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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Kewaunee plant set for early shutdown

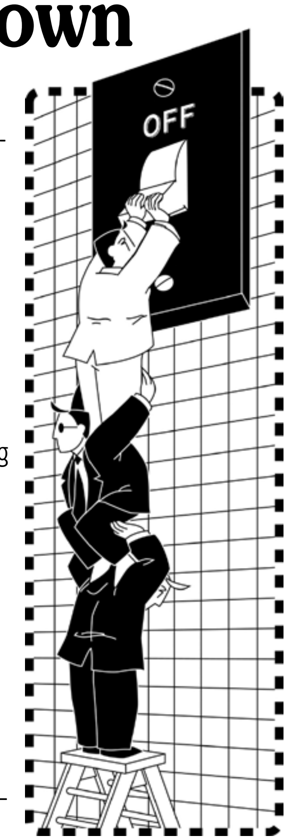
With its operating license renewed by federal regulators early last year, the Kewaunee nuclear power station could continue running until 2033. But late last month its Virginia-based owner revealed it would end power generation by next summer and start decommissioning the 38-year-old plant.

Dominion Energy announced in April 2011 it would seek a buyer for the plant, which it had acquired for $192 million from Green Bay's Wisconsin Public Service Corp. and Madison-based Alliant Energy in July 2005.

That transaction was initially proposed in 2003, rejected 2–1 by the Public Service Commission (PSC) in 2004, and finally approved when the commission unanimously reversed itself in the spring of 2005.

The *Customers First!* Coalition opposed the sale. Concerns cited at the time included a state-regulated, base-load generation facility being taken over by an out-of-state buyer, in effect converting it to a wholesale merchant plant outside the jurisdiction of Wisconsin regulators.

Ironically, a key factor in the PSC's initial rejection of the sale was uncertainty about whether Kewaunee's power production would remain available to Wisconsin customers after 2013. Terms of the sale included power purchase agreements preserving Public Service and Alliant Energy's access to the plant's entire output. From the outset, those agreements were set to expire next year.



Economics was the sole determining factor in last month's "extremely difficult decision" to close the plant, according to Dominion CEO Thomas Farrell. Extending the existing power purchase agreements now—at a time of slack demand, surplus capacity, and low natural gas prices—would almost certainly commit Kewaunee to accepting low wholesale prices long-term.

Farrell said the combination of those factors makes it "uneconomic for Kewaunee to continue operations." Those same factors evidently contributed to Dominon's difficulty finding a buyer over the past 20 months.

The early closure will remove 556 megawatts of generation from the grid, and the schedule for shutting it down will depend in part on a reliability review by the Midwest Independent System Operator.

One condition of the 2005 sale was the distribution of about $200 million in accumulated decommissioning funds to Alliant and Public Service customers. With its October announcement, Dominion said the plant's decommissioning trust is fully funded and will cover all the associated costs following the shutdown.

Short-line stumble for BNSF buyout

Energy customers have a chance to benefit from a new regulatory review by the Surface Transportation Board (STB), thanks to Warren Buffett's Berkshire Hathaway being so big it doesn't always know what it owns. The STB has given Berkshire Hathaway until the end of this year to sell off two short-line railroads or face "further action" over its 2010 acquisition of the Burlington Northern Santa Fe Railway (BNSF) in apparent violation of federal law.

In a letter last month, the STB asked Berkshire for written reports November 1 and December 1, detailing its progress in divesting the White City Terminal Union and the CBEC Railway Company, short lines in Oregon and Iowa, respectively, operating on a total of 18 miles of track.

As common carriers, their ownership by Berkshire Hathaway should have triggered STB review of the company's buyout of the BNSF, but in a September 25 letter, BNSF Vice President Roger Nober told the STB Berkshire didn't realize that was the case. STB jurisdiction over the Burlington Northern buyout, Nober said, resulted from "two of [Berkshire's] nearly 2,000 operating subsidiaries owning two small short-line railroads," emphasizing that the subsidiaries—one of them MidAmerican Energy Company—would "expeditiously" divest the railroads to comply with federal law.

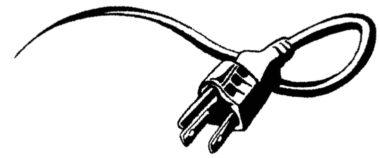
The potential for benefit to energy customers kicks in because the rates BNSF charges to shippers—including utilities that have no practical alternative for delivery of power plant fuel—are based in part on the price Berkshire paid to acquire the company.

