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Response Of The COMPETE Coalition To Gov. Kasich's Call For Comments On Energy Policy

These comments are submitted on behalf of the COMPETE Coalition (COMPETE) in response to Governor Kasich's call for ideas on energy policies that are environmentally responsible and foster Ohio's economic competitiveness and job creation. COMPETE's customer members face substantial bills for electricity each month. Accordingly, these comments are focused on electricity.

COMPETE is an organization of 601 electricity stakeholders, including customers, suppliers, generators, transmission owners, trade associations, environmental organizations and economic development corporations, all of whom support well-structured competitive electricity markets for the benefit of consumers. Currently, 156 COMPETE members -- about 26% -- are end use electricity customers. Twenty-three of COMPETE's members have headquarters located in Ohio, and 46 of COMPETE's large electricity customer members operate in Ohio with over 3,400 stores or other facilities providing hundreds of thousands of Ohio jobs. Altogether, 64 COMPETE members have a presence in Ohio.

COMPETE believes that the best way to ensure reasonably priced and reliable electricity for consumers is through competitive electricity markets. Competitive electricity markets keep prices as low as possible, drive innovation, and produce other benefits for consumers, while ensuring a reliable supply of electricity. The competitive electricity market in Ohio is providing documented benefits to consumers and is important to Ohio's economic and job growth.

Ten years ago, the state adopted a policy of utilizing competitive markets to provide sound resource decisions and to give its citizens and employers the right to choose their electricity supplier. COMPETE strongly urges you to foster policies that support the framework for competitive electricity markets. At both the wholesale and retail levels, competitive electricity markets have resulted in the lowest possible customer costs, which are critical for Ohio businesses to compete in the global economy and provide jobs.

Retail markets

COMPETE's customer members in Ohio, and in many other states, have found that well-designed, competitive electricity markets produce substantial savings on electricity costs. These cost savings allow companies to maintain low prices for customers and to invest in their businesses. Fostering policies in Ohio and the region that allow electricity users to manage their energy purchases in an efficient manner is critical to achieving such savings. Perhaps most

important, in competitive markets, investors, not consumers, bear the risk of bad business decisions.

Electricity is one of the largest operating costs of businesses, and control of these costs enhances their growth, profitability and ability to maintain and create jobs. Competitive electricity markets lower costs but they also provide the flexibility to choose a supplier that best meets individual business goals with service offerings that provide choices on price, reliability, generation portfolio mix, risk management, and product and service features. For example, competitive electricity markets offer supply-side options in renewable energy and demand-side options like advanced electricity storage. Businesses are no longer tethered to a specific electric generation mix, and instead are able to shop for a desired generation mix. Businesses can supplant peak demand utilizing solar technology or smooth those peaks through the use of advanced battery storage systems. As noted by Angela Beehler of Wal-Mart, “we’re learning more ways to deliver efficiency savings to customers and shareholders. We’re striving to use 100 percent renewable power by looking at every possible project, biomass, wind, hydro, because the flexibility of competitive markets provides greater benefits from these sources.”¹

Competitive suppliers in open markets offer numerous service options and products to meet customer needs, resources, budget requirements, environmental or sustainability initiatives, and cost management strategies. These products can be individually customized to meet the business goals, risk appetite, and needs of all types of electricity customers. Mark Morgan of 7-Eleven observes, “7-Eleven, Inc (SEI) continues to realize utility cost savings and cost avoidances by participating in competitive electricity markets. Informed energy decisions in deregulated markets help mitigate SEI costs and help drive the implementation of more energy effective store equipment.”²

Proven benefits

In a recent COMPETE sponsored report, economist Jonathan Lesser stated, “[s]tates, such as Texas, Pennsylvania, Illinois, and Ohio, continued to embrace electric competition. That perseverance has paid off.”³ Businesses in Ohio are clearly benefitting from the state’s competitive electricity market. At a recent conference, John D’Angelo, director of Facility Management for the Cleveland Clinic Health System, observed that commercial, industrial and institutional customers have saved money. Mr. D’Angelo said he has been able to cut his overall energy costs in half.⁴ And Leggett & Platt has been able to reduce its total electricity costs at its

¹ *Energy Industry Experts On Electricity Markets*, http://www.competecoalition.com/press_kit/what_experts_say

² *Id.*

³ *Electricity Competition at Work - The Link Between Competitive Electricity Markets, Job Creation, and Economic Growth*, Report prepared for: COMPETE Coalition; Prepared by: Continental Economics, Inc., September 2011, p EX-1. A copy of this report is attached to these comments.

