Congress Leaves Without Passing Comprehensive Energy Legislation

There were no energy surprises in the brief lame duck session of the 108th Congress: it left town without enacting the so-called comprehensive energy bill.

The chances of any action in the post-election period were always considered remote. Republican gains in the election -- including a four-vote pick-up in the Senate -- gave supporters of the bill the incentive to wait until 2005 when larger Republican majorities in both houses might make passage easier.

Several non-electricity provisions from the bill were enacted in the regular session before the election. Many of the tax provisions were approved as amendments to two other bills (one extending middle class tax reductions and one changing the taxation of corporations’ overseas profits). In addition, the legislation needed to build a natural gas pipeline from Alaska was added to a military appropriations bill.

But aside from two relatively minor tax provisions (one allowing cooperative utilities greater flexibility with regard to the use of cooperative-owned transmission facilities; the other giving more beneficial tax treatment to investor owned utilities that sell transmission assets pursuant to a FERC directive) none of the provisions adopted addressed electricity. None of the provisions in the electricity title -- many of them anti-consumer and likely to be costly to industrial end users -- were enacted.

Anti-consumer provisions opposed by ELCON included repeal of the Public

Continued on page 3

ELCON's Anderson Asks EPSA To Support 'Real' Competition

ELCON Executive Director John Anderson told the fall membership meeting of the Electric Power Supply Association (EPSA) that ELCON wants to work with the supplier organization for electricity competition that benefits both consumers and producers. EPSA represents independent power generators.

"ELCON supports ‘real’ wholesale and retail competition. But the problem is, we don’t have any real competition anywhere," Anderson asserted. "We want to work with EPSA to achieve real competition with markets beneficial to both producers and consumers."

Anderson noted that ELCON was among the earliest advocates of competitive electricity markets and outlined what he saw as obstacles to real competition in

Continued on page 7
ELCON was founded in 1976 so that industrial electricity users could unite to work on electricity issues, many of which were enacted in 1978 as part of the Public Utility Regulatory Policies Act. Through the years ELCON has worked on a number of issues, all of them related to electricity.

Today, it doesn’t take long for an ELCON meeting to turn to the subject of natural gas. When it comes to gas issues, ELCON members have different perspectives. Our members include producers, pipelines and consumers. Some use gas as a feedstock, others only as a fuel. Electricity is produced primarily from gas for some, from coal or nuclear power for others. For all of them, gas price and supply are now front-burner issues.

Gas, perhaps even more than coal or oil, is an essential fossil fuel. There are industrial boilers that can burn only gas. A variety of plastic and chlorine products rely on gas as a feedstock. And, increasingly, we find that gas is being used to generate electricity, at least in part because it is perceived as environmentally more favorable than coal.

For a number of reasons, the price of natural gas has increased dramatically in recent years. Just as important, the price has been volatile, spiking one month and falling the next. For energy managers, this has been troublesome, to say the least. But for consumers, who pay for gas spikes directly through utility bills or indirectly through increased prices for manufactured goods, this can be devastating. And now, because gas has become the fuel of choice for electricity generation, this impact is multiplied.

Some ELCON members have moved the manufacturing of some products to other countries where they anticipate a more certain supply of natural gas at lower prices. Others have scaled back expansions in the U.S. These developments result in job losses here at home.

I believe that the gas issue should not be viewed in isolation. In the United States, we need a diverse fuel base for industrial production (including use as a feedstock), for heating and lighting our homes and businesses, and for powering our motor vehicles. I don’t want to exclude any fuel from any potential use.

ELCON and ELCON members support fuel diversity in electricity generation as well as for industrial, commercial, and residential use. Each fuel has advantages and disadvantages -- what some people call “externalities,” that is, the economic and environmental impacts that come from use of the particular fuel. Unfortunately no universally accepted definition for externalities exists. While some people consider wind power to be environmentally beneficial because it has no emissions, others point out that it produces bird deaths, it is noisy, and people in Nantucket oppose new wind generation offshore it because it would be esthetically displeasing.

I think we Americans need a new national energy policy, one that avoids “either-or” choices. We do not have to choose between more exploration and less consumption; we should be doing both. This applies to gas as well as other fuels: we should be working simultaneously at increasing exploration for natural gas supplies, practicing conservation and developing more efficient gas-using technologies.

Most electric-generation facilities built in recent years have been gas-fired. Because these were efficient, they backed out older gas- and oil-fired facilities, producing more electricity without significantly increasing the total use of natural gas. Now, with the increase in gas prices, those building new generation are looking at coal, a fuel in abundance here at home, and they are exploring how to burn coal more efficiently with reduced emissions.

Rest assured that ELCON will continue to focus on electricity issues. But ELCON members view those issues as part of a larger context. We need fuel diversity. We need to consider energy policy in a comprehensive manner. We need to look long-term. And we need to consider all available options.

