Price Hikes Could Cause Relocations

Rising electricity prices will result in the shifting of production to other facilities – either in the U.S. or offshore,” John Anderson predicted at a conference held by the Missouri Public Service Commission.

In a presentation entitled “Electricity Markets Trends and Challenges,” he noted:

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Is Smart Grid The Smart Option?

By Jim Hoyt, ELCON Chair

Advocates of smart grid technology assert that it will enable managers and operators of the grid to prevent outages and to identify power breaks more quickly. We should have a more reliable grid – in fact some people talk about a “self-healing” grid. It will assist in placing the most efficiently produced power on the grid, as well as facilitating better use of power generated from renewable resources, thus reducing the carbon footprint. And we can probably eliminate the costs of reading meters in person by using available technology. That all sounds good.

But I am a skeptic, and I question whether consumers – large or small – will ever see significant benefits from a smart grid that come close to justifying a trillion dollar price tag.

Costs and benefits are primary concerns for those of us in the manufacturing community who face competition from around the world. We want to be sure that the benefits exceed the costs. Utilities and equipment vendors are pushing smart grid technologies and I understand why. But I want to see some measured and verified benefits before I pay for new equipment.

And I want to be sure that the new technologies that are used to implement a Smart Grid are not obsolete in a year or two. We are seeing dramatic improvements in software and communications equipment on an every day basis. Should we install a multi-billion dollar improvement to make a smart grid only to find, two or three years later, that there is now a another multi-billion dollar technology will give us an even smarter grid?

Bottom line. I am not opposed to a smart grid. In fact, I support, as do all ELCON members, making necessary improvements to our electricity grid and taking advantage of new technologies. But I also know that while you don’t always get what you pay for, you always pay for what you get. And I want to know what I will be paying for.

Jim Hoyt is Director, Purchasing, Americas & Global Energy, Tate and Lyle

ELCON Welcomes Chrysler Corp. as Renewing Member

ELCON is pleased to welcome Chrysler, a “Big 3 automaker,” back into its membership. A long-time active ELCON member, Chrysler, headquartered in Auburn Hills, Michigan, has re-joined ELCON after a brief departure. Chrysler has approximately 58,000 employees. Its major brands are Chrysler, Dodge and Jeep.

Cyber Security Gets Attention

Legislation on cyber security threats to the interstate electricity transmission grid may be addressed in 2010, according to congressional sources. ELCON has been part of a select group of stakeholders working with legislators to develop such legislation.

The problem was first noted over a year ago by then-FERC Chairman Joe Kelliher, who told a congressional committee of the existence of a “regulatory gap” in which no federal department or agency has statutory authority to develop rules to protect the grid in the event of a perceived cyber threat.

ELCON and other major electricity associations have developed objectives that they hope will be met if legislation is considered. Such legislation should address vulnerabilities, not simple threats, it should be confined to the transmission system and not include distribution assets, it should designate FERC as the central enforcement agency until the North American Electric Reliability Corporation has drafted the appropriate standards, and it should exist only for a defined period of time.

Legislation (HR 2165) generally consistent with those objectives has been introduced by Rep. John Barrow (D-GA).
Energy, Climate Change Legislation
-- Stay Tuned for 2010

Although the House of Representatives passed HR 2454 on energy efficiency and climate change in June, and the Senate Energy Committee approved an energy efficiency bill (S 1462) in July, the enactment of any legislation will not occur until 2010 at the earliest.

Both bills include a renewable electricity standard (RES) directing utilities to include a specified amount renewable energy in the power that they deliver. In the House bill, the RES tops out with a 20 percent requirement (15 percent from renewables; an additional 5 percent from energy efficiency) by 2020, while the Senate measure contains a 15 percent mandate (11 percent from renewables; and additional 4 percent from energy efficiency) by 2021. Both bills also include numerous provisions on appliance standards, improved building codes, and other energy efficiency issues.

In the Senate, climate change legislation is considered by the Committee on Environment and Public Works, not the Committee on Energy and Natural Resources. In late October, the Committee held three days of hearings – calling 54 witnesses – on the so-called Kerry-Boxer bill (S 1733), and the next week the Committee approved the measure by a vote of 11-1 with no Republicans participating in the markup (save an opening statement by Sen. George Voinovich, R-OH).

