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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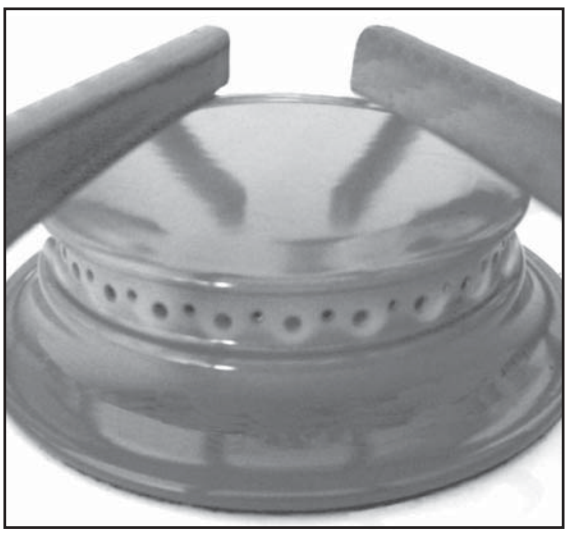
Generation incentives on front burner

The Doyle administration wants a bill passed and both parties in both legislative houses want one too. Enactment of new financial incentives for communities to accept new electric generation facilities is now just a matter of agreeing on the details.

At press time for *The Wire*, it remained to be seen how easy or troublesome those details would be.

The most basic issue was whether the proposal would become part of the budget bill or be taken up as separate legislation.



Other issues that could require some horse-trading had not yet been identified. One bill draft received a Senate hearing in the final week of May, and another was expected.

The draft sponsored by Senator Ron Brown (R–Eau Claire) and heard by the Senate Committee on Energy and Utilities called for incentive payments based on a new plant's megawatt capacity multiplied by $2,000. Additional payments could be awarded if an existing power plant or brownfield site is used and for using renewable energy resources.

Financed from the utility gross receipts tax, payments would come from a new utility account rather than the shared revenue program, the source of state utility aid payments to local government under current law.

The summer of our discontent

After years of watching one Congress after another go right to the edge of enacting comprehensive energy legislation—and then pull back—this looks like the year they finally go over the edge. A Senate bill will likely be debated this month, and the electric power industry could be seriously altered.

Unlike early efforts, when past Congresses toyed with the idea of mandating retail electric competition nationwide, this year's proposals make no such attempt. But like those early efforts, the current crop would do away with the Public Utility Holding Company Act of 1935 (PUHCA), opening the door wider for something that's been another problematic feature of the restructuring movement.

Or maybe we should say it breaks the door down, where utility mergers are concerned.

Please turn page...

Public Benefits dodges bigger of two bullets

As the Wisconsin Legislature's Joint Committee on Finance wrestled with modifications to the state budget bill in the closing weeks of May, members declined to act on a proposal to drain another $34 million from utility Public Benefits—a move that, coupled with earlier trips to the well, would have siphoned off all but $1 million of the anticipated energy conservation funds for the 2004–05 fiscal year.

But the program did not escape some additional shrinkage in the late rounds of budget balancing.

Finance Committee members voted 14–2 to pull an additional $2.4 million from the energy conservation programs. The bulk of the money would go to the Department of Workforce Development for a multiple-step funding shift designed to shore up the state's Earned Income Tax Credit for low-income workers.

As of press time for *The Wire*, if all the fund transfers from Public Benefits that were in the budget package were to become law, just under half the program's anticipated 2004–05 revenue would be used to balance other parts of the budget.

The good news, from the program's perspective, was that the lawmakers on the Joint Finance Committee seemed disinclined to tap it further, and any idea of using the budget bill to kill it outright appeared to lack momentum.

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 888/960-4778.

DOE pans SMD

If you understand that headline, you've been spending altogether too much time thinking about how electricity is bought and sold in the United States. Unfortunately, with the federal government itching to change everything, you'd better be thinking about it.

