ELCON Prevails in Cogenerator Case

ELCON's position in defense of cogenerators and alternate power providers was upheld recently by the Federal Energy Regulatory Commission (FERC) in a test case on how FERC is going to interpret changes to the Public Utility Regulatory Policies Act (PURPA) under the recently enacted Energy Policy Act.

PURPA, enacted in 1978, gave cogenerators and other alternate power producers (sometimes called qualifying facilities, or QFs) the right to sell power to utilities and the right to purchase stand-by and back-up power from utilities. Utilities had objected to these "mandatory purchase-and-sale" requirements virtually since PURPA was first passed.

The new Energy Policy Act included an amendment (known as either Carper-Collins language or Landrieu-Alexander language) that ELCON helped draft in 2001 intended to relieve utilities of their

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ELCON Meets with Competition Task Force

The Energy Policy Act of 2005 directed a five-agency task force to study the status of competition in wholesale and retail electricity markets, and ELCON was one of the few groups invited to meet with task force members. They include representatives from the Federal Energy Regulatory Commission, Department of Energy, Department of Justice, Federal Trade Commission, and Rural Utilities Service of the Department of Agriculture.

The group solicited comments from the public and received hundreds of submissions, but only a few associations and companies were invited to meet personally with the task force. ELCON was chosen to represent industrial electricity consumers. ELCON President John Anderson emphasized that ELCON members continue to support "true" competition but are finding that the so-called Organized Markets are more likely to impose re-regulation (through capacity markets and locational marginal pricing) than they are to promote policies to encourage competition.

The task force will publish its report in about a year. "Competitive markets can benefit large and small consumers," said Anderson. "I hope the task force realizes that there are no truly competitive markets out there right now." 

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ELCON Winter Workshop

Session Debates Consumer Focus In Organized Markets

Although consumers and consumer groups in New England have strongly protested the proposal by ISO New England (ISO-NE) to institute a locational installed capacity market (LICAP), Bill Berry, ISO-NE's Chairman of the Board, asserted that the organization is committed to "doing what's right for end users."

That involves "working together" so that "fairly priced" power is available to large and small consumers, he

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New Energy Law Changes Rules

Electricity stakeholders looking more closely at the new Energy Policy Act of 2005 seem to see more questions than answers.

For instance, consumer groups, including ELCON, had long opposed repeal of the Public Utility Holding Company Act (PUHCA), the major federal consumer protection statute for the utility industry, because of predictions of an onslaught of utility mergers. Now the merger restrictions in PUHCA are gone, repealed with the new law. But, Bob Shapiro, an energy attorney
The Chairman’s View

PUHCA Is Dead -- Long Live PUHCA!

By Gary Kajander, ELCON Chair

A crucial part of the recently enacted Energy Policy Act of 2005 was repeal of the Public Utility Holding Company Act or PUHCA, which was enacted in 1935 in conjunction with the Federal Power Act. Utilities have been trying to repeal PUHCA for more than 20 years.

Consumers have always opposed that effort. I’ll go a step further and state that I know of absolutely no bona fide consumer group that has ever supported PUHCA repeal. And, it’s not because PUHCA was really that good at consumer protection. It’s just that when it came to consumer protection, PUHCA was virtually all that we as electricity consumers could rely on as a federal statute.

What did PUHCA actually do? Well, I think it’s easier to describe what PUHCA was supposed to do. PUHCA’s primary purpose was to ensure that the utility that served your local community and its homes, businesses and factories, was, in fact, devoted to serving that community. PUHCA placed restrictions on a utility’s ability to participate in other businesses or industries. That made sense, since for years utility stocks were regarded as a very good investment because they rarely went down and almost always paid a substantial dividend.

PUHCA was supposed to ensure that utilities didn’t take those profits and invest them in risky, nonregulated ventures. That would equate to taking ratepayer money and -- basically -- gambling with it. If the gamble lost, ratepayers would have to pay more money.