⁴ *Firstenergy Corp. Says Competition Is Keeping Rates Down, But Few Other Suppliers Actually Exist Here*, Cleveland.com, Sept. 29, 2011.

wire mill in Solon since purchasing electricity through a Competitive Retail Electric Service (CRES) provider.⁵

Proof that competitive electricity markets benefit customers is demonstrated by the number of customers who actually shop for alternative suppliers. In the 17 states that allow retail competition, competitive providers supply nearly 45% of eligible electricity demand, up from 20% in 2003. A majority (57%) of all eligible non-residential demand is supplied by a competitive provider. In ten states, more than 68% of large commercial and industrial customers have switched to alternative suppliers, and in nine states more than half of medium commercial and industrial customers have switched suppliers.

In the Ohio service territories that have transitioned to competition, shopping rates are even higher. In the FirstEnergy and Duke Energy service territories, between 68% and 82% of all customers have switched to CRES Providers. For industrial customers the range is 72% to 96%, and for commercial customers it is 79% to 85%.⁶ Clearly, customers are realizing tangible benefits from Ohio's competitive electricity market.

Recommendations

In light of the substantial, tangible benefits of competitive retail electricity markets, COMPETE recommends that Ohio continue to empower customers with choices that allow them to manage their energy portfolios and procure the lowest available cost of generation under terms and conditions that suit their individual needs. Importantly, such a policy is in harmony with Ohio law that clearly articulates the state's policy goal of effective competition in retail electric service while avoiding anticompetitive subsidies. Customer choice lets the customer, not the monopoly utility, decide what generation solutions best fit the customer's business needs. Ohio should reject any policy proposal that destroys customer choice.

COMPETE also offers the following specific recommendations to help ensure that Ohio's electricity customers are able to shop for their supplier in a well-structured competitive market. First, state and Public Utilities Commission of Ohio (PUCO) policies should not allow electric distribution utilities (EDU) to recover generation-related costs through non-bypassable riders or surcharges (adders) imposed on all customers. Such adders raise costs and erect barriers to job creation. The energy costs of some Ohio customers (and employers) would increase immediately because they would be forced to pay twice for electricity. In addition, such adders would bias power purchase decisions away from CRES Providers that may offer more competitive services than available under the standard service offer (SSO). In effect, these adders provide a subsidy to the EDU and devalue the assets of the unsubsidized competitive providers. All of these factors would drive out of Ohio the competitive forces that assure the

⁵ Testimony of Steve Elsea before the Public Utilities Commission of Ohio, Case No. 11-346-EL-SSO at 10.

⁶ The statistics are from the *Summary of Switch Rates from EDUs to CRES Providers in Terms of Sales For the Month Ending June 30, 2011*, as provided by the Division of Market Monitoring & Assessment of the Public Utility Commission of Ohio.

lowest available cost generation as well as the product and service innovation they bring. Ohio would be relegated to protected-monopoly service that places the financial risks of the EDU's generation-related business decisions on the backs of customers and employers, rather than on investors where it belongs.

The impact of non-bypassable generation-related riders is real. Leggett & Platt's five manufacturing facilities in Ontario, Canada have experienced the cost-raising impacts of adders that guarantee generation-related cost recovery for the utility. In 2005, Ontario adopted a plan whereby certain generators were exempt from participating in the competitive electricity market. Today, Leggett & Platt's Ontario facilities pay a "Global Adjustment" charge that has grown to 3 cents per kWh and represents over 30% of the manufacturer's electricity costs. Essentially, the Ontario non-bypassable generation-related adder is a large *de facto* energy tax. Such an outcome in Ohio would represent a large deterrent to job creation, and may even result in job destruction.

COMPETE's second recommendation is that the supply of electricity for SSO customers should be procured through a competitive procurement process. A robust transparent competitive bidding process is needed to assure that the lowest available cost resources are invested in or procured. This type of process has been used in the FirstEnergy service territory for the past few years and should be adopted for all Ohio EDUs.

