

NEWS UPDATE

By Ann Chambers, Associate Editor

Cost-cutting bringing change to power industry

Average electricity prices, adjusted for inflation, have declined nearly 27 percent since 1982, and prices for U.S. industrial customers rank among the lowest in developed countries, according to *The 10th Annual Assessment of United States Energy Policy* from the United States Energy Association. Opportunities to reduce costs further through increased efficiency motivated by competition may lead to dramatic changes throughout the industry, according to the report.

In April 1996, the Federal Energy Regulatory Commission (FERC) ordered sweeping changes by opening wholesale power sales to competition. Order 888 requires public utilities to offer others the same transmission service they provide to themselves at comparable rates, thereby encouraging the development of wholesale power markets. It also provides for the full recovery of wholesale stranded costs. The emergence of wholesale competition has led FERC to approve a number of utility requests to charge market-based rates in wholesale markets.

Legislation has been proposed in Congress to require customer choice of retail electricity suppliers. Many states and electricity suppliers already are doing just that. At the state level, 49 states are independently examining the implications of retail electric competition within their jurisdictions. Eight states have decided to move forward and are implementing electric industry restructuring within their jurisdictions. Many observers conclude that federal mandates are not necessary to bring about retail choice.

Recent federal, state and regional actions and initiatives have advanced the concept of an independent system operator (ISO). Conceptually, the ISO will facilitate open transmission access by assuming operational control of a geographically defined transmission grid and be independent from market participants. The development and implementation of ISOs will be regional in nature and reflect the operational and structural characteristics of the current transmission grid. ISO proposals have been

advanced in California, New York, New England, the Pacific Northwest and in the Midwestern region of the country, according to the report.

One result of emerging competition is that the level of bulk power transactions and the resulting power flow levels on the interconnected transmission system are sharply increasing. To the extent that increased transactions cause a system to be operated closer to its reliability limits for longer periods of time, the potential for system disruptions increases. The need for coordination and an assurance that all transmission users play by the same rules is more critical than ever. Mandatory reliability standards will be needed in order to maintain reliability, regardless of how regional market structures evolve, according to the report.

Technological developments are expected to contribute to changes in the utility business. Improved generation by use of high-efficiency, combined-cycle gas turbines; integrated-gasification, combined-cycle coal

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Electric co-ops call for equity, recovery

Electric cooperatives will fight attempts to restructure the industry if such efforts do not address the issue of universal service, Glenn English, National Rural Electric Cooperative Association CEO, recently told a Senate committee.

"All Americans—rural, urban, suburban and inner city—must be guaranteed access to reliable, affordable and safe electric service," English said. "Rural electric systems cannot and will not accept any restructuring proposal—federal, state, legislative or regulatory—that does not adequately and fairly address the issue of universal service."

Testifying before the U.S. Senate Committee on Agriculture, Nutrition

and Forestry, English warned that the customers who are the least profitable to serve would not benefit from competition if energy marketers were allowed to "cherry pick" the most profitable customers, such as large industries, and were permitted to refuse service to residential, rural, low-income or small business customers. Those smaller consumers could end up paying higher rates for less satisfactory service, he said. English suggested to the Senate panel, which oversees the loan program of the Rural Utilities Service (RUS) as well as the U.S. Department of Agriculture's nutrition assistance programs, that the same families who need to supplement their budgets with food stamps may also need access to a universal service fund.

English said that electric cooperatives were ready to compete in a

marketplace that might include customer choice. "Electric cooperative consumers actually formed and own their utility, so we have had customer choice for more than 60 years. That's what electric co-ops are all about," he said.

"The investor-owned utilities (IOU) are the giants of the industry. They serve about 70 percent of the U.S. population but profess to fear competition from rural electric systems, which serve only about 11 percent of the population. The IOUs cry foul about assistance for rural electric cooperatives but choose to ignore their own subsidies, which amount to \$5 billion each year in taxes they collect but never pay into the Treasury. They currently hold \$74 billion in such subsidies," he said.

