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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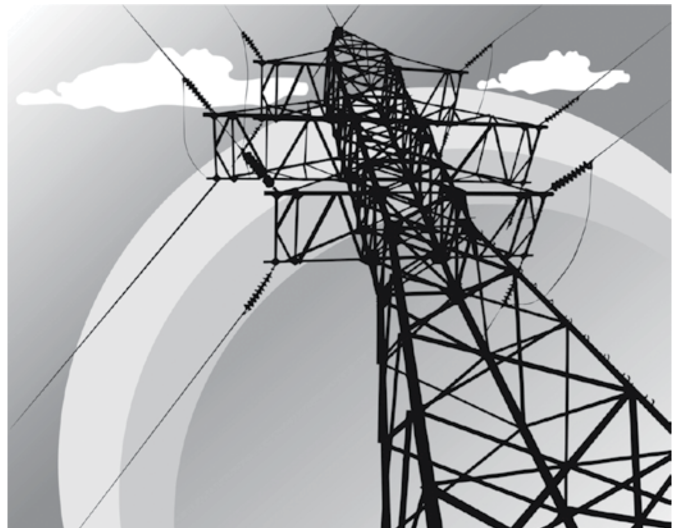

# Bulking up

American Transmission Company (ATC) announced in December it's energized a new high-voltage interstate connection to Illinois, bringing Wisconsin's total of such links to eight—a far cry from the late 1990s when deficient transmission capacity led to reliability problems and—ironically—helped pull the plug on electric restructuring.

The new addition is only a five-mile stretch of 345-kilovolt line, but in the broader picture of grid functionality, its significance eclipses its size. The short line is Wisconsin's fifth transmission link to Illinois.

The newly built line between the Pleasant Prairie Substation near Kenosha and the Zion Energy Center Substation in Zion, Illinois, is the first to be placed in service among three ATC projects designated by the Midcontinent Independent System Operator (MISO) as Multi-Value Projects, meaning their costs will be shared among utilities and their customers across the entire MISO region.

Reliability problems due in part to a scarcity of interstate transmission links were among the factors that drained momentum from the electric restructuring movement in Wisconsin at the end of the 1990s. Information provided to *The Wire* in December by ATC shows a doubling of 345-kV interstate connections since that time.

In 1998, ATC noted, Wisconsin had only four such connections, three to Illinois and one to Minnesota. One segment of the frequently congested Minnesota link, the Eau Claire-Arpin line, was recognized nationwide as a notorious bottleneck that left vast reaches of the grid vulnerable to interruption.

Upgrades since 1998 listed by ATC include a second Minnesota link (Arrowhead [Duluth]-Weston), along with one to Michigan's Upper Peninsula (Morgan-Plains upgrade of an existing 138-kV line), and the Paddock-Rockdale line between northern Illinois and Dane County, in addition to the project energized last month.

Choosing routes, passing regulatory review, and getting projects built always make for a multi-year process, given that many people's back yards are necessarily traversed. Public policy choices directing the cross-country movement of renewable energy generated most efficiently on the Great Plains are relatively recent additions to the needs of system reliability, among factors that now drive the balancing act of siting new transmission.

Two more interstate connections are in the works: The Badger-Coulee line for a third link to Minnesota and the Dubuque-Cardinal line to Iowa, both terminating in Dane County and proposed for completion in 2018 and 2020 respectively.

# Fool me twice

Ohio was one of the states that hopped onto the electric restructuring bandwagon at the turn of the millennium, before anyone had enough experience to see the promises were mostly empty. Now state regulators are thinking about taking things a few steps farther and customer advocates are full of misgivings.

Ohio customers already have the option of choosing a natural gas and/or electricity provider other than their incumbent utility. If they don't exercise that choice, they automatically receive service from the utility at regulated rates.

In December, the Public Utilities Commission of Ohio listened to testimony about ways in which the restructured electricity market might be modified. One of those ways, according to coverage by *The Columbus Dispatch*, could be to do away with the regulated rates altogether.

Unregulated, non-utility power providers say the existence of the regulated price as a default option puts them at a competitive disadvantage. Customer groups say it's easy enough to see that energy providers would benefit; customers, not so much.