Although that technically cleared the bill for consideration by the full Senate, the bill was in fact delayed as five other Committees considered different provisions. In the addition, the bill was not brought to the Senate floor because it was clear that it would not receive the 60 votes necessary for the procedural votes to begin consideration. Majority Leader Harry Reid (D-NV) continues to insist that the Senate will consider climate change legislation in 2010 and he has rejected pleas by many Senators to bring up an energy-only bill, presumably S 1462. Whether climate change legislation will be considered by Senate, what the bill will look like, and whether, if it passes, it can then be reconciled with the House bill are all open questions.

ELCON continues to be concerned about the cost of such legislation to manufacturers which could damage their ability to compete in international markets. “Many studies predict an increase in electricity prices and some of the studies show significant increases,” explained ELCON President John Anderson. “In addition, most manufacturing facilities emit carbon dioxide and companies will have to obtain the necessary emission allowances or move their facilities offshore. We hope that legislators will consider legislation carefully so as not to endanger domestic production and the jobs associated with that production.”

Climate Change Challenges Loom

The estimated costs of greenhouse gas (GHG) controls through a cap-and-trade system “vary substantially” according to the assumptions and economic models that are used, ELCON President John Anderson told the Southern Growth Policies Board.

Anderson used his presentation, “The Impacts of Proposed Energy and Environmental Policies on Manufacturers,” to review analyses of the Waxman-Markey bill (HR 2454) and other proposals to reduce GHG emissions.

He noted McKinsey & Company, a well-known consulting firm, issued a study claiming the United States could reduce CO2 emissions by 70 percent at a cost of less than 1 percent of Gross Domestic Product (GDP) with virtually no lifestyle changes for anyone. But this conclusion was based on 42 million plug-in hybrid vehicles (equivalent to 40 percent of all sales), as well as massive improvements in increased forestry plantings and decreased deforestation, with most of that taking place in developing countries, he said.

Anderson also contrasted the well-known analysis by the Environmental Protection Agency, which forecast an increase in the average family’s energy bill in the range of $98 to $140 per year, with a study by the Heritage Foundation predicting a reduction of GDP in the range of $9.6 trillion and an increase in the average family’s annual energy bill by $1,500.

Anderson went on to look at the manufacturing processes of several energy intensive industries, and concluded that in many cases the manufacturing of basic commodity products could easily be shifted from the United States to other nations where GHG controls were less stringent and electricity prices were lower.

Anderson concluded that “basic manufacturing in the U.S. is already in terrible condition,” and that the “proposed energy and environment policies may compound today’s problems.”

Explaining that due to differing views among its members ELCON does not have a position on specific climate change bills, Anderson said that he thought there were “serious questions whether the net benefits are positive or negative.”

ELCON Still Fighting Organized Markets

ELCON continues to work with the American Public Power Association’s Campaign for Fair Electricity Rates (CFER) to raise the visibility of problems consumers face in organized wholesale electricity markets.

The CFER is mounting a grassroots campaign to meet with Members of Congress from organized market states to show consumer discontent. PJM is the first targeted market, and CFER has held meetings with representatives from Maryland, Pennsylvania and other states. Local constituents, along with national organizations like ELCON, will attend the meetings and describe organized market shortcomings.

ELCON Vice President Marc Yacker is on the CFER Steering Committee. “This is a long-term project,” he said. “There is no silver bullet. But the more policy makers are aware of the problems in the organized markets, the closer we are to changing them, and we hope that will eventually work to the benefit of consumers.”
built in the future will be more expensive than what is sitting around today,” no matter whether it is nuclear, renewable, low carbon coal, and/or shale gas. And, capital cost are part of the rising cost equation. “The cost of capital is important,” he said, comprising approximately 15 percent of the average electricity bill.

Hyman indicated he had no doubts that capital could be raised, but he said right now bond offerings for most utilities are rated BBB -- “barely investment grade.”

