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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Power grid: Security through silence

The Wall Street Journal rolled out another scary story last month about the physical security of the U.S. electricity grid. Some energy officials say the scariest part is the risk of divulging information that could prove helpful to an attacker.

The Journal story was its second in recent months to sound alarms about the physical security of the U.S. power grid. The first, noted here last month, detailed a near year-old incident in which attackers still unknown shot up a substation near San Jose, California. They succeeded in disabling the substation but no blackout resulted because loads were shifted to other infrastructure in the area.

The second story, in mid-March, claimed that a physical assault disabling the right combination of nine crucial substations nationwide could shut down the U.S. electric grid for months, and perhaps longer than a year.

The *Journal* did not identify any of the critical infrastructure. On the other hand, it has to be assumed that anyone capable of planning and executing an attack that could accomplish what was described in the *Journal's* scenario would also be capable of figuring out what to attack.

The bright side: A former chairman of the Federal Energy Regulatory Commission maintains that the number of critical installations is comparatively small, and physically protecting them is neither an insurmountable nor an extraordinarily expensive task, especially given the stakes.

A not-uncommon view is that cyber attacks pose a greater threat than physical assaults. In February 2013 we noted the delayed report that a U.S. power plant nobody would identify was shut down for three weeks during the fall of 2012 by a cyber attack that planted a virus in computers controlling the utility's turbine control system.

Last May the Department of Homeland Security warned critical industries to step up cybersecurity protections in the wake of hackers successfully attacking systems at several U.S. facilities.

Last fall, more than 2,000 utility-related companies reportedly learned about their vulnerability to cyber and physical attacks in a two-day North American Electric Reliability Corporation drill.

Unsurprisingly, no one has had much to say about details; however, in mid-March, Jo Ann Emerson, CEO of the National Rural Electric Cooperative Association, issued a statement in reply to the *Journal* stories, saying her affiliates "continually assess, improve and update our network to protect our systems from potential threats," adding, "There is no 'one-size fits all' approach to security for any utility."

Emerson's organization also called public identification of grid vulnerabilities "extraordinarily dangerous."

A well-informed Wisconsin utility source told *The Wire* details of security planning are not widely shared even within the industry. "It's all so closely held" because of the risk of divulging sensitive information that might be acted upon by persons with ill intent, he said.

The Pennsylvania Polka

Pennsylvania used to look like a possible success story for retail electric competition. That was in the 1990s. Since then, restructuring advocates have danced around declining participation, reduced choices, and higher prices caused by market volatility. But with this past winter's price spikes, they can't dance any more, and the Legislature may be overhauling rate structures.

On March 12, the lead paragraph in a report from *Energy Choice Matters*—a publication in no way hostile to retail competition—read as follows:

"Runaway wholesale electric prices have doomed another attempt to expand electric choice, this time in Pennsylvania — a state which increasingly looks more and more like New York, Connecticut, and dare we say it, Maryland, thanks to unchecked and uncompetitive wholesale pricing."

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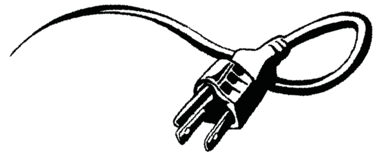
THE WIRE is a monthly publication of the *Customers First!* Coalition—a broad-based alliance of local governments, small businesses and farmers, environmental groups, labor and consumer groups, retirees and low-income families, municipal electric utilities, rural electric cooperatives, wholesale suppliers, 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

Illinois has had a checkered history with electric deregulation and it looks like the pattern will continue. It started in 1997 when the legislature passed a law gradually allowing customers to buy electricity from providers other than their utility. Worried that a leap into the competitive market would trigger drastically higher electric rates, lawmakers imposed rate caps. These kept rates in check for a while, but they also effectively discouraged electricity suppliers from entering the market.