PUHCA also was intended to restrict utility mergers. To ensure that utilities focused on their local ratepayers, the law required that in order for two utilities to merge they had to be located in the same region. And, when they merged, the new utility had to have one interconnected system.

But, since PUHCA was at least as much a securities bill as a consumer protection act, enforcement was given to the Securities and Exchange Commission. Through the years enforcement of PUHCA was not always a priority at the SEC, and, in fact, for the last 20 years the SEC had wanted the Act repealed.

Let me digress for a second to state that I am certainly not opposed to corporate mergers -- in the utility industry or elsewhere. Some mergers serve a valid purpose in achieving economies of scale, offering consumers better products and more innovation, and providing a higher rate of return for shareholders. But, there have also been mergers where the result was just the opposite, with fewer benefits for consumers and a lower rate of return for shareholders.

When the SEC examined utility mergers, they seemed to forget about the consumer protection requirements in federal law. For example, the SEC approved one merger that basically said that Columbus, Ohio, and Tulsa, Oklahoma, were in one region. Ditto for Chicago and Philadelphia. And many mergers were

Enforcement of PUHCA was not always a priority at the SEC.

Little Savings Seen from Expansion Of PJM Market

A new study by PJM alleging that consumers have saved dramatically as a result of the organization’s expansion is undermined by the fact that the savings “have benefited only the shareholders of the big incumbent utilities,” according to ELCON President John Anderson.

PJM claimed in a press release on the study that wholesale customers are saving more than $500 million a year from the organization’s expansion. “But what the study really demonstrates is simply that larger power pools produce more efficiencies than smaller pools -- and we’ve known that since PJM was founded in 1927,” Anderson said.

The study also pointed out that PJM was not deregulated but rather re-regulated. “An old form of regulation was simply replaced by a new form of regulation,” Anderson noted.

“Utilities and utility-run organizations like PJM should stop patting themselves on the back by paying for studies that tell them exactly what they want to hear,” he said. “The consumers I talk to in PJM are not happy with the governance process, they are not happy with the services, and they are not happy with the prices.” Consumers are asking where the savings are, where the innovation is, and where the consumer focus is, he said.

The PJM pricing mechanism denies large and small retail consumers the full benefit of the expanded pool’s fuel diversity and prevents consumers from hedging long-term risks -- two benefits the old regulatory regime provided, Anderson said.

In related comments filed at FERC, ELCON cited the experiences of two manufacturers in PJM. Lehigh Cement “has experienced significant electric power increases in all of the deregulated markets in which it operates” while Ameristeel noted that “PJM’s market design” was one factor “adversely impacting powers at a site in New Jersey.” 

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No Year-End Electricity Bill Enacted

No additional major electricity or energy legislation was enacted at the end of 2005 despite activity in House and Senate energy committees to explore legislation to lower fuel costs in the wake of high gasoline and natural gas prices.

The House passed the Gasoline for America's Security, or GAS, Act, designed to increase capacity for refining oil, but similar legislation lost on a tie vote in the Senate Committee on Environment and Public Works. No effort was made in the House or Senate to add any provisions on electricity, and that effort was made in the House or Senate to add any provisions on electricity, and that bill now seems unlikely to progress any further in the legislative process.

There were efforts in the Senate to draft an energy bill as a follow-up to the Energy Policy Act of last summer. As part of that exercise, some had proposed language mandating or encouraging the use of efficient dispatch or economic dispatch in determining the order in which power generation facilities are called into service. A study of economic dispatch was ordered in the previously passed energy bill, and the Department of Energy asked for no additional legislation until that study is complete. The question is now likely moot, since legislation is unlikely to be considered.

Also failing as Congress closed out its first session were efforts to open the Arctic National Wildlife Refuge (ANWR) to exploration for oil. Earlier in the year congressional leaders made the decision to separate the ANWR debate from the energy bill and to pursue legislation for ANWR exploration as part of the budget process. The budget reconciliation bill -- the legislation that contains the statutory language necessary to effect budget cuts -- cannot be filibustered in the Senate, and thus only 50 votes, not 60, would be required for passage. However, in the budgetary process the House, which had approved ANWR several times earlier, voted down new ANWR language as part of the budget reconciliation process, and efforts to add ANWR to the defense appropriations bill failed in the Senate. The issue will likely be revisited in 2006.

