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

Customers First! the Wire

Plugging you in to electric industry changes

608/286-0784 • P.O. Box 54 • Madison, WI 53701 • www.customersfirst.org • AUGUST 2011 • Vol. 16, No. 8

Restructured states still more expensive

Electric utility restructuring got most of its momentum back in the 1990s from two sources: shameless propaganda from big energy marketers like Enron and consumer discontent in states with high electric rates. But according to the American Public Power Association (APPA), electricity prices in states that restructured—even today, more than a decade later—remain higher than in those that didn't.

A foe of restructuring from the beginning, the APPA periodically revisits the issue and has consistently found that real-world performance validates warnings sounded by the organization all the way back to the mid-1990s.

Its most recent report, issued this spring, finds that between 1997 and 2010, increases in retail electricity prices were significantly larger in restructured states than in those that have retained traditional utility regulation.

The findings are based on data from the U.S. Department of Energy's Energy Information Administration (EIA). For purposes of the study, restructured states include those that allow retail customers to choose their electricity supplier and no longer have the mandated rate caps that were a hallmark of most restructuring schemes.

Those caps insulated customers against the price volatility of wholesale power markets but couldn't do the same for retail power providers. That meant a big bill would eventually come due for customers. It also meant fewer choices of supplier as those who couldn't absorb losses fled the market. And it led to a few bankruptcies, not all of them involving small, start-up companies. *(See: Electric, Pacific Gas and).*

The EIA data show that over the first seven years following initial restructuring, rates rose by similar amounts—ranging from about half to three-quarters of a cent per kilowatt-hour—in both restructured and non-restructured states.

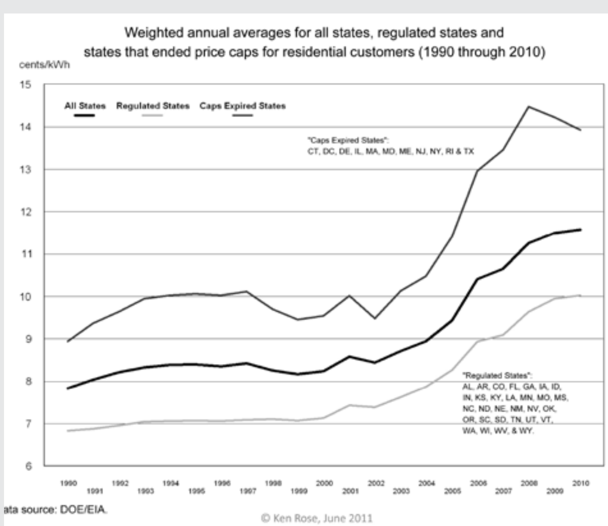
Things changed after that. The second half of the 13-year period, 2004–2010, saw rates in restructured states rise by an average of 3.4¢. They rose in traditionally regulated states as well, but by only 2¢ per kilowatt-hour. In other words, rates increased 75 percent faster in restructured states between 2004 and last year.

Overall, rate increases nationwide have been modest since 2008, a development the APPA attributes to the weak economy reducing electricity demand and to lower prices

Continued on page 2...

Traditional regulation still works

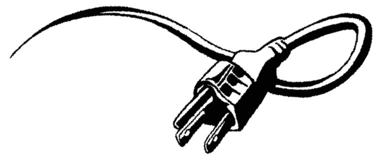
Attendees at this Spring's *Customers First!* Coalition POWER Breakfast heard nationally recognized utility analyst Dr. Ken Rose (above photo) explain differences between restructured and non-restructured states in a presentation delving into why regulation matters today. The chart at right, part of Rose's presentation, illustrates rate differentials between restructured states (top line), non-restructured states (bottom line), and the national average (middle line).



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 panel of federal regulators at the Surface Transportation Board (STB) heard two days' worth of testimony last month on whether the agency should take steps to facilitate more competition in the railroad industry. Speaking on behalf of the rail shipper coalition Consumers United for Rail Equity (CURE), Glenn English, CEO of the National Rural Electric Cooperative Association, said, "The national rail transportation is not sound because it lacks effective competition among rail carriers and has resulted in the undue concentration of market power in the hands of the remaining major freight railroads, particularly the four largest rail carriers that dominate the freight rail transportation market."

Bromley

Many rail shippers, including electric utilities that rely on freight rail to transport coal to power plants, have for years complained that a lack of access to competitive transportation options has resulted in unrestrained shipping costs and unreliable service. These cost increases are then passed on to consumers and ratepayers. One recent example is a $25 million increase in electric rates that was approved by the Public Service Commission of Wisconsin for customers of We Energies. Much of the increase was a result of the rising cost to ship coal from Wyoming and Pennsylvania to the utility's power plants in the state.

Other utilities and ratepayers are feeling the impact, too. According to a new Energy Information Administration report the price to ship coal from the Powder River Basin in Wyoming rose by 57 percent, from $0.0095 per ton-mile in 2001 to $0.0149 in 2008. About 90 percent of coal deliveries to Wisconsin power plants originate in Wyoming.

Rail shippers and carriers are paying a lot of attention to the proceeding before the STB. They figure any change in railroad regulatory policy will mostly likely come from the agency, given the gridlock in Congress. Senator Jay Rockefeller (D–WV), a champion of rail shippers in the U.S. Senate, agrees. He conceded before the panel that Congress is unlikely to take action anytime soon and pleaded with regulators to take up the cause.

For his part, Wisconsin Senator Herb Kohl is not giving up the legislative fight. His bill, S. 49, which removes the railroads' special exemptions from the nation's antitrust laws, is still alive (see related article in this *WIRE*), and he's looking for help from the Obama administration to get it through Congress. In a July 5 letter to the secretary of Transportation and a top official at the Dept. of Justice, Kohl asked that "the agencies make rail antitrust reform an essential element of our rail transportation policy and support a repeal of this unwarranted antitrust exemption."