In its correspondence with BNSF, the STB stated its intention to "solicit public input regarding the effect, if any, of Berkshire's non-compliance on the post-February 2012 valuation of BNSF's asset base," thus introducing a new element into a proceeding launched a year ago to determine whether Berkshire's costs in acquiring the railroad are factored properly into shipping rates.

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

When residents of Chicago and 60 other Illinois communities go to the polls November 6, they will not only be voting for president of the United States but also on whether their city should be allowed to purchase electricity on behalf of its residents and small businesses.

Where the referenda are approved, the municipalities will join more than 200 other Illinois communities that were given authority by voters earlier in the year to negotiate electricity supply contracts for their residents.

Bromley

The hope for consumers is that by banding together they should, collectively, have greater purchasing power and more leverage in negotiating lower prices with competitive energy suppliers than if they were to seek a deal on their own. The movement toward municipal electricity aggregation in Illinois is the latest attempt to deliver the elusive benefits (i.e. lower rates) of electricity deregulation to residential and small business customers.

While aggregation has been delivering short-term savings to residents of some Illinois communities, savings over the long term are not guaranteed. Mark Pruitt, the former head of the Illinois Power Agency, makes this point clear in a column he recently wrote for *Illinois Country Living,* a monthly publication of the Association of Illinois Electric Cooperatives. Pruitt predicts that the historic low prices for electricity in the wholesale markets, which have allowed aggregation communities to save money on their power supply, won't last long. As the economy recovers and demand for power squeezes supply, aggregation communities and customers who rely on the open competitive market for their electricity will be exposed to the price pressures and instability of that market.

Deregulation, Pruitt says, is part of the reason he thinks electricity costs for consumers will rise. The failure of the deregulated market to stimulate new generation will cause upward price pressure in electricity markets, he says, adding, "We don't have a mechanism in the deregulated world to build new base-load power plants. There is not a 30-year contract model to support the capital necessary to build a new plant."

Pruitt believes aggregation, at least in Illinois, will lose steam as municipal leaders find it difficult to shelter residents from the volatility of the wholesale electricity markets where prices can change literally every five minutes. He says customers value price stability, and providers that have long-term power generation planning and investments are better positioned to protect customers from rising prices over the long term.

Electricity is best energy buy this winter, EIA says

Estimates based on weather projections and fuel costs suggest households can expect more favorable prices for electricity than for other commonly used energy sources this winter, according to the Energy Information Administration (EIA).

That doesn't mean any costs are expected to decline.

In its short-term energy outlook issued October 10, the EIA said it expects average household energy expenditures to be higher across the board this winter—but less so for electricity. The projected spending increases are 19 percent for heating oil, 15 percent for natural gas, and 13 percent for propane, but only 5 percent for electricity.

The higher expenditures are based mainly on an expectation of colder temperatures than last winter's east of the Rockies. Some energy prices are actually expected to be lower. The EIA anticipates residential heating oil and natural gas prices 2 percent and 1 percent higher, respectively, this winter. But winter average prices for electricity and propane are expected to be about 2 percent and 4 percent lower.

Hustlers ♥ NY

New York energy customers who switch retail providers often find themselves paying more than if they'd stayed put, according to an analysis reported in the *New York Post*, which says retail choice offerings are "usually a rip-off."

In mid-October, the Post reported on data made public in a rate case before the New York Public Service Commission (PSC). The commission found that upstate residents who quit incumbent utility National Grid's default electricity service to buy power from energy service companies paid, on average, $413 more over the two-year period that ended July 31.

Natural gas customers who quit National Grid to buy from energy service companies paid an average of $235 more, according to the *Post*.

Some former National Grid electricity customers did save money, but they represented only 16 percent of those who switched providers. Eight percent of gas customers who switched were able to reduce their costs.

The energy service companies (escos) came into the picture through New York's 1990s restructuring of its energy utilities. Ironically, that same restructuring required utilities including National Grid to divest their generation facilities. They have to buy power on the same wholesale market as the escos, but somehow manage to deliver it at a lower retail cost.

The escos, according to the *Post,* say retail prices aside, they offer the advantage of protecting customers from market volatility by locking in prices under contracts.

But Gerald Norlander, who heads the Albany-based Public Utility Law Project, noted that ecsos tried to impede release of the data on cost differentials, saying the escos evidently see a benefit in hiding their prices from the public.