ELCON Sets Priorities for 2006

Priority number one for ELCON members in 2006 is fixing organized markets, according to ELCON President John Anderson. "We expected to find robust wholesale markets that provided power at lower prices accompanied by better service and more innovation," Anderson said. "Instead we are finding more rules, more regulation, and, in fact, higher prices."

ELCON conducts an internal survey of its membership at the end of each year to determine priorities for the following year. A strategy session follows the questionnaire so that ELCON members can discuss the results and agree on priorities.

"This year there was a near unanimous consensus that our number one priority was to address the numerous deficiencies and inefficiencies that our members are finding in the so-called Organized Markets," Anderson said. "Just because market operators say there is competition does not mean that there is competition. Competition should provide benefits to all consumers, large and small. It is hard to find any consumers who find any benefits in the restructured markets."

Anderson said ELCON members still favor increased competition in wholesale and retail markets. "The problem is that these markets are not promoting competition -- they are simply engaging in a re-regulation of the wholesale marketplace."

ELCON members "are not asking for a return to traditional regulation," he explained. "But they are finding that prices in traditional markets are generally lower than prices in organized markets that have a similar fuel base and generation profile. That does not speak well for the Organized Markets."

ELCON's solution is to start with the six pre-conditions to competitive markets as contained in ELCON's Special Report, "Problems in the Organized Markets" (first released this past spring):

- Independent RTOs (or ISOs) with non-discriminatory stakeholder processes;
- Energy-only markets without secondary revenue streams providing capacity payments;
- Elimination of entry barriers to price-responsive loads;
- Increased and effective market monitoring and market power mitigation;
- Adequate transmission infrastructure capable of supporting a competitive wholesale market; and
- Resolution of the current differences between Federal and State regulators regarding jurisdiction.

"I don't know of any consumer group that is finding benefits in the newly restructured markets," said Anderson. "All of the studies purporting to show such benefits have been undertaken and paid for by incumbent utilities or by the Organized Markets themselves. Regardless, their vested interest in demonstrating such benefits is obvious. Consumer views and consumer objectives have been overlooked and they shouldn't be. Rectifying that situation is probably ELCON's number one priority for the next year."
ELCON February Workshop Scheduled

ELCON’s Winter Workshop for members, scheduled Feb. 8 in Miami, will focus on competition problems that members are encountering in restructured wholesale power markets. Many believe these problems have kept prices at higher levels than in non-restructured markets.

Guest speakers at "The Fork in the Road: Choosing the Right Path for Future Power Markets" include Susan Court, director of FERC’s Office of Market Oversight and Investigations, which has regulatory oversight over wholesale electricity markets; Tom Welch, vice president of external affairs for PJM; and Ron McNamara, vice president of market management for MISO.

Afternoon speakers will be state industrial representatives Eric Robertson (IL), Bob Strong (MI), and Dave Kleppinger (PA), and Pa. consumer advocate Sonny Popowsky.

While the workshop is for ELCON members only, manufacturers considering ELCON membership may request an invitation. Call 202-682-1390 or email elcon@elcon.org for details. E

Rules Change
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with the firm of Chadbourne and Parke, speaking at ELCON’s workshop, had a different take on the effects repeal.

"The real players on mergers now are the state commissions," he observed. "We don't know if there will be more mergers, although there is near certainty we will see new investors."

Similarly, Shapiro said many Public Utility Regulatory Policies Act (PURPA) issues are unresolved. The Energy Policy Act removed the language restricting utility ownership of a qualifying facility (such as a cogeneration unit) to no more than 50 percent, but in many regions state commissions must approve any ownership change, he noted.