He said he thinks restructured – or organized – markets have contributed to the anticipated higher cost of construction for new generation. Whether or not restructured markets are more efficient, he said it was incontestable that those markets have more merchant generation. And, “merchant generation means higher prices.”

Because regulated utilities in non-restructured markets basically have a guaranteed rate of return, they have better financing opportunities for new generation, he said. The merchant generators operating in the restructured markets always pay more for the capital necessary to build additional generation. The higher cost of capital is translated into higher market prices for power.

“A premise of restructuring,” he explained, “was to remove the risk from the consumers.” But, in reality “customers pay anyway.”

Pennsylvania Commissioner Tyrone Christy saw the “organized” markets – especially PJM which operates the grid in his home state – as troublesome. “We’ve got a problem here,” he said bluntly. He described the situation as basically one of “generators and marketers vs. consumers.”

He identified several problems he saw in PJM, notably the single clearing price and the Reliability Pricing Model, both of which he said simply were “not working.” And he, said, PJM’s 397 working committee were simply “way too many.”

Speaker Bullish on Transmission Business

No one should doubt that demand for electricity will increase in the future. Nor is there any question that this will be followed by demand for new transmission, and a need to build new transmission capacity.

But, Leonard Hyman asked, why would any company with generation build transmission that, in essence, would “compete” with its power production facilities? Why especially, would any company do this if (1) FERC was not awarding a particularly good rate of return and (2) building new transmission always entailed siting problems?

Now FERC has changed the rules and made the granting of incentive rates for new transmission the rule rather than the exception, Hyman said.

Speaking to ELCON’s Fall Workshop in Washington, DC, Hyman, a long-time financial analyst of the utility industry, jokingly urged the attendees to “sell your business and go into transmission.”

Hyman listed the many advantages that transmission builders now enjoy. He noted that FERC “absolves you of all risk” and you can start collecting before the lines are even being used. And, he said, the return on equity is “basically 12 percent,” in part because FERC assumes that large projects must be risky. E
Bob Loughney, who represents industrial users in New York, summed it up by stating simply that “legislatively, large users are not doing well.” He said the legislature is “controlled by” environmental activists, and the state’s constant need for new revenue can only make things “worse for industrials.”

Louis Monacell, who heads Virginia’s industrial user group, painted a similar picture. “Dominion Power is like a steamroller,” he remarked, though he reported a minor success when the legislature enacted a renewable portfolio standard that exempts industrial generators.

The counsel to the Missouri industrial group, Diana Vuylsteke, said in her state the “legislative process is as important as the regulatory process.” Her story was more favorable than others, however, as she recounted how large and small consumers united to oppose a utility’s request to repeal the ban on Construction Work in Progress (CWIP). All in all, she said, consumers “did pretty well.”

Several of the attorneys representing industrial users recounted how utilities pushed their state utility commissions to adopt revenue decoupling (which separates, or decouples, a utility’s revenue stream from its volumetric sales in an attempt to remove a utility’s disincentive to support energy efficiency). Monacell, who also represents industrial users in Delaware, noted that the commission there removed the volumetric charges through a change in rate design, which he termed a “good approach.”

States that have not yet seen a push for decoupling may yet see it, some thought. Tom Froehle, an attorney representing Ohio users, was perhaps typical, stating he is “sure it is coming.”

Conover praised some components of the legislation to reduce greenhouse gases, endorsing the cap-and-trade approach in the House and Senate bills, but he criticized others, particularly the renewable energy standard, which he said was “not a good idea.”

A former DOE official, Conover observed that the stimulus package passed earlier in 2009 provided a “huge increase” in research and development funds for the Department of Energy. But he added that there would be little immediate progress because energy-related projects usually take a lot planning – most are not “shovel ready.” That is why only about 1 percent of the funds allocated to DOE have actually been spent, he said.

David Conover, vice president of the Bipartisan Policy Center, which is associated with the National Commission on Energy Policy, also offered insights into the climate policy debate. He said the “real deal is the price of carbon,” and he urged a floor and ceiling (often called a “price collar”) in order to reduce volatility.