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# Biting the Apple

For most states that tried it, electric restructuring has been more disappointment than catastrophe. But catastrophic restructuring does happen, and California isn't the only example. Elsewhere in this edition we've referred to more competitors not necessarily adding up to lower prices for electricity customers. Want an example? How about the kilowatt-hour rate of almost 26 cents New Yorkers pay to Consolidated Edison?

Of course, rates in New York were high before restructuring—it's a given that the impulse to "do something" about high rates has always been the driving force behind restructuring movements—that, and slick marketing. The trouble is, as one study after another has shown, states that have restructured persist in having higher rates than those that retained traditional utility regulation.

New York legislator James Brennan pointed out in a December opinion piece for *City Limits* that New York State now has the second-highest rates in the nation, averaging 19.57 cents per kilowatt-hour and trailing only behind Hawaii.

Restructuring in New York followed the familiar pattern of compelling incumbent utilities to sell off their generation assets to unregulated, non-utility generation companies, which bid their capacity into an unregulated regional wholesale power market where the utilities buy what they used to produce themselves, for distribution to their retail customers. Sound efficient?

The last—that is the highest—wholesale bid accepted to make sure everyone has the power they need to serve their customers sets the price all the generators receive, so it's evident that breaking up the old "vertically-integrated" utility model all but guaranteed people would end up paying more.

Brennan castigates the returns on investment being collected by generators, and there's no doubt they're remarkable—50 to 70 percent in some cases. But they're also entirely legal and the right answer would have been to not create this predictable situation in the first place.

Brennan says he'll try to undo the damage by introducing legislation to reinstate traditional ratemaking. We wish him luck, but given all the other market structures now in place, it remains to be seen whether that will be enough to correct a mistake on the scale of redesigning the whole utility industry.

# Duke's Nukes Update: getting the bill

We've been watching for the past few months as customers of the new Duke Energy—the product of the rocky merger between Duke and Progress Energy—wait to see how badly they're on the hook for one ruined nuclear plant and another abandoned in the planning stages. The bill is in, and it's not pretty.

That is, part of the bill.

In December, the *Tampa Bay Times* reported that decommissioning the shut-down Crystal River plant will cost $1.8 billion and will take 60 years. The good news is that for now, a decommissioning fund that Duke customers have been paying into is expected to be sufficient to cover the costs.

The fund holds a little less than $800 million that customers have already paid. Interest on the fund over the coming years will be sufficient to make up the difference, it's hoped.

Ah, but there will be other bills to pay. Construction of a permanent, on-site storage facility for the plant's spent fuel is expected to cost a minimum of $94 million, the *Times* reported.

The utility gave up 11 months ago and announced it would close the plant for good, after company employees performing what was intended to be a do-it-yourself upgrade cracked a 42-inch thick containment building wall and attempts to repair the damage made the cracks worse.

As noted here last month, Florida regulators had already approved the utility's 1.7 million Florida customers paying as much as $3.2 billion in Crystal River costs, with some $800 million covered by insurance. Duke has already been billing customers for up to $1.5 billion incurred during development of its nearby Levy County plant, prior to abandoning the project.

# Un-Capacitated

People who like electric restructuring often claim Texas as a success story. The volume of customer complaints tends to suggest otherwise, and the Texas Coalition for Affordable Power (TCAP) says creation of a capacity market—a move being contemplated as a remedy for tight power reserves—is a recipe for further discontent.

Adequacy of electricity supply has been a concern for Texans in recent years, especially during an unusually cold February in 2011. Some fault the system in which power producers are paid only for the electricity they generate and sell. In wholesale power markets outside Texas—which is largely an electrical island unto itself—producers often realize revenues not just from their actual generation but also from having generation capacity available regardless of whether it's used.

Maintaining a comfortable reserve margin is generally considered an advantage of this "capacity market" design, but TCAP sees problems.

Among other things, the organization says payments based on the simple existence of generation wouldn't guarantee more being built, and it adds that those payments could increase annual electricity costs by $2 billion and likely a lot more.