In other examples, he said rulemaking on new efficiency standards must deal with what some see as contradictory directives in the statute. Some see the language grandfathering the mandatory purchase and sale requirements for cogeneration facilities (under Section 210) as ambiguous about facilities that have changes in ownership. On the latter point, he said he believes continued operation of the facility, not the ownership, will be the governing factor.

Sam Kwan, an energy tax attorney from Chadbourne and Parke, observed that renewable energy producers are the "biggest winners" in the tax provisions of the new energy law. He also noted that manufacturers could benefit from several new provisions, including one giving tax benefits for coal-fired boilers using advanced technology and another giving tax credits from utilizing gasification. E

NERC Said to Be Ready To Assume Reliability Role

The North American Electric Reliability Council (NERC) expects FERC to name it the national electric reliability organization as specified in the recently enacted Energy Policy Act, according to Richard Sergel, NERC’s new president and CEO. He said the appointment could be made in February.

Speaking at ELCON’s Fall Workshop, Sergel said NERC is "uniquely qualified and independent."

He emphasized that the new organization needs to have standards in effect immediately to ensure reliability. NERC has 90 standards in effect today but expects to have more than 200 in five years, he said.

These standards, especially the ones for compliance audit and enforcement, must be "done uniformly" because regional differences would have an anti-competitive impact, he said. The ultimate objective is to create "a system that is more reliable than it was before." He stressed that penalties against utilities for violating standards should not be passed through to consumers.

Bill Berry, Chairman of New England ISO, added that the 2003 Northeast-Midwest blackout made evident how "fragile" the grid is, showing that was "not designed to handle the current load."

Emphasizing the need for "independent and experienced" grid managers, Berry said that the goal should be, "We’re never going to lose the grid." E

The Price Effect of Gas

It came as no surprise to the attendees at ELCON’s Fall Workshop in Washington when Bill Berry, President and CEO of the New England ISO, stated that "natural gas has a disproportionate impact on electricity prices."

Berry observed that almost all new generation installed in New England since 1999 is gas-fired, changing the generation portfolio from 15 percent gas-fired in 1999 to 30 percent gas-fired in 2004. Given the increase in natural gas prices over the same time period, gas-fired generators are no longer the low-cost option they were planned to be but are now the fuel "on the margin."

Berry said he believes that over the long term reliance on natural gas will be reduced. He cited increases in demand response, conservation and efficiency, in addition to more fuel switching and greater use of renewable energy sources. He also said he hopes government policies will encourage greater exploration of gas, increased pipeline capacity, and more facilities to handle Liquid Natural Gas. E
said. Berry made the remarks at ELCON's Fall Workshop, "U.S. Power Markets: The Next Generation," in Washington, DC.

He said running an Organized Market such as an ISO or RTO means dealing with the "Four G's" -- Generation, Gas, Grid Reliability, and Governance. Each ISO has the choice to do nothing, re-regulate, or create capacity markets, he said. Cost projections in New England show a relatively equal price impact on consumers with each option, but the first two options do not provide a market-based solution, he said.

A political reality of running an Organized Market is that residential customers cannot be exposed to high price volatility, he added.

Berry's claim that ISO-NE has a consumer focus was questioned by another speaker at the workshop, Joe Rogers, Assistant Attorney General for Massachusetts. He said ISO-NE has "no accountability" and is focusing on encouraging new capacity through the establishment of capacity markets while ignoring "the transmission problem." According to Rogers, "New England has capacity, we just can't get it where we want it to go."

Although ISO-NE's implementation of locational capacity markets (LICAP) has been stayed temporarily by FERC, Berry has been a strong supporter of them. He told the workshop that LICAP "will help provide generation where needed, identify supply and demand in specific areas, and more accurately demonstrate the value of capacity." He criticized increased reliance on demand response -- a proposed alternative to capacity markets -- as impractical, partly because consumers get price signals too late and cannot respond in real time.

"We believe capacity markets will work," he explained, "because we believe markets will work."

Rogers disagreed, stating that implementation of LICAP would translate into rate increases of 21-24 percent for residents of Eastern Massachusetts from 2005 to 2010.