Wholesale markets

Wholesale electricity markets operated by a Regional Transmission Organization (RTO) serve as excellent platforms for competitive retail markets. Ohio is perfectly situated to benefit from such an organized competitive market because Ohio will soon be located entirely within the footprint of the PJM wholesale market.⁷ Because of their large regional scope, fair rules, and transparent prices that provide price signals on the true value of resources, RTOs, such as PJM, provide the tools that foster efficient investment, cost savings, and the products and services that consumers want. Wholesale and retail competition in power markets is working; specifically it is working in Ohio. The success of these markets is interdependent on each other because vibrant retail competition depends on sustainable and functioning wholesale competition. In addition, PJM has made significant improvements over the last decade to improve the efficiency of its market.

Cost savings and other benefits

Proven cost savings from electricity markets like PJM's mean lower costs for consumers. Between 1997 and 2010, prices for retail customers in states with organized wholesale markets, like PJM, increased at a slower rate than those in states without such markets. And rates for commercial customers in organized market states actually decreased by 2% in real terms while rates in the other states increased by 3%. And between 2008 and 2009, average wholesale prices in the PJM, MISO and the ISO-New England markets declined sharply -- more than 40%.

⁷ Duke Energy Ohio is scheduled to be integrated into PJM effective January 1, 2012.

One source of billions of dollars of cost savings for consumers is PJM's operational efficiencies. PJM estimates that its operations save the region \$2.2 billion each year. Such savings result from the competitive pressures for operators, market participants and proactive customers to squeeze more from existing resources and create other significant efficiencies. Generating plants in a competitive market operate much more efficiently now than before the markets began.

Because of PJM's fair rules, ease of entry, large regional scope and transparent locational prices that correctly value energy, its market attracts innovative resources that help save costs and lower greenhouse gas emissions. PJM's independently operated wholesale market format dispatches the least cost resources on a real time basis. Low cost resources like generating plants that run on shale gas have flourished in PJM where gas openly competes with other resources. Another example of market-driven innovation is demand response. Demand response service providers offer products that allow consumers to reduce or modify their electricity consumption to gain better control of their electricity use and costs. This helps to keep prices down and avoids the need to build expensive new generating plants. In PJM, 9,282 MW of demand resources cleared its last capacity auction. This is equivalent to the capacity of 10 to 12 baseload power plants.

Markets like PJM's also attract the lion's share of renewable resources and other innovative technologies. Nearly 80% of installed wind capacity is now located in regions with organized competitive electricity markets, despite the fact that these areas represent only 44% of U.S. wind energy potential. About 60% of proposed generation in PJM is renewable, most of which is wind. And other innovators, such as cutting-edge storage resources using state-of-the-art battery or flywheel technologies, are choosing to install their advanced equipment in the RTO markets, increasing efficiency and reliability, and lowering costs.

Well-structured markets also provide a superior platform for the emerging Smart Grid technologies. Sophisticated Smart Grid tools will give Ohio's consumers a greater ability to take advantage of transparent market price signals that provide the information needed to make smart consumption and investment decisions. A robust capacity and ancillary market that is not undermined by generators exempt from competition will enable customers to leverage behind-the-meter resources to create a genuine Smart Grid construct.

Recommendation

Accordingly, COMPETE strongly encourages Ohio to adopt regulatory and other energy policies that support the PJM market and ensure that Ohio electricity providers remain PJM participants.

Conclusion

COMPETE advocates for well-functioning competitive retail and wholesale markets that provide customers with an abundance of benefits such as choice, innovation, cost savings and clean energy. These tenets are supported in the mission statement of the PUCO:

To assure all residential and business customers access to adequate, safe, reliable utility services at fair prices, while facilitating an environment that provides competitive choices.

COMPETE respectfully urges your administration to continue to support the emerging competitive electricity market in Ohio and PJM, and ensure that the important benefits of competition are not reversed. COMPETE's customer members participate in markets for virtually all goods and services, and believe that electricity competition is the best path forward for Ohio.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Steve Elsea", with a long horizontal flourish extending to the right.

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On Behalf of COMPETE

cc: Honorable Todd A. Snitchler, Chairman, PUCO
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