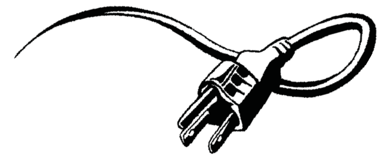
TCAP maintains that capacity markets haven't necessarily been an unalloyed success in the regions where they're the norm, and comes back at restructuring advocates with their own rhetoric, pointing out that subsidies for a product neither produced nor sold "mark a step away from the free market principles under which Texas deregulated its electricity market."

"The consideration of consumer costs must be considered in tandem with considerations of system reliability," TCAP says. "The Public Utility Commission should not adopt any further major change to the state's wholesale energy market without a detailed cost-benefit analysis."

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

We often like to keep readers informed about Focus on Energy, the state's energy efficiency and renewable resource program. Focus is important because Wisconsin's utility customers collectively pay about $100 million a year through their electricity and natural gas rates to fund it. In turn, Focus offers residential and business customers a variety of incentives to reduce energy consumption and save money on their utility bills.

Because Focus directly affects the pocketbooks of ratepayers, it is closely scrutinized, as well it should be. The Public Service Commission has ongoing oversight responsibility and the program is independently evaluated and audited. The Legislature also keeps a close eye on the program and just two years ago requested a Legislative Audit Bureau review. Auditors reported their findings to lawmakers in December 2011.

*Bromley*

The general conclusion from these independent evaluations and legislative reviews is that Focus on Energy has been a good investment for Wisconsin ratepayers. Overall, it's saved consumers more money than it's costing them, and seems to be getting better. In fact, the most recent cost-benefit evaluation, which we reported here in June 2013, showed that Focus saved Wisconsin ratepayers $2.89 for every $1 spent in 2012, the program's highest savings yet.

Now, a new "Economics Impact Report" report is out, taking a broader look at how Focus affects the state's economy and jobs. Evaluators tracked how money spent in each of the residential and business programs flows through local economies. Over 1 million residential and business customers received incentives for energy efficiency and renewable energy projects in 2012. These incentives were used, among other things, to purchase and install energy-efficient appliances and renewable-energy equipment, insulate homes, and replace drafty windows. Each activity has a ripple effect on the local economy. Equipment manufacturers see increased demand for their products. Contractors are needed to install and service equipment.

Evaluators concluded that the dozens of Focus on Energy programs offered to Wisconsin residents and businesses in 2012 helped create or sustain 1,423 job-years in that year alone. A "job-year" is one job lasting one year. In addition, evaluators projected that 6,596 job-years will be created over the lifetime of the 2012 projects as the energy cost savings derived from the projects are invested back into local economies.

The 2012 Economic Impacts Report is available on the Focus on Energy website at www.focusonenergy.com , under "Evaluation Reports."

# Fool me twice

The benefit to customers is merely the hope that increased competition might drive prices down, a generally sound principle where most commodities are concerned but one that experience has not shown to be effective with electricity.

Former Texas energy regulator Pat Wood, who's now a consultant to energy companies, was one of those enthusing about further deregulation in the December hearing, even though the Texas experience has been a decidedly mixed bag.

Wood chaired the Texas commission from 1996–2001, overlapping the period when Houston-based Enron Corp. was merrily bilking

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customers far and wide. *The Dispatch* quoted him saying, "We are apostles for the future market."

## Energy saver tip

Unless you have a wise-guy relative who left you a gift-wrapped furnace filter under the tree, chances are you haven't swapped out the old one in quite some time. So buy yourself a present and spring for some new ones. A clean, new filter will help your furnace do its job more easily and save energy costs throughout the heating season.

# Customers First!

P.O. Box 54
Madison, WI 53701

A **Coalition**
to preserve
Wisconsin's
Reliable
and Affordable
Electricity

Be sure
to check out
the *Customers First!*
website at

**www.customersfirst.org**

## Quotable Quotes

*"When you give customers a choice, they take it. They love shopping."*

—Former Federal Energy Regulatory Commission member and current Compete Coalition attorney Bill Massey, enthusing over the "joys" of shopping for an electricity provider at a hearing of the Public Utilities Commission of Ohio and quoted in *The Columbus Dispatch*, December 12, 2013

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.

**Customers First!**
Plugging Wisconsin In