Rogers explained that whereas FERC's objective is to have LICAP proposals create incentives for new generation where demand exceeds supply, New England does not need new baseload generation. He said his analysis shows New England needs some peaking units and improved transmission.

He also asserted that ISO-NE has no stakeholder process, and consumers' questions and complaints about LICAP were not included in the decision making process.

A contrasting view of ISO objectives was put forth by Ron McNamara, Vice President of Market Management for the Midwest ISO (MISO). He said MISO's first objective is "to work with stakeholders." He emphasized that "market solutions" are preferable to planning or other solutions and that "long-term contracts are the foundation of market operation."

"Capacity," he said, "is not a real-time concept -- energy is. The market should provide investment signals," implying that regulatory formulas such as LICAP might be counter-productive to the development of sound markets.

And, perhaps preaching to the ELCON choir, McNamara told the workshop that LMP "should not be the determinant of market price, especially the long-term market price."
ELCON urged FERC to require any electricity reliability organization (ERO) created under the new Energy Policy Act to be organized on a "top-down" basis to assure maximum reliability and minimal regional differences. The comments were filed as part of a FERC technical conference on implementing the ERO section of the Energy Policy Act of 2005.

The comments included 10 specific recommendations, most of them focusing on governance and process issues.

ELCON emphasized that "deference or delegation from the ERO to the regions must not be an excuse to preserve some market advantage, allow opportunistic behavior, perpetuate a balkanized grid, or otherwise preserve the status quo." The comments warned that "significant deference to the regions will not result in a strong, top-down ERO" but in essence "simply codifies today's status quo."

All electricity stakeholders should be allowed to participate equally in a new ERO and no "membership" category should be established, ELCON said. Membership implies that non-members are not treated equally. ELCON's statement noted that industrial users "bear the brunt of power outages," the case in point being the 2003 blackout that caused significant financial loss for manufacturers throughout the country.

Because representation and voting structure are so important, ELCON recommended that the ERO be organized, at least initially, around NERC's relatively new, nine-Segment Ballot Pool structure, even though end-user representation is inadequate. ELCON's comments urged that "over time, the end users' representation must be increased."

ELCON representatives have participated in nearly every aspect of the North American Electric Reliability Council (NERC) for many years, and ELCON staff were part of the Working Group that developed the legislative language that eventually created the new ERO.

Flawed Market Design

After 10 years of experience in restructured -- and supposedly competitive -- U.S. electricity markets, retail rates outside the footprints of organized markets are in most cases substantially lower than the rates paid in restructured states, ELCON and other industrial groups said in joint comments to the new interagency Electric Energy Market Competition Task Force.

Worse, rates in traditionally regulated states are increasing at a much slower pace than rates and prices in structured areas, the industrial users said.

This "striking situation" shows that the promise of restructuring has not materialized, but that fact should not be taken as an indictment of competition, the industrials wrote. They added that they still believe real competition can produce real benefits to consumers if implemented correctly.

The groups urged the task force to evaluate features of the existing day-two market design of the organized markets (based on locational marginal pricing) and determine why it has inhibited 1) the formation of an integrated forward and spot market that promotes bilateral contracts capable of sustaining long-term investment and 2) market entry by price-responsive load. In particular, the groups urged the Task Force to examine what prevents integrated forward and spot markets "as the foundation of a competitive wholesale market platform."

Buyers and sellers of electricity need to be able to negotiate bilateral contracts that provide forward price discovery reflecting market fundamentals, and the contracts should provide means for generators to recover fixed costs and ensure long-term generation adequacy, the industrials said.
ELCON Commends FERC For Exploring Pricing Reform

ELCON President John Anderson commended the Federal Energy Regulatory Commission for taking steps to address transmission congestion through pricing reforms. Even without seeing the actual wording of the proposal, Anderson indicated he believes FERC was on the right track when the Commission declared in a press release that "the proposed rules will benefit energy customers by bolstering power-grid reliability and lowering costs for delivered power by reducing transmission congestion."

