconsin would be a candidate for large, new transmission lines in either case.

The reference scenario would add 345-kilovolt lines from North La Crosse to the Columbia Power Plant near Portage and from the Salem substation near Dubuque, Iowa, to West Madison.

The 20-percent wind scenario would add those two lines along with a direct-current 800-kilovolt line from the Arrowhead substation north of Duluth, traversing western Wisconsin to cross the Mississippi River in the vicinity of Pierce County, and terminating in southeastern Minnesota.

For some time, Wisconsin regulators have been anticipating that plans to sell energy from the Dakotas into the MISO and PJM Interconnection would trigger a debate over who will pay for the new infrastructure and which states' consumers will obtain the most benefit.

Base load steam generation would continue playing a major role under either of the two scenarios outlined in the plan, supplying 54 percent of eastern U.S. power needs under the reference scenario and 42 percent even with the more ambitious development of 20-percent wind.

Energy saver tip

Don't run a half-empty dishwasher. It takes hot water, detergent, and electricity to do the job no matter what you wash, so wait until you have a full load and get the most out of what you use. And if the appliance has an air-dry or energy-saver cycle, using it can save you even more.

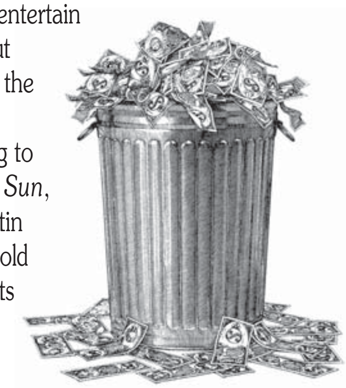
Who says restructuring is a loser?

If you think there are no advantages to electric utility restructuring, you probably just overlooked the billion dollars Constellation Energy Group paid to Warren Buffett's Berkshire Hathaway earlier this year, settling up a loan and adding $5 million in interest.

That was Buffett's reward for floating a loan to the troubled utility holding company and subsequently being spurned in the associated takeover bid. Win-win.

Meanwhile, Maryland lawmakers last month were moving to give state regulators authority to approve or deny the proposed acquisition of half of Constellation's nuclear generation assets by EDF—not the Environmental Defense Fund—*Electricite de France*, a French government-owned utility.

Under existing law, it's not clear that state regulators have oversight of the transaction. The initial announcements of the proposed EDF takeover specifically asserted they did not. But the state Public Service Commission is investigating the deal and has set a hearing for this month to entertain questions about whether it's in the public interest.



According to the *Baltimore Sun*, Governor Martin O'Malley has told Constellation its customers deserve "a full airing and understanding" of the proposed French connection and the financial problems that necessitated Buffett's billion-dollar rescue last year.

In a letter to the company, O'Malley said, "It is ultimately in [Constellation's] interest to answer these questions, demonstrate how it is proceeding on a path of fiscal responsibility, and restore public and regulatory confidence in its operations," according to the *Sun*.

The company maintains the legislation is unneeded and that it's cooperating with regulators.

Be sure to check out the Customers First! web site at

www.customersfirst.org

Quotable Quotes

"This was when Enron was riding high. And what Enron wanted, Enron got."

—Former Commodity Futures Trading Commission Chair Michael Greenberger, describing the 1990s lobbying effort that brought federal deregulation of oil futures trading and, Greenberg says, drove last year's price spikes in defiance of supply and demand, quoted on *CBS 60 Minutes,* January 11, 2009

Help us share our messages with others. If you know of businesses or organizations that would like to learn more about protecting Wisconsin's reliable and affordable electricity, please feel free to copy and share with them all or part of this newsletter, or you can call 608/286-0784 to arrange an informational meeting.

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