Mike Miller is Director, Energy and Utility Services, Shell Oil Products
Coalitions Key to Legislative Efforts

ELCON and its member companies have long recognized that coalitions are key to passing, defeating, or simply delaying legislation in Congress. That was true in the 108th Congress, and it will undoubtedly be true in the 109th.

One of the top priorities identified by ELCON members each year is market power abuse. Although ELCON members recognize that the Public Utility Holding Company Act (PUHCA) of 1935 needs to be amended, it remains the primary law protecting consumers from such abuse. Utilities have long sought to repeal PUHCA, and ELCON was a founding member of the coalition (originally called Friends of PUHCA, now Consumers for Fair Competition, or CFC) working against PUHCA’s demise.

Working alongside municipal and cooperative utilities, small business and contractor groups, and various consumer advocacy organizations, ELCON has managed to forestall PUHCA repeal despite the organized effort of utilities, which have probably poured more than $1 million per Congress into the campaign. CFC, which has no dues or budget devoted to this effort, relies on in-kind lobbying of its members. Planning began in late 2004 for a lobbying strategy for 2005.

ELCON is also an active player in an unnamed coalition working to preserve cogenerators’ rights under the Public Utility Regulatory Policies Act (PURPA) of 1978. Section 210 of PURPA guarantees cogenerators and other qualifying facilities (QFs) that their power will be purchased by utilities and that backup and maintenance power will be supplied by utilities at a just and reasonable rate.

Utilities have objected to Section 210 since its enactment, and have funded a special coalition to seek repeal. Many ELCON members are cogenerators, and ELCON has banded with other QFs, including wind and solar generators, to ensure that rights enjoyed by cogenerators remain on the books until competition is established. Such a guarantee was included in last Congress’ comprehensive energy bill (though, because it was not enacted, the more beneficial present law was retained).

Finally, ELCON is an active player on

Continued on page 7

Congress Adjourns
From Page 1

Utility Holding Company Act, inflexible language on participant funding for new transmission, unnecessary incentives to builders of new transmission, "native load protection," and restrictions on FERC’s ability to promote wholesale competition through new regulations on market design. ELCON supported provisions on siting new transmission lines and compromise language amending the Public Utility Regulatory Policies Act (although maintaining the present law is a more favorable outcome).

How will the 109th Congress address energy issues? Rep. Joe Barton (R-TX), who moves from chairing the Energy and Air Quality Subcommittee to heading the full Energy and Commerce Committee, has said he will probably consider clean air legislation, including the Administration’s "Clear Skies" initiative, before tackling energy. But it is generally believed that any bill similar to this past Congress’ comprehensive approach can and will be approved by the House if brought to the floor in 2005.

In the Senate, the four-vote Republican increase to a 55-45 majority may not be enough to push an energy bill forward.

This past Congress’ bill fell two votes short of the 60 necessary to invoke cloture and end debate. Three departing Democrats (Sens. Breaux, Miller, and Daschle) had supported cloture. And Senator John Ensign (R-NV) stated that he had changed his position from supporting cloture to opposing it. On the other hand, much of the opposition to the comprehensive bill centered on the inclusion of a liability waiver for manufacturers of the gasoline additive MTBE. If that provision is modified or excluded from the legislation, it might be easier for the bill to progress in the Senate.

Other events may work against an energy bill in the new Senate. Most important is the question of partisanship, which was evident on many bills last year, including energy. If Senate Democrats decide to work with Republicans, and if the Republicans welcome Democratic input, legislation can progress. But if Democrats adopt an obstructionist approach, Republicans may not be able to accomplish much. Several “centrist” Democrats (such as Sens. Breaux, Miller, and Hollings) are now gone, increasing the isolation of the few remaining centrists and making efforts to overcome partisanship more difficult.

Another question to be faced in the new Congress is whether a comprehensive bill or piecemeal legislation has a better chance of enactment. Most electricity stakeholders believe that the electricity title, if detached from the energy bill, would have passed this past Congress despite its many anti-consumer provisions.

The same is true for many of the energy bill’s less controversial titles. Some observers believe that the omnibus nature of the bill gave several Senators something to object to, leading to the bill’s downfall.

House Chairman Barton has spoken -- noncommittally -- about breaking the bill up. While that might be one path to passage for some provisions, it seems unlikely that all the provisions from this past Congress’ comprehensive bill could be considered separately and approved in a two-year time frame. Senate Energy Committee Chairman Pete Domenici (R-NM) has continued to favor a comprehensive bill.

All in all, the 108th Congress made some progress on energy -- authorizing a natural gas pipeline from Alaska and passing numerous energy-related tax credits -- but many issues remain. The politics of the 109th Congress, particularly in the Senate, will be a little different. Whether the outcome for energy and electricity issues changes remains to be seen.
Although most observers look to the Federal Energy Regulatory Commission to address market power abuse in the electricity industry, the Federal Trade Commission (FTC) and the Department of Justice (DOJ) also have jurisdiction -- and they may be getting ready to use it.