Restructured states

Continued from page 1...

for natural gas.

But the long-term trend remains clear: High-cost states that turned to retail choice as the remedy remain high-cost states, while those that started out with lower rates and retained traditional regulation have not only held onto their advantage but seen it increase.

States that adopted retail choice started out in 1997 with rates averaging 3.1¢ higher than in states that had, and kept, traditional regulation. By 2010, the gap widened by more than 40 percent, to rates averaging 4.4¢ per kilowatt-hour higher in retail-choice states.

Some people—the American Public Power Association conspicuously not among them—would say it seemed like a good idea at the time.

Energy saver tip

Summer heat waves can be distracting but warm weather is the time to check and repair worn-out weather stripping, caulking, or other wear-and-tear problems that could let chilly outdoor conditions invade your home—and drive up heating bills—just a few months from now. And with the remaining potential for hot weather the next several weeks, those repairs could take some strain off your air conditioning, too.

Kohl's rail bill advances

The Senate Judiciary Committee late last month filed its report on railroad antitrust legislation proposed by Senator Herb Kohl (D–WI), including a recommendation for passage by the full Senate. The measure (S. 49) earlier won committee endorsement on a bipartisan 15–1 vote.

The July filing cited a 2006 report from the Government Accountability Office finding that shippers in many parts of the country "may be paying excessive rates due to a lack of competition in [freight rail] markets." The committee cited higher electricity bills among the consequences.

The report stressed that Kohl's legislation would put freight rail on an equal footing with other regulated industries in the transportation sector and elsewhere.

"Importantly, even transportation industries similarly situated to the railroad industry enjoy no antitrust exemption," the report noted. "For example, the aviation industry comes under the regulatory supervision of the Transportation Department and Federal Aviation Administration, and the Transportation Department is empowered under the Transportation Act to take action to prevent an 'unfair method of competition' in aviation."

The report cited other transportation industries under Surface Transportation Board (STB) jurisdiction including trucking and domestic marine shipping, which "do not enjoy the same broad antitrust exemption as that enjoyed by the railroad industry."

The committee said applying antitrust to freight rail "will restore to railroad customers the benefits of open competition that prevail elsewhere in the economy, resulting in lower prices and more efficient and more economical rail transportation of grain, coal, chemicals and other products essential to the Nation's domestic and foreign commerce."

Texas coalition identifies excess restructuring costs

Electricity customers have paid out $15 billion more than they'd have needed to since 1999, thanks to the restructuring of Texas utilities, according to a coalition of the state's municipalities.

The Texas Coalition for Affordable Power said earlier this year that based on increases in average electricity prices, the restructured Texas market has been one of the nation 's poorest performers.

Interestingly, parts of Texas have been exempt from restructuring from the start, and prices there are lower than in the restructured areas, the coalition said.

In the decade leading up to the 1999 restructuring law, the coalition said, Texas energy consumers collectively paid well below the national average for power, and they still pay below the national average in the exempt areas.

Those residing in the restructured areas consistently pay above the national average, the coalition said.

State's utilities on course to reach renewables goal

The Public Service Commission (PSC) of Wisconsin is responsible for monitoring the progress of Wisconsin utilities toward meeting their statutory obligation of 10 percent renewable energy by 2015, and the commission's most recent report says they're on track to hit the target.

The required percentage of renewable energy (as a percentage of total sales) grows over time, gradually ramping up to the 10-percent level. The report released by the commission near the end of June found that (not counting voluntary green-pricing programs) renewable energy sold at retail by Wisconsin power providers totaled more than 7 percent of all electricity sales for 2010. Renewable sales under the state's renewable portfolio standard grew more than 92 percent from 2006 to 2010, the PSC said.

Some power providers have already met or exceeded their 2015 percentage requirement. The top three are WPPI Energy, Oconto Electric Cooperative, and the Princeton Municipal Water and Electric Utility, the PSC said.

Lose your job, make a million

The pending merger of Chicago-based Exelon Corp. and Baltimore's Constellation Energy Group is a win-win for Constellation executives. The company's CEO isn't expected to lose his job—but he might not mind if he did, considering it would mean a payout of more than $3 million.

At the end of June, the *Baltimore Sun* reported that Constellation CEO Mayo Shattuck III and 11 other top executives will be eligible for cash severance and equity awards totaling more than $36 million if the merger goes through.

Customers aren't left out, however. The *Sun* reports that the 1.1 million customers of Baltimore Gas and Electric, Constellation's regulated utility arm, get to share in an incentive package that includes a credit of $100 per household.

Shattuck is expected to stay with the company, which isn't necessarily a good deal for him because presumably he'll have to do some work. On the other hand, if he's terminated at any time after the merger closes, he gets $1.8 million. A layoff within two years would pay another $1.3 million.

Nice work if you can lose it...

Customers First!

P.O. Box 54
Madison, WI 53701

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

Be sure
to check out the
Customers First!
website at

www.customersfirst.org

Quotable Quotes

"Wisconsin's ability to provide reliable and affordable electricity even when demand is high provides great relief to businesses and manufacturers…Wisconsin's investments in infrastructure over the last decade provide a strong healthy climate for both new businesses as well as those who might look to relocate as Wisconsin provides competitive rates and excellent service."

—Public Service Commission Chairman Phil Montgomery, commenting on the performance of Wisconsin utilities in avoiding service interruptions during the July heat wave, in an agency statement July 25, 2011

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.

Customers First!
Plugging Wisconsin In