That won't be simple, because there is no such thing as a monolithic position among the agencies that swim through the federal alphabet soup.

For instance, last month the DOE (Department of Energy) offered some words of caution about the SMD (Standard Market Design) proposed by the FERC (Federal Energy Regulatory Commission).

The SMD is a new set of rules for bulk wholesale electricity transactions, and it's still in the development phase. The FERC hopes it will create more competitive wholesale power markets, ultimately saving money for retail customers. The SMD would seem to point toward lower wholesale prices on a nationwide average, but that average hides some regional price increases, some of them significant, according to the DOE.

The biggest winner would be the Mid-Atlantic region, with projected price decreases as large as 11 percent and averaging around 6 percent by 2020, according to the DOE.

The biggest loser? Yup, you guessed it. Wisconsin lies just about dead center in a mid-continent region projected to see near-term wholesale price hikes of about 10 percent. Over the long term, those numbers are projected to moderate to the lower and mid-single digits, with perhaps even a 1-percent decrease in some areas, but who cares?

The only part of this worth remembering is that a big chunk of the Midwest would get a big cost increase which may gradually plod its way downward to arrive, years or decades from now, at a level that—if we're lucky—will differ insignificantly from today's status quo.

And we'll say once more that this is all thanks to government manipulation of a system that had been working pretty well for quite a long time, done in the name of something even we occasionally persist in referring to as "deregulation."

Nuke-free Minnesota?

No one has built a nuclear power plant in the U.S. for a couple of decades, but more than a hundred nuclear generating units are still in operation. Legislative wrangling this spring over storage of power plant wastes strongly suggests Wisconsin's western neighbor may go from three nuclear units to none in just a few years.

At press time for *The Wire*, state lawmakers were racking up overtime in a special session. There, power-plant issues were taking a back seat to unresolved budget problems, but regardless of the outcome, it appeared that Minnesota going nuke-free was becoming a question of when, not whether.

Early this year, Xcel Energy notified state policy makers that it needed a decision, in 2003, on storage of additional spent nuclear fuel at its two-unit Prairie Island plant on the Mississippi just southeast of the Twin Cities. With the 1998 opening of a federal waste facility running at least 14 years behind schedule, the material has no other place to go, and Minnesota law limits the amount that can be stored on-site. Reaching the existing limit would force the plant to close, in this case seven years before its scheduled 2014 license expiration.

Xcel's Monticello unit, northwest of the Twin Cities, faces a similar dilemma.

If waste storage were not an issue, Xcel would almost certainly be seeking a 30-year license extension for both plants. As it is, the far likelier scenario is their shutdown, within four years if lawmakers say no to additional storage and within about 10 even if they say yes.

Either outcome is certain to be popular in some quarters and unpopular in others, but regardless of anyone's views on nuclear power, the replacement of about 1,700 megawatts of generation now being used by residents of the upper Midwest is a challenge that will have to be met, perhaps as soon as four years from now.

Energy saver tip

A dehumidifier can help keep your home comfortable and protect against damaging and unhealthy excess dampness. But remember, a single, high-efficiency model can give you better results this summer than two or more ordinary ones. It will take more moisture out of indoor air and use less energy getting the job done.

Listening to the grassroot

Need help gauging the level of customer interest in Ohio's electric deregulation program? Last month's public hearing in Columbus may help. One guy showed up.

Last month, *The Wire* noted growing concern among state officials who fear a bad reaction from Ohio customers facing potential cost increases when a rate freeze expires in markets without competitors. Since then, the Public Utilities Commission of Ohio held a hearing in Columbus on a possible two-year extension of a Dayton Power and Light (DPL) rate freeze, with the utility permitted to continue collecting for stranded costs during that time.

The Dayton Daily News reported that only one DPL customer came to testify.

DPL has no competitors offering to serve its customers. Only one Ohio utility does. Cinergy customers could choose to buy electricity from Dominion Retail of Virginia.