Michael Wroblewski, assistant general counsel for policy studies at the FTC, and Jade A. Eaton from DOJ's Antitrust Division, discussed the roles that their agencies anticipate playing on antitrust and market power issues in the electricity industry at ELCON's Fall Workshop.

Wroblewski was the more activist, saying FTC wants FERC to take the market power issue "in house." He stated that the FERC-proposed market power screen is flawed in several ways. FTC was developing its own market power screen, and, according to Wroblewski, may become more active in the near future.

Eaton said FERC's ability to counter market power abuse is jurisdictionally limited by the Federal Power Act. She criticized FERC's proposed screens because all they will show is that "every utility has market power at some time of day."

She believes that the objective of combating market power abuse should not be low rates, but rates that "provide flexibility." Even if markets provide good price signals, she asked, "what good is it if consumers can't or won't respond?"
In 1994, Don Santa, then a commissioner at the Federal Energy Regulatory Commission, co-authored an article in *Energy Law Journal* pointing out similarities in restructuring electricity and natural gas. His basis premise was that restructuring efforts must be consistent with market development.

Now president of the Interstate Natural Gas Association of America (INGAA), the trade association of natural gas pipelines, after having served four years as a FERC commissioner, Santa indicated his views on gas and electricity restructuring have evolved but they haven't changed significantly.

It is more difficult for FERC to restructure electricity markets than gas markets, he indicated. In contrast to gas, FERC doesn't have jurisdiction over "the totality of the electricity industry," and the split jurisdiction between state and federal regulators has produced legal and political battles. Santa also noted that the gas industry had nothing analogous to the regional market approach now moving forward in electricity in the form of independent system operators (ISOs) and regional transmission operators (RTOs). Yet another difference he mentioned was that industrial users soon bypassed local distribution companies and got direct access to gas pipelines, a development unlikely to occur on the electricity side.

Still, Santa said he remains a believer in competitive electricity markets at both the wholesale and retail levels. But he said early efforts to impose retail access before there were functioning and competitive wholesale markets "put the cart before the horse."

In order to achieve competitive markets, he recommended going back and "rebuilding" the case for restructuring. He cited recent congressional activity, even absent the enactment of legislation, as undermining FERC's ability to exercise "hard political power." He advised industry stakeholders to set "modest and achievable" goals, increase dialog with anti-restructuring groups such as state regulatory commissions, and develop a model for competition that shows benefits to producers and consumers.

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**Similarities, Differences Described in Gas, Electricity Restructuring**

Natural gas prices are high and "likely to stay high" according to Don Santa, president of the Interstate Natural Gas Association of America (INGAA), the trade association of natural gas pipelines. Santa, speaking at ELCON's Fall Workshop, attributed the price increase to a scarcity of supply.

"We need greater access to the resource," he stated. "We need access in the Rockies and off shore. We need to increase our use of liquid natural gas."

Santa, who previously served as a FERC Commissioner and as a Senate staffer handling natural gas issues, also offered some political advice. "Avoid making natural gas a divisive issue," he cautioned. "Don't limit natural gas use for some purposes and prohibit it for others. The Fuel Use Act did not work the first time," he said, referring to the 1978 law that barred new electricity generators from using natural gas.

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**High Gas Prices Here to Stay**

"We need greater access to the [natural gas] resource...We need access in the Rockies and off shore. We need to increase our use of liquid natural gas."

-- INGAA's Santa
ELCON Activities Before
The Federal Energy Regulatory Commission

Incentive-Based Business Structures Would Improve RTOs, ISOs, ELCON Says

ELCON told the Federal Energy Regulatory Commission it should require RTOs and ISOs to restructure and shift their business functions to models that adopt incentive-driven contracts. The changes would encourage more efficient operations, innovation and accountability, ELCON said.

The comments were ELCON’s first in response to the Commission’s inquiry into RTO/ISO cost accounting, oversight and recovery. One of FERC’s questions was whether not-for-profit RTOs and ISOs have appropriate incentives to contain costs and, if not, what they should be and how they should be implemented.

Although FERC never mandated a business model for RTOs and ISOs, the de facto model is a not-for-profit -- “no surprise given the huge controversy associated with attempts to form transmission-owning RTOs,” ELCON said.

The problem is that not-for-profits make cost reviews more difficult for regulators, ELCON said. The model conflicts with the original motivation for restructuring, which is to take advantage of the favorable economic behaviors induced by the profit incentive in real market environments.

The middle ground between a not-for-profit and a transco would be an independent system administrator that serves under an incentive-driven contract, ELCON said. Such a model would encourage the administrator and staff to operate efficiently, to innovate, and to show accountability for performance. It would also tend to minimize self-perpetuating bureaucracies in that competition to provide RTO services once an existing contract expired would likely emerge if powerful economic incentives are at work, ELCON added.