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plants; pressurized fluidized-bed boilers, advanced-design nuclear plants; fuel cells; wind power; and solar photovoltaics are giving power generation planners additional options.

The report makes eight recommendations for the energy industries:

1. Rely on the marketplace for energy decisions regarding pricing, technology deployment, energy efficiency, and selection of fuels and energy suppliers.
2. Strive for methods of electric industry restructuring to achieve efficient competition, stranded cost recovery and eliminate federal roadblocks that impede competition.
3. Expand access to government lands to increase domestic fossil fuels production. Reestablish private property rights in land use.
4. Make energy efficiency, based on market signals and cost competitiveness, an equal partner in energy-use decisions made in industry, residences, commercial establishments, transportation and government operations.
5. Reduce costs by simplifying environmental regulations. Subject current and proposed regulations to an economic cost-benefit analysis.
6. Pursue rational policies that make economic sense, while simultaneously reducing greenhouse gas emissions. Strengthen industry volunteer programs to contain greenhouse emissions, particularly those entailing joint implementation programs.
7. Adopt and execute an integrated spent nuclear fuel management program to ensure the government begins removing spent fuel from power plant sites for interim storage in 1998 and continue to license and develop a repository for permanent disposal.
8. Emphasize government-industry partnerships in research and development to achieve benefits beyond private development benefits in such areas as environmental quality, U.S. competitiveness and domestic energy reliance.



MERCHANT POWER

Wisconsin PSC's merchant power ponderings

With concerns over summer electricity supplies still highly on their minds, the Wisconsin Public Service Commission (PCS) recently indicated it might like to open the door to outside companies to build merchant power plants.

The PSC ruled in April merchant plants are illegal in Wisconsin, but during an early July meeting, Commissioner Joe Mettner said he would like state lawmakers to take up the issue once again. While commissioners took no formal action regarding the matter, they agreed to step up proposed efforts on a 32-part plan aimed at possible electric deregulation in the Badger State.

In theory, merchants could be built without the PSC declaring they are needed; such a move would provide local utilities with their first taste of competition. Wisconsin Power & Light Co. has stated it strongly backs the idea, given current market directions in the Badger State. However, certain groups expressed cautious optimism; the Citizens Utility Board said it might support construction of a small power plant built by an outside company that would supply electricity to an adjacent industry or university; but David Merritt, Citizens Utility Board executive director, told PSC commissioners building a 250 MW plant to export electricity as a merchant was an entirely different matter.

In their coverage of the July PSC meeting, the *Capital Times* and *Wisconsin State Journal* attributed the following statement to Mettner: "We need some innovation. Wisconsin utilities are afraid to build [new capacity] because they are uncertain if they'll recover their assets."

It is interesting to note the clairvoyance of the PSC's merchant power ponderings. Mettner's comments preceded a mid-July heat wave that placed many Wisconsin utilities un-

der severe operating pressure. However, at the time, the industry's primary concern was the operational status of existing generating plants, not merchant or other new capacity construction. Here's a sampling of July news headlines that summarizes the situation:

- The countdown for restart of the 500 MW Unit 2 at Wisconsin Electric's Point Beach nuclear power plant was delayed after company officials received a June 26 approval from the Nuclear Regulatory Commission to restart. Point Beach provides 35 percent of the utility's power. During the heat wave, the unit was in the process of returning to service, but was not at full power until the energy crunch ended. Unit 2 had been out of service since October 1996 for the replacement of steam generators, refueling and other maintenance.
- On July 14, Wisconsin Electric's 140 MW Valley Generating Station malfunctioned, forcing a shutdown as temperatures soared above 90 F.
- Throughout the immediate region, five generating units in northern Illinois and three units in Wisconsin were out of service during the heat wave. In total, more than 6,000 MW of capacity was unavailable or operating at reduced levels; utility officials cautioned the loss of a major generating unit could immediately create a situation requiring rotating blackouts.

Even before its Valley Generating Station went down, Wisconsin Electric was struggling with a power crunch during a stretch of steamy weather. The company bought power from other utilities, including Madison Gas

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