

# ELCON PRESS RELEASE

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## **STATEMENT OF JOHN ANDERSON, PRESIDENT OF THE ELECTRICITY CONSUMERS RESOURCE COUNCIL (ELCON), UPON RELEASE OF ELCON'S SPECIAL REPORT "PROBLEMS IN THE ORGANIZED MARKETS"**

Good morning, and thank you for coming. As you know, ELCON is the national association representing large industrial users of electricity. ELCON is today releasing a special report reflecting the views of ELCON members on the state of competition in today's "organized" electricity markets.

I want to emphasize at the outset that this paper – in every way – is member driven. It reflects the experiences of ELCON members in the so-called "Organized Markets." Our members advocated the creation of RTOs. They have been patient as RTOs have developed, even though they have frequently expressed concern over the way the market rules have evolved. They now are saying that enough is enough. The Organized Markets are simply not delivering enough benefits to consumers to justify their costs. They believe it is time to speak out and voice their concerns.

I want to emphasize at the outset that if you take away nothing else from reading this paper and listening to my comments this morning, you should understand clearly that we continue to support the introduction of competition to the electric industry. ELCON and ELCON members were early supporters of competitive wholesale and retail electricity markets, and we still are – I emphasize, we still are – supporters of competitive wholesale and retail electricity markets. We believe that truly competitive electricity markets have the potential to bring lower costs and additional services to large and small consumers.

Please do not report that ELCON no longer supports competition. That is simply not the case.

ELCON members are well aware of what is necessary for a market to be considered competitive. Our members come from virtually every segment of the manufacturing community. They operate in competitive markets every day. And they believe that today's Organized Markets for electricity simply do not have the necessary features and characteristics to be considered competitive.

ELCON members do not want to return to the traditional cost-of-service model. Practically speaking I don't think it can be done. We do not want to step back in time. But we do not see the path of today's Organized Markets as a path that is taking us closer to truly competitive markets. In fact it seems to be taking us in the opposite direction.

What are the problems and what are the solutions?

A basic structural problem, before I get to the market problems, is the lack of adequate transmission in several geographic regions. If we had adequate transmission, we wouldn't have congestion and many of the market problems would go away. But, the reality is we will have inadequate transmission, and therefore transmission congestion, for the foreseeable future. Thus we need to address the problems that consumers face in today's

markets sooner rather than later.

The major problem with the Organized Markets is a lack of consumer focus. This is attributable to the reliance on “locational marginal pricing” (LMP) and a single-price, bid-based auction. The reliance on spot markets and short-term auctions, with prices for all generators determined by the supplier on the margin, means that low-cost coal-fired and nuclear base load plants receive prices set by higher cost gas-fired facilities. The reliance on the spot market and its bid-auction system also means that customers, large and small, cannot get suppliers to enter into long-term contracts other than those tied to spot market prices. The fact that Organized Markets are so reliant on all embracing spot markets has an extremely negative impact on competition.

The results are Organized Markets where – similar to the situation in regulated markets – customers must take the product offered or take no product at all. There are few if any options in terms and conditions. What’s offered is often not what customers want. These are not competitive markets.

As the paper points out, we believe that there are six essential preconditions to competitive markets. They are: (1) Fix the Regional Transmission Organizations (RTOs): We strongly support the independent operation of transmission and open and nondiscriminatory access to the grid. Thus, we support the creation of RTOs. But RTOs must balance both demand and supply. All too often the stakeholder processes of the RTOs today allow supply to dominate. (2) An Energy-Only Market: Giving all generators capacity payments sufficient to stimulate new construction as well as energy prices determined by a single-price auction results in excessive prices for many generators. We must eliminate the multiple revenue streams. (3) Adequate Price Responsive Loads: Reductions in consumption have the same impact on the grid as equivalent increases in generation. Price responsive load can reduce prices by pushing high cost generation off the margin. But these benefits will only be realized by treating load symmetrically with generation. (4) Market Monitoring and Market Power Mitigation: Market power abuse has been the primary concern of ELCON members for many years. Markets must be designed in ways that minimize the ability of pivotal or dominant suppliers to exercise market power abuse. (5) Adequate Transmission Infrastructure. We need new transmission, we know where it is needed, but it is not being built. In our view, an LMP environment often creates a disincentive to mitigate congestion. Incentive rates would have to be exorbitantly high to offset this disincentive. Stand-alone transmission companies are much better ways to solve this problem. Each RTO’s planning process must identify needed transmission and find ways to overcome the disincentives to build. And FERC should condition mergers and market-based rate authority with requirements to build new transmission where needed. (6) Federal-State Regulatory Partnership: The U.S. is hobbled by split federal-state jurisdiction. We cannot expect to be able to achieve a more efficient, lower-cost electric industry without cooperation between regulators.

ELCON does not believe those preconditions are being met in today’s Organized Markets.

This paper concludes with ten recommendations. The first sentence in the “Recommendations” section states what I said earlier: “ELCON reaffirms its commitment to implementing a truly competitive wholesale market in the US.” The recommendations themselves follow what I have said here today. We CAN have competitive electricity markets in the US. We CAN get there from here. But we do have to stop, look at what we have now, acknowledge it is not producing competition, and change direction accordingly.

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ELCON, established in 1976, is the national association of large industrial users of electricity from virtually every manufacturing sector. ELCON members seek a reliable supply of electricity at competitive prices and have long supported federal and state efforts to achieve that objective.