When the caps expired, electric rates skyrocketed by as much as 50 percent, and with few competitive suppliers to choose from, customers continued to rely on their incumbent utilities ComEd and Ameren for their power supply. The utilities, though, no longer had any generation of their own, having sold off their power plants as required under the deregulation law. Lawmakers had to step in once again and in 2007 created a government agency to purchase power on behalf of the utilities. Illinois' experiment with electric deregulation was a complete disaster.

Bromley

It wasn't until 2009 when lawmakers passed a measure permitting a city or county to negotiate and secure power on behalf of its residents that Illinois' residential retail electricity market began to take off. Municipal aggregation, as it's called, allows consumers to join together for greater purchasing power and more leverage negotiating lower prices with competitive energy suppliers. Hundreds of communities in Illinois jumped at the opportunity and secured power supply contracts on behalf of their residents.

Initially, many of the contracts municipalities signed with suppliers saved consumers money. Most contracts, though, were short-term, and the sharp swings in the wholesale power market earlier this year have made sweet deals harder to come by. Chicago, for example, recently signed a new power contract that will increase electricity bills for Chicago residents and small businesses by 14 to 18 percent. The power supplier for another Illinois community isn't even waiting until its contract expires before trying to squeeze more out of customers. *Crain's* recently reported that Nordic Energy Services is demanding that village officials in suburban Chicago renegotiate their power contract because Nordic had to pay extra-high prices for electricity on the open market due to this past winter's unusually cold weather.

Despite these challenges, municipal aggregation seems like a prudent option for consumers because they at least have the force of the city on their side. But, as we are seeing, even city leaders are finding it hard to navigate the complexity and risks inherent in a deregulated environment.

Pennsylvania Polka

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Issues aired at a mid-March legislative hearing included marketing tactics such as signing up customers at a fixed rate without making clear that it would apply only for one, 30-day billing cycle, after which a variable rate would kick in.

"People have no idea what they were getting into on the 31st day," said House Consumer Affairs Committee Chair Robert Godshall, according to a report in the *Allentown Morning Call*.

Energy Choice Matters had earlier quoted State Sen. John Gordner, the majority caucus chair, saying he'd introduce legislation prohibiting variable rate contracts for residential customers. "What we've seen in the last four to six weeks was unconscionable," Gordner said. "Nobody who signed up for a variable rate was expecting their rate to quadruple or quintuple."

Slick marketing didn't cause this past winter's prolonged bitter cold, the real driver of skyrocketing energy demand. But combine slick marketing and market volatility with extreme winter cold—or a summer heat wave—and customers are in for a wild ride they would not have experienced in states that have maintained the traditional utility business and regulatory model.

Shop 'til you drop

Okay, electricity is not natural gas. But the similarities when it comes to buying, selling, and distributing the stuff are not to be dismissed. And now *Midwest Energy News* has come up with perhaps the most meaningful similarity of all: Retail customers who shop around for an alternative gas provider seldom benefit.

Back in February, the *News* pointed out that in a lot of deregulated states, most customers aren't even aware that they can shop around for a gas supplier. In this case, what they don't know apparently won't hurt them. In Illinois, for instance, a Citizens Utility Board (CUB) analysis found that 88 percent of gas customers who switched providers actually ended up losing money, the *News* reported.

And the losses weren't small, averaging close to $600 on an annual basis, according to CUB's Gas Market Monitor. The *News* quoted CUB executive director David Kolata saying "There has been a consistent pattern that the vast majority [of gas deals] are money-losers for consumers, and in some cases really big money losers, so it's really not a market that's working well for consumers so far. That could change." One possible reason for a change would be the chill of winter hanging around a bit longer or the next winter matching the frigid severity of the one just ending. That would drive gas demand higher, taking prices along with it. If that happens, a greater price differential between one provider and another becomes likelier, and customers might find more advantage in shopping around.