The independent system administrator business model was adopted by the now-defunct SeTrans RTO effort in the Southeast, extensively vetted over a two-year period and approved by FERC, according to ELCON.

FERC’s Future
From Page 2

confirmed, but essentially two seats are in play.

The first vacancy must go to a non-Republican under a stipulation in law limiting to three the number of commissioners from the same party. Three Republicans (Comms. Wood, Brownell, and Kelliher) already sit on the Commission. Speculation has arisen over possible Democratic nominees. They include Idaho Commissioner Marcia Smith and North Carolina Commissioner “Jimmy” Ervin. An independent could also be nominated.

The outlook for Wood is more controversial. Though the chairman has received good marks in some quarters -- for example, ELCON strongly supported his efforts to standardize markets -- there are Members of Congress who oppose his aggressive efforts to maintain a strong FERC and to create competitive markets. Such congressional opposition led Alex Flint, staff director of the Senate Energy Committee, to predict that Wood was unlikely to be renominated. Until the President decides Wood’s fate, there won’t be much discussion of other possible nominees.

“Chairman Wood has always said that he wants to create markets that benefit consumers,” said Anderson. “His chairmanship has been consistent with that objective.”

If precedence is a guide, the President will name the two FERC nominees -- a Republican and a non-Republican -- at the same time, they will be considered by the Senate Committee on Energy and Natural Resources on a parallel schedule, and they will come to the Senate floor at the same time as two separate nominees. Or, the nominations could be considered together as a package or even with other appointments to other federal departments. It generally takes four to six months from nomination to swearing in, though lately FERC appointments have taken longer. Commissioner Kelliher’s took more than a year.

If Chairman Wood resigns or is not reappointed, the President will name a new chairman. If this happens, the new chairman will almost certainly be a Republican, possibly Commissioner Nora Brownell or Joe Kelliher. Comm. Kelliher made news recently by suggesting that FERC re-examine Order 888, the first open access Order, to see if it is accomplishing its objectives. If not, he said, FERC ought to consider a somewhat new path to see that open access and competition are achieved.

"The restructuring genie is out of the bottle,” said John Anderson. “As consumers, we want a FERC that looks at the wholesale electricity market and tries to make that market more competitive. That’s not easy. And that’s why I think this next year may be crucial. But I continue to be optimistic that the potential benefits of true competition -- to consumers large and small -- are so overwhelming that they have to succeed.”
consideration of the potential benefits available from demand response. "We need demand response markets, not demand response programs," he emphasized. "Those consumers, large and small, who volunteer to curtail or reduce consumption should be given treatment and compensation symmetrical to generators. "Competition is better than regulation when structured correctly," Anderson concluded. He added, "In different states we learned the hard way what not to do. But the good news is that we are also learning what to do."

transmission issues, with special attention being paid to the issue of mandated participant funding -- that is, the concept that whoever benefits from new transmission pays for it. A few investor-owned utilities, mostly in the Southeast, made a big push in the last Congress to include language in the energy bill directing FERC to use participant funding as the means of financing any new interstate transmission. While such a requirement is appropriate in some instances, in other cases its use would deter new construction, especially where such transmission would connect efficient, low-cost, independent generation and displace older, more costly, facilities.

ELCON has joined with independent power producers, independent transmission companies, public power, and some progressive utilities to counter the efforts of those utilities seeking to tie FERC's hands with participant funding. Compromise language was included in the comprehensive bill. Present law, which remains in effect, is silent on the issue.

"When it comes to electricity legislation, industrial end users are almost always fighting an uphill battle," explained Marc Yacker, ELCON's director of government and public affairs. "On most issues we have different objectives than investor-owned utilities. But they can concentrate all of their resources -- financial and others -- just on electricity issues. As consumers and manufacturers, ELCON members have to spread their resources over a wide range of issues, including tax, trade and environment, and other non-electricity energy issues. Coalitions are a good way to pool resources and lobby efficiently."
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 polices 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.

• MEMBER COMPANIES: A.E. Staley Manufacturing Company • Air Liquide • Anheuser-Busch Companies, Inc. • BOC Gases • BP • Bunge Corp. • ChevronTexaco • Colonial Pipeline Company • DaimlerChrysler • Delphi Automotive Systems • E.I. du Pont de Nemours & Co. • Eastman Chemical Company • ExxonMobil Power and Gas Services, Inc. • Ford Motor Company • General Motors Corporation • Honda • Honeywell • Intel Corporation • Monsanto Co. • Occidental Chemical • Praxair • Procter & Gamble • Shell Oil Products • Smurfit Stone Container Corp. • Solutia, Inc. • Weyerhaeuser

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