High electricity costs owing to transmission congestion can contribute to decisions to downsize U.S. manufacturing facilities, Anderson said.

The new rules as described by FERC are consistent with requirements in the new Energy Policy Act, according to ELCON. The Commission has stipulated that any new transmission qualifying for an incentive rate must improve regional reliability and reduce congestion. "We believe that the law also says it should reduce costs," Anderson noted.

Consumers have worried that a blanket rule granting higher rates of return for new transmission could upgrade transmission -- and cause higher prices for consumers -- where improvements were not needed, Anderson said.

"We all know where the problems are," he said. "There have been numerous studies identifying points of congestion, and in regions employing locational marginal pricing (LMP) those congested areas are made very clear on a daily basis (though LMP doesn't alleviate the problem -- it just identifies what was already well known)." E

Cogenerator Case
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purchase-and-sale obligations only when competitive markets are established. Several tests were included in the law to help FERC determine when those competitive markets exist.

Within weeks after the Energy Policy Act was enacted, Alliant, a Midwestern utility with facilities in Iowa and Wisconsin, petitioned FERC to be relieved of its PURPA obligations. Alliant's filing alleged that the utility, by virtue of its operating within the Midwest ISO (MISO), was in fact buying power from QFs in a competitive wholesale market and thus should no longer be required to purchase power from cogenerators and other alternate energy suppliers. (Specifically, Alliant did not want to be obligated to purchase power from two new wind energy facilities about to begin operation in its service area.)

FERC found Alliant had not given QFs adequate notice that it wanted to be exempted from PURPA, and it promised a new rule on competitiveness.

ELCON coordinated filings from various PURPA supporters, including independent generators, renewable energy producers and industrial cogenerators, challenging the claim that a competitive market exists in Alliant's service territory. ELCON's own brief asked FERC to consider the issue generically and not on a case-by-case basis.

FERC took two actions consistent with the recommendations in ELCON's brief. First, in a press release announcing a rulemaking for efficiency standards for QFs (as required by the new energy law), FERC mentioned that a rulemaking on competitiveness standards would be forthcoming. Then it dismissed Alliant's filing on procedural grounds, stating that Alliant had not given sufficient notice to QFs and potential QFs in its service area of its intent to be exempted from PURPA. Alliant has since notified ELCON that it does not intend to re-file, but instead will participate in the upcoming rulemaking. E

Chairman's Column
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approved despite strong consumer opposition.

So, in recent years I think the existence of PUHCA as a consumer protection statute may have been more symbolic than real. And in that way, the repeal of PUHCA may have come with a silver lining.

The new Energy Policy Act includes a number of replacement provisions that should prove beneficial to consumers. It is now clear that regulators at FERC and at state public service commissions have complete access to the books and records of utilities and any of their subsidiaries. The possibility of utilities using funds from regulated businesses to subsidize risky or unprofitable unregulated businesses is minimized. The Act clarifies and strengthens FERC's ability to examine utility mergers as well as the sale of certain generation facilities to ensure that such actions are in the public interest. And, the law includes new language giving FERC explicit authority to investigate and take action if there is evidence of market manipulation. Some people are already calling these new provisions the Public Utility Holding Company Act of 2005.

From the perspective of an electricity consumer, I regret the passing of the PUHCA that was a major consumer protection statute. But from that same perspective, I say "job well done" to Congress and "long live the new PUHCA."

Gary Kajander is Manager, Energy Procurement, for Monsanto
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: Air Liquide • Anheuser-Busch Companies, Inc. • BOC Gases • BP • Bunge Corp. • Chevron • Comings, Inc. • 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. • Tate & Lyle • Weyerhaeuser

• FOR MORE INFORMATION CONTACT: ELCON, 1333 H Street, NW, West Tower, 8th Floor, Washington, DC 20005, 202/682-1390, fax: 202/289-6370. E-mail: ELCON@ELCON.ORG or on the Internet: WWW.ELCON.ORG