According to the paper, the customer urged the commission to drop retail competition.

Slammed by the State

When marketers move customers to a new energy supplier without permission, it's called *slamming*. When state officials in Pennsylvania pick customers at random and give them to a new supplier unless they refuse to move, it's called *choice*.

One in every three residential electricity customers of PECO Energy will experience that variety of choice this summer as Pennsylvania tries to stave off the collapse of its retail competition program.

Caught up in the weird politics of electric restructuring, Philadelphia-based PECO agreed five years ago to shed half its customers by this January as part of a complex deal allowing it to recover more than $5 billion in the "stranded costs" of assets believed to be unprofitable in a competitive environment.

Unfortunately for PECO, (see "weird politics," above) not many of its customers left. Possible reasons include the sequenced 8- and 6-percent PECO rate reductions mandated under Pennsylvania's restructuring law and the flight of alternative suppliers from the Pennsylvania market when wholesale power prices rose a couple of years ago, making it impossible for most of them to earn a profit.

This spring, more than 50 competitive electricity suppliers were still licensed to do business in Pennsylvania, but aside from incumbent utilities, only two were actively marketing their services. In April 2001, nearly 800,000 Pennsylvania customers had alternative suppliers. Two years later, the number had dwindled to about 276,000.

Last month, state regulators approved a plan to switch randomly chosen PECO customers to the lowest-bidding competitors. Some may continue paying their current rates and some may receive discounts. Officials say no one will pay more.

Savings on monthly bills are expected to average about 44¢.

Xcel subsidiary bankrupt

NRG Energy is now officially the latest addition to the list of casualties from the big '90s adventure in electricity marketing.

The non-utility subsidiary of Minneapolis-based Xcel Energy—which was not included in the filing—petitioned for Chapter 11 bankruptcy protection on May 14.

NRG had been struggling for almost a year and a half to reduce its debt and strengthen its bottom line. But the heavy cost of building up its fleet of non-utility generating plants in and outside the U.S., combined with a prolonged slump in demand for its product, left the firm with assets of $10.9 billion and liabilities of $11.6 billion at the end of 2002.

Xcel, energy supplier to many western Wisconsin customers, is not untouched. The NRG reorganization plan calls for payments by Xcel to NRG and its creditors totaling three-quarters of a billion dollars.

There were those who saw a bright side to this. Utility investment analyst David Parker of Robert W. Baird and Co. was quoted by Reuters news service saying, "So Xcel becomes a good old boring utility again and that's good news."

Summer of our discontent

Continued from front page...

Repealing PUHCA and diminishing federal oversight of utility mergers could, in the view of many knowledgeable observers, pave the way for a return to the days when most of the electricity produced and sold in this country was controlled by three mega-holding companies that did pretty much as they pleased.

One thing that pleased them was to set up multi-layered holding company pyramids that effectively prevented the ordinary utility investor from knowing who owned what.

Fraudulent accounting practices, losses to investors, and abuse of utility customers to subsidize shaky holding company ventures were common.

If that sounds familiar, it should. In a February paper on the need for PUHCA, the American Public Power Association points out that many of the problems of today's big energy companies are traceable to a partial repeal that lured holding companies into ventures outside their core business beginning in the early 1990s.

The full report and a number of related documents can be viewed on the Internet at www.APPAnet.org. Once there, click on legislative/regulatory, and then, under Federal Legislation, on PUHCA.

Be sure
to check out the
Customers First!
web site at

www.customersfirst.org

Quotable Quotes

"I believe that this is a very positive step for Xcel Energy and its shareholders."

—Xcel Chairman, President and CEO Wayne Brunetti, announcing the anticipated benefits of the voluntary Chapter11 filing by Xcel subsidiary NRG, quoted in a company news release May 14, 2003.

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 contact Project Manager Bonnie Cosgrove at 608/286-0784 to arrange an informational meeting.

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Plugging Wisconsin In

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P.O. Box 54
Madison, WI 53701