Climate change legislation is being developed primarily by Congress, he said, because President “Obama doesn’t have a lot of control over what Congress does.” From a political perspective, he thought his fellow Republicans needed to be more active. “Point out the real problems with Waxman-Markey and prepare something,” he urged. “Don’t just say no.”

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ELCON Activities Before The Federal Energy Regulatory Commission

ELCON weighs in on “Smart Grid” Implementation

ELCON and ELCON members are vitally concerned about the development of a Smart Grid with the hope that such a grid will provide access to more sources of electricity and increase reliability of the system. ELCON is following closely the work of the National Institute of Standards and Technology (NIST) as it develops a framework for the “interoperability” of the new, “smarter,” bulk power system.

As NIST began their process, ELCON President John Anderson voiced the views of ELCON members and other electricity consumers in questioning “what specific consumer benefits consumers can expect to see when the Smart Grid is fully operation,” noting that “there have not been many substantive examples.”

Anderson stated that there is continuing uncertainty as to the definition of a “Smart Grid” and how it would operate. He noted that consumers “will ultimately be paying for the very costly Smart Grid technology” – some place the total costs at well over $1 trillion – and he asserted that consumers do not “want to pay for supposedly new technology that is then quickly superseded by newer technology, meaning the consumers pay twice – or more.”

What consumers do want, according to Anderson, are “clearly measured and verifiable new benefits.”

Demand Response Conference

Walt Brockway of Alcoa, ELCON’s vice chairman, told a recent FERC technical conference on demand response that ELCON “applauds the attention being given to demand response as part of the solution for achieving a least-cost resource mix.” The conference was held as a follow-up to a FERC report, issued in October, entitled “Possible Elements of a National Action Plan on Demand Response.”

Brockway stated that ELCON does “not believe that the full potential for industry demand response has been reached.” He emphasized that “greater attention should be focused on deploying high-value dispatchable industrial demand response that does not require substantial new investments or radical transformations of mass-market consumer behavior.”

Greater attention should be focused on deploying high-value dispatchable industrial demand response that does not require substantial investments or radical transformations of consumer behavior.

Brockway based his assertion on simple economics, noting that “large industrials offer the most cost-effective loads for all types of demand response services.” He added, “Industrial demand response is dispatchable and provides a resource comparable in firmness (or better) to generation.”

ELCON members now participate -- or try to participate -- in the demand response of all ISOs and RTOs as well as the programs implemented by vertically integrated utilities that are not in organized markets. However, Alcoa and other ELCON members have found it difficult “to navigate the rules and take the time to sit at the table while the rules are established,” Brockway said. He expressed hope that “removing barriers and balancing the requirements will attract more industrial participation, while using existing enabling technologies.”

In his written statement, Brockway questioned “the value of a national coalition to spearhead a national communications program” for demand response, as FERC’s proposal had suggested. His skepticism was based on the fact that such coalitions “tend to be dominated by entities with the greatest political or commercial income interest in the outcome,” namely suppliers and marketers. If such a coalition is formed, Brockway recommended that “it should be dominated by consumer interests” since “demand response is a consumer-based tool and it should not be beholden to traditional industry interests and prejudices.”

Brockway’s statement also raised questions about whether FERC’s action plan over-relied on “dynamic pricing.” Instead, he called for state and local government to “decide how best and aggressively to market optional pricing schemes to mass-market retail electric consumers.” The problem with dynamic pricing is that it “may be yet another regulatory policy for shifting planning and operational risk to utility consumers,” he said. He added that he feared regulators may be tempted “to assume that prices/rates are not high enough, and they will imposed artificial measures that raise costs for all consumers.”

ELCON on transmission

In a filing at FERC in November, ELCON noted that this issue of allocating the cost of transmission is becoming “more acute” due to the increased costs of siting, the growth of regional power markets, and the needs imposed by renewable energy projects.