Kolata

Offshore obstruction

The nation's first offshore wind farm, so far more than 12 years in the making, hit another obstacle in federal court last month, but the developers say it's a small one and that their project will move forward.

In a March 14 decision, Judge Reggie Walton of the U.S. District Court for the District of Columbia rejected nearly all the claims by plaintiffs in several consolidated cases, but found the performance of two federal agencies wanting in their environmental review of the Cape Wind project.

Cape Wind would place 130 turbines in the waters of Nantucket Sound. The plaintiffs argued that the U.S. Fish and Wildlife Service (FWS) and the National Marine Fisheries Service (NMFS) both violated the Endangered Species Act by failing to issue required documents.

The Act requires the FWS to make an independent determination that "feathering"—turning turbine blades edge-on into the wind to stop their rotation—would be an appropriate method to reduce the killing of endangered sea birds that migrate through the area. Instead of making its own determination, the FWS relied on findings from another federal agency, the Bureau of Ocean Energy Management.

Also required by the Act is an "incidental take statement" from the NMFS concerning the possibility—evidently agreed to be remote—that endangered right whales could be killed or injured by collisions with seagoing vessels related to wind farm operations. The NMFS dismissed the likelihood of such collisions but failed to issue the required statement.

Walton remanded the issues to the agencies to remedy the deficiencies.

Cape Wind is expected to turn out an average electricity production of 174 megawatts from a 25-square mile area of the Sound.

Energy saver tip

Spring is here and so—we can hope—is favorable weather for major outdoor home maintenance projects. If you've been thinking about a new roof or coat of paint, think light. Light colors are more reflective. Light colors on the roof and exterior walls will reflect summer heat away from your house, saving energy and reducing your cooling costs.

Black gold

Coal may not be expensive, but getting it is. That's a finding of the American Chemistry Council, in a study that shows coal is the most expensive commodity to ship by rail. The upshot is higher costs for electricity producers, covered ultimately by ratepayers; and groups like *Customers First!* campaigning for closer regulatory scrutiny of railroad rate-setting practices.

According to research funded by the Council (ACC) and released in mid-March, "the premium on rail shipments soared by 90 percent from 2005 to 2011, despite a drop in demand, as market forces all but vanished from the freight rail system for most rail traffic."

The ACC added that "many domestic producers who depend on rail transportation are affected by high rates—and the problem is getting worse."

"This new research underscores the dramatic impact that the lack of access to competitive freight rail service can have on American producers. Basic economics classes teach the link between supply and demand. However, the freight rail industry has continued increasing rates and achieving record profits during a large economic downturn because of the lack of competition," said Steve Sharp, president of Consumers United for Rail Equity (CURE), of which the *Customers First!* Coalition is a member and the clearinghouse for CURE's state-level activities in Wisconsin.

Using data provided to federal regulators by railroad companies, the research determined that more than half of all rail rates (57 percent) exceeded 180 percent of the carrier's revenue-to-variable-cost ratio. The 180 percent figure is significant in that it represents a threshold for potential Surface Transportation Board regulatory action to determine whether the rate is excessive.

The commodity groups found to have paid the largest total rate premiums were coal, followed by chemicals and plastics, and transportation equipment. All told, rate premiums paid by commodity shippers in 2011 topped $16 billion, the research found.

Customers First!

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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

"In 1996 when we deregulated the industry, nobody ever foresaw this. We should have. We should have been prepared for this and had a cap on this. It's time the PUC steps up to the plate and do what they have to do immediately."

—Pennsylvania State Legislator Peter Daley, in a March 20 legislative hearing on variable electric rates that doubled and even tripled electric bills during the harsh winter, quoted in a WHTM-TV (Harrisburg) news report, March 20, 2014

Help us share our messages with others. If you know of businesses or organizations that would like to learn more about protecting Wisconsin's reliable and affordable electricity, please feel free to copy and share with them all or part of this newsletter, or you can call 608/286-0784 to arrange an informational meeting.

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