Energy saver tip

Recent years have seen lots of families fall behind on energy bills, especially during the winter. The Wisconsin Home Energy Assistance Program (WHEAP) is now accepting applications based on income level and other factors. If someone you know might benefit, information is available at www.homeenergyplus.wi.gov.

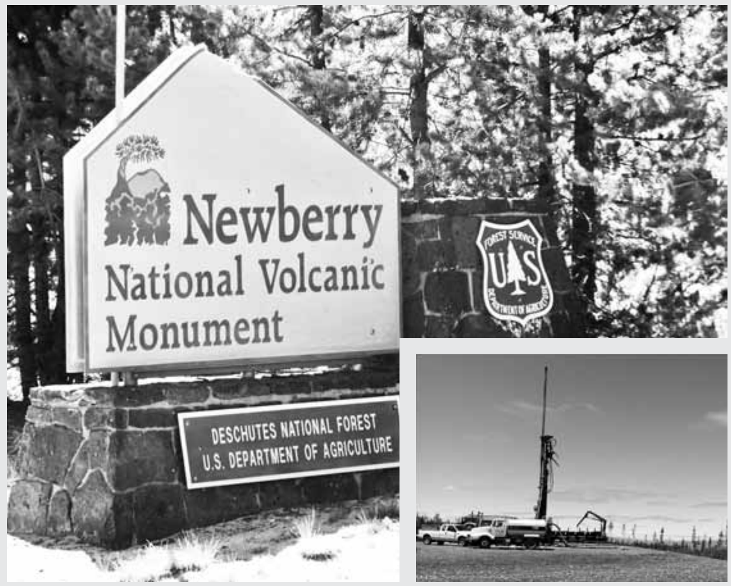
Lava lights?

An eruption of interest in geothermal energy has prompted federal approval for testing a unique new plan that would reach deep underground to manufacture steam to run electric generation equipment.

The U.S. Bureau of Land Management (BLM) has announced it's given the go-ahead to Seattle-based AltaRock Energy to begin injecting water (inset) into subterranean cracks below the dormant Newberry Volcano in Oregon's Deschutes National Forest. It's believed to have erupted most recently about 1,300 years ago.

The BLM approval came early last month. The project involves using pressurized water to fracture rocks as far as two miles below the surface. Once heated by the rocks underlying the volcano, the steam is to be brought back to the surface to drive turbines that will generate power.

Testing is planned over the coming year.



Grid growing, planning for more

Alongside permitting for a small but crucial component of a regional transmission expansion and a federal order prompting joint planning for a major new Wisconsin line, American Transmission Company (ATC) is looking at a 10-year projection of about $4 billion for grid infrastructure.

In September, the North Dakota Public Service Commission approved its state's tiny portion of the big CapX2020 transmission project, a 33-mile segment of new line near Fargo, needed to connect with the major new lines under construction across Minnesota. The vast bulk of CapX2020 is outside the ATC service area, but that has become subject to some argument of late.

The Federal Energy Regulatory Commission (FERC) ruled in July that ATC must equally share development and ownership of the proposed Badger Coulee transmission line—between La Crosse and Middleton—with Xcel Energy. ATC disagreed and asked the FERC to reconsider its order. It also offered the counterargument that if the Badger Coulee line must be shared, then ATC should also share ownership in the entire CapX2020 build-out, almost all of which is in Minnesota.

The FERC has declined to rule on the latter contention, saying it isn't part of the Badger Coulee issue; however, it has left the door open for it to be raised in future proceedings.

Meanwhile, ATC last month issued the customary annual update to its 10-year system-planning assessment, and it's an ambitious outlook.

To ensure future regional electric reliability and access to economical energy, ATC said, it would need to spend at least $3.9 billion between now and 2021.

The amount breaks down to almost $2 billion in improvements and new additions to the ATC system, $1.1 billion for maintenance, and another $800 million for regional projects with costs to be shared across the Upper Midwest, ATC said. Badger-Coulee is one of those "multi-value projects" whose costs are to be shared over a broader area.

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to preserve
Wisconsin's
Reliable
and Affordable
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Be sure
to check out the
Customers First!
website at

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Quotable Quotes

"If I had an energy service company that was saving people money like mad, I'd tell people. You don't see that. Instead, it's a trade secret."

—Public Utility Law Project Executive Director Gerald Norlander, commenting on New York energy services companies' resistance to releasing data on customer savings, as quoted in the *New York Post,* October 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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