

# ELCON PRESS RELEASE

FOR RELEASE: June 28, 2006

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## *ELCON TAKES ISSUE WITH ECONOMISTS' LETTER*

“The ‘Open Letter to Policymakers’ submitted to FERC by EPSA, COMPETE, and the Alliance for Retail Choice contradicts itself,” said John Anderson, president of the Electricity Consumers Resource Council (ELCON), “It obviously was written by a group of ‘two-handed’ economists. On one hand they praise the current Organized Markets, state that the markets have brought large benefits to consumers and assert that the markets are not to blame for recent increases in electricity prices. Then on the other hand they urge policymakers to ‘focus on making *necessary* improvements in market design and resist the temptation to reject competition for a return to heavy-handed regulation.’ On behalf of industrial electricity users,” he said, “I strongly disagree with the first hand, but ardently agree with the second.”

Anderson said that “I have not met one industrial user who believes the FERC-jurisdictional markets are working well. Of perhaps even more concern, small consumers in almost every state within the Organized Markets are increasingly voicing their very strong opposition to record rate increases and turning electricity into a hot political issue. This political opposition will bring about change. The recent Maryland legislative action underscores this point. And the change brought by politics will not be the kind of change many stakeholders in the Organized Markets will want.

“Moreover,” he said, “customers are seeing through the utility arguments such as those put forth by these eight economists. They state that electricity prices increased because of fuel prices. That certainly is part of the problem. But an even larger problem is that all too often electricity is priced at today’s high gas levels, depriving consumers of the benefits of fuel diversity. The current market design is artificially raising prices and consumers don’t like it.

“Even further, while we agree that *properly structured* competitive markets may ‘shift the risk of bad business and investment decisions away from consumers,’ utilities and generators have successfully imposed capacity markets in three of the Organized Markets. Once capacity markets are in effect, the risk shifts right back to the consumers. But even worse, while these capacity markets are supposed to provide incentives for new generation, they simply don’t work. Capacity markets have been in place in New York for over two years and I don’t think any utility, generator, or economist can point to any new generation built, or even proposed, as a result of the capacity payments.”

Anderson concluded that “I find it ironic that the economists’ ivory tower views are so out of line with the real-life views of consumers who are actually buying electricity. In the real world, consumers are seeing far higher prices, no innovation, and a complete lack of customer focus. Industrial users believe that the current market structure is not sustainable. We support true competition – we just don’t see it in today’s markets. I can only hope that the unspecified ‘necessary improvements’ our eight economists suggest address the real market design problems and that they come sooner rather than later. If not, the economists’ concern that policy makers might try to return