The docket is in response to questions about whether the Commission should consider new rules for allocating costs for projects that cross more than one transmission system. In addition, FERC is under pressure to consider societal benefits in
Revenue Decoupling Still Being Discussed

Early in 2009, when Congress was discussing the legislation that would eventually become the American Recovery and Reinvestment Act (commonly referred to as the Stimulus Package), an alliance of environmental groups and investor-owned utilities tried to insert language to promote revenue decoupling (the separating, “or decoupling,” of a utility’s earnings level from its volumetric sales) by making certain energy efficiency grants contingent upon a state having adopted decoupling. ELCON joined with other large and small consumer groups and succeeded in having the language modified so that decoupling was one of several options open to the states.

Recently, trade press reports indicated that revenue decoupling had re-surfaced and was being discussed by senior staff at the Council on Environmental Quality (CEQ) within the White House. ELCON was instrumental in bringing the large/small consumer coalition together to meet with representatives from CEQ.

“How was it clear from our meeting that the CEQ staff had no idea that revenue decoupling was opposed by such a wide range of consumers?” said Marc Yacker, ELCON’s vice president for government and public affairs. “They had been led by utilities and environmentalists to believe that there was no opposition to decoupling. We made sure they knew that was not the case.”

The “consumer coalition” also met with the Department of Energy, after a high-ranking DOE official was quoted as advocating revenue decoupling. According to Yacker, the message was similar to that delivered at CEQ. “Policy makers at all levels need to be aware that revenue decoupling is an anti-consumer idea designed to keep utilities’ profits at a specified level. Large and small consumers can invest in conservation and succeed in reducing their energy consumption, yet still see their bills go up. When it’s explained clearly, policy makers invariably realize that revenue decoupling is not the be-all and end-all,” he said.

Prices Will Force Relocation

From page 1

ed there are both regulatory and legislative issues, as well as changing markets, facing industrial electricity users today and in the future.

Since the current Administration is a strong advocate of energy efficiency and renewable energy, Anderson expects Congress to enact legislation that could significantly impact the price that manufacturers pay for power.

Anderson promoted energy efficiency that is “cost effective” as a high-priority resource. But he objected to utilities being charged with the implementation of energy efficiency programs, in part because it conflicts with the core utility business, i.e., selling electricity. For industrial users, he stated that competitive markets have required them to continuously undertake energy efficiency projects, and that most of the “low hanging fruit” has already been plucked.

Anderson was adamant that “utilities should not be paid an incentive to collect and spend ratepayers’ dollars for energy efficiency.” He also stressed that revenue decoupling (separating, or “decoupling,” a utility’s revenue stream from its volumetric sales), as several utilities have proposed, is strongly opposed by both large and small consumers. Although utilities argue that decoupling eliminates a utility’s disincentive to implement energy efficiency and load reduction programs, Anderson countered that it increases rates, shifts risk from shareholders to ratepayers, and provides no discernible consumer benefits. Instead, he suggested that states create separate independent entities that have energy efficiency as their core business, and he cited successful efforts in New York, Vermont, and North Carolina.

Anderson reported that incentives for renewable energy were likely to be included if Congress approves energy legislation, adding that such language was in the bills approved by the Senate Energy Committee and by the full House. He cautioned that electricity from renewable energy sources has “characteristics that are significantly different from more traditional generation,” specifically that it is variable, uncertain, and often located in remote regions. It therefore requires both redundant back-up generation and, often, “substantial new transmission,” which can increase the cost of delivered power.

In his presentation, Anderson insisted that “utilities should not be given incentives to do what they are required to do.” He asserted that it is very difficult to build new generation facilities, and “there certainly is a potential for more energy efficiency and renewables.” But, he maintained, “they must be cost effective or they will cause more harm than good.”

ELCON Report Goes Exclusively Electronic

This issue marks the last edition of ELCON Report in a printed format. The next issue will be distributed only via email. If you wish to continue to receive ELCON Report, it is essential that you forward your email address to kward@elcon.org. Thank you.

WHAT IS ELCON?

• DATE ORGANIZED: January 15, 1976

• WHO WE ARE: The Electricity Consumers Resource Council (ELCON) is the national association representing large industrial consumers of electricity. ELCON was organized to promote the development of coordinated and rational federal and state policies that will assure an adequate, reliable and efficient supply of electricity for all users at competitive prices. ELCON’s member companies come from virtually every segment of the manufacturing community.

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