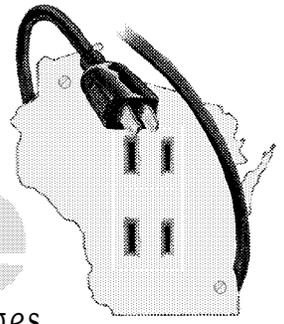


A Coalition  
to preserve  
Wisconsin's  
Reliable and  
Affordable  
Electricity

# Customers First!

## the Wire

Plugging you in to electric industry changes



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## Elections spell hesitation in Congress

Where energy issues and probably most other issues are concerned, 2012 can be expected to look a lot like 2011 in Congress, according to national energy and government relations specialist Deborah Sliz.

President and CEO of Morgan Meguire, a Washington, D.C., lobbying, public affairs, and strategic communications firm, Sliz came to Madison in February for a return visit to the *Customers First!* Coalition annual POWER Breakfast. With an election in the offing, Sliz said, this year in Congress will be dominated by



Deborah Sliz

intense partisanship and legislation designed to send messages rather than pass into law.

Her remarks came before a crowd of about 140, representing investor-owned, municipal and cooperative utilities, state and local government, labor and environmental organizations, and the lobbying community—essentially the constituencies that make up *Customers First!*

One concern that's unified all segments of the electric power industry is cybersecurity legislation being advanced by Senate Majority Leader Harry Reid (D-NV). Sliz said the bill would give the Department of Homeland Security jurisdiction over cybersecurity standards for all critical sectors. The power industry objects because it's been subject for seven years to standards enforced by agencies that understand its operations and has little confidence in a process for obtaining waivers from Homeland Security jurisdiction, Sliz said.

The existing power industry standards grew out of the federal response to the multi-state blackout in August 2003 triggered by an Ohio utility's deficient tree-pruning practices. "You will never be able to protect against all cyber attacks," Sliz said, adding that the priority must be a resilient system that can recover quickly.

A nationwide "clean energy standard"—in lieu of a mandated renewable percentage—will be proposed again this year by Sen. Jeff Bingaman (D-NM). Sliz said Bingaman, who chairs the relevant Senate committee, would hold a hearing on the bill but it isn't expected to pass.

More meaningful action on renewables, Sliz said, will take place in the tax committees where the fate of the production tax credit for wind power, set to expire at year's end, will be decided. Winning approval of a two-year extension of the credit, she said, "won't be easy."

## Wind rules appear imminent

When the gavel falls to end regular business for the 2011–12 Legislature, wind energy siting rules sidetracked early last year will take effect automatically. That's if lawmakers don't act on legislation preventing it, and it doesn't look as if they will.

The last scheduled day for regular legislative business is Thursday, March 15. But the session schedule designates just six days, March 6–8, and March 13–15, for possible floor debate. And even before the end of February, legislative leaders said they anticipated as few as two days of floor action before calling it quits.

With other, more contentious issues such as revisions to Wisconsin's iron-mining law still on the table, the prospects of using that time to revisit a matter lawmakers previously thought settled would appear dim. At the 2011 *Customers First!* POWER Breakfast, Assembly Energy and Utilities Chairman Mark Honadel (R-South Milwaukee) said of the then-freshly suspended rule package, "I thought we had a really good product last session. I thought we were done."

Nevertheless, legislation described by its sponsor as a compromise between the suspended siting rules and locally ordained wind-farm restrictions was introduced near the end of February.

State Senator Frank Lasee (R-De Pere) said the bill would require an 1,800-foot setback between large wind energy systems and the nearest property line unless adjacent property owners agree in writing to a shorter distance.

The bill redefines large wind-energy systems as any having a total rated capacity of 300 kilowatts or more and consisting of individual turbines with a capacity of 100 kilowatts or more. It would require a periodic review of research regarding health and property value effects of wind energy, conducted at five-year intervals.

Similar legislation was proposed but languished without action in a special session early last year.



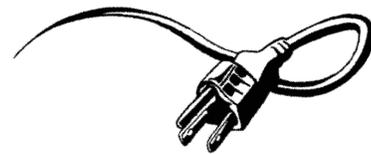
*THE WIRE* is a monthly publication of the Customers First! Coalition—a broad-based alliance of local governments, small businesses and farmers, environmental groups, labor and consumer groups, retirees and low-income families, municipal electric utilities, rural electric cooperatives, wholesale suppliers, 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,



## KEEPING CURRENT

With CFC Executive Director Matt Bromley



The booming natural gas market was the focus of a presentation at the *Customers First!* Coalition's POWER Breakfast last month. Valerie Wood, founder of Energy Solutions, Inc., a consulting firm that advises industrial and commercial businesses on their natural gas purchases, shared her insights into this historically volatile market. Currently, she said, the trend for consumers is positive as an abundance of natural gas supplies has pushed prices down to the lowest level in 10 years. She cautioned, though, that while prices and supplies should remain favorable for customers in the short term, a variety of unknowns could change the price environment down the road.

Wood noted that the current glut of domestically produced natural gas is a consequence of several factors but none more critical than the rapid increase in shale gas production over the past few years. Since 2000, U.S. shale gas production has increased 17-fold and now comprises about 30 percent of total U.S. natural gas production. The Energy Information Administration (EIA) projects production of shale gas to increase from 5 Tcf (trillion cubic feet) to 13.6 Tcf in 2035. That would make up about 50 percent of the U.S. natural gas supply portfolio. Wood characterized shale gas as a "game changer" for U.S. energy production. It's transforming the supply and price outlooks for natural gas and the competition among energy options domestically and abroad.



Wood and Bromley prior to her presentation.

Wood acknowledged uncertainties with the production of natural gas from shale that could affect supply, such as environmental concerns with the extraction process known as hydraulic fracturing. But she thinks demand is the greater wild card in the equation and places most of the question marks about demand on how the electric power sector will react. In the near term she expects some coal-to-natural-gas switching because of price and compliance with EPA rules. However, natural gas use for power generation over the long term is less clear and depends on how strict emission rules will be, how much infrastructure is required and at what cost, and how competing technologies, like renewables, develop over time.

In addition, the price spikes and inherent volatility of the natural gas market are likely to continue to be concerns for the electric power industry. Nevertheless, the EIA predicts that the natural gas share of electric power generation will increase from 24 percent in 2010 to 27 percent in 2035. 💡

## More transmission to be explored

American Transmission Company (ATC) and Minnesota Power are partnering to study transmission development plans they say will bring more wind energy and new Canadian hydropower to the Upper Midwest.

The new partnership agreement was announced early last month by the Waukesha-based ATC and the Duluth-based subsidiary of Allete, a Duluth holding company that also has investments in ATC. Their joint studies are to focus on moving Midwestern wind energy and Canadian hydropower into Minnesota, Wisconsin, and Michigan.

Minnesota Power has concluded a 15-year deal to buy 250 megawatts from a proposed new Manitoba Hydro facility. ATC and Minnesota Power say they'll collaborate on development of a 50-mile, double-circuit 345-kilovolt line allowing that energy to be delivered to the Arrowhead substation near Duluth, northern terminus of the Arrowhead-Weston (Wausau) line ATC placed in service in 2008.

Cost allocation, total project cost, and ownership shares in the new 50-mile line were undetermined, ATC said. The line is expected to be in service in about eight years. 💡

# Commissioner wary of FERC transmission order

In keeping with long-held reservations among Wisconsin Public Service Commission members concerning federal transmission mandates, the newest member of the PSC told participants at the recent *Customers First!* POWER Breakfast if Wisconsin customers pay for infrastructure projects, they should share in the benefit.

Commissioner Ellen Nowak told attendees at the February event that the Federal Energy Regulatory Commission's (FERC) Order 1000 raises concerns about one state being forced to subsidize another.

The order requires state regulators to make state and federal policy priorities a factor in transmission planning and as a consequence may make ratepayers underwrite the cost of projects from which they derive little or no benefit, Nowak said, indicating that this represents

a departure from the traditional pre-eminence of reliability and cost considerations in regulatory practice.



Commissioner Nowak with Larry Becker, Adams-Columbia Electric Cooperative director.

Nowak's expressed views were consistent with long-held PSC reservations about FERC transmission directives. At a similar *Customers*

*First!* event in 2009, then-Commission Chair Eric Callisto disparaged the quality of evidence used to justify proposals for big new transmission lines spanning Wisconsin to move Plains States' energy eastward.

With the exception of a few "snazzy PowerPoints," Callisto said, "nobody to this point has shown the kind of granular evidence" that would justify proposals to build very large new transmission lines crossing Wisconsin to deliver energy to states farther east. 💡

# Pipeline explosion costs pushing \$2 billion

It would be hard to exclude a loss of focus born of the utility restructuring mania from the contributing factors in a fatal gas pipeline explosion in 2010. Now Pacific Gas and Electric is reckoning the costs. They're climbing close to \$2 billion and could go higher.

We've commented on this before, and recently. California, it seems, always produces the most spectacular examples of utility restructuring gone wrong. But that understates the magnitude of an incident that cost eight lives and injured almost 60 people in addition to destroying an entire neighborhood.

And now the ugly numbers are coming together. The utility (PGE) says its costs related to the incident—costs related to testing and reinforcing its gas distribution system—may exceed \$1.7 billion by the end of this year. *The Wall Street Journal* in February noted that the

expenses will be "pressuring earnings for the foreseeable future."

That's before factoring in the penalties to be assessed against PGE by state regulators. The company has assumed it will be fined at least \$200 million and the *Journal* reports PGE has set aside that amount in anticipation of a decision by the California Public Utilities Commission.

The *Journal* quoted a PGE official saying

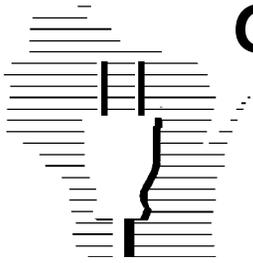
the pre-penalty costs essentially erase the profit earned by the utility's pipeline system over at least the past decade.

Nobody can say with certainty that the disaster in San Bruno wouldn't have happened if not for utility restructuring. But neither can anyone dismiss the criticism long before the disaster happened, saying that restructuring had caused PGE to wander from its core mission and lose its way. 💡

## Energy saver tip

Don't run a half-empty dishwasher. The same amounts of hot water, detergent, and electricity get used 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 close to a dime every time.





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**[www.customersfirst.org](http://www.customersfirst.org)**



## Quotable Quotes

*“They know they’ve got a good thing going and they will do everything they can to preserve their monopoly.”*

—Energy and government relations consultant Deborah Sliz, giving her view of freight railroads’ motivation to defeat reform legislation, at the *Customers First!* Coalition POWER Breakfast in Madison, February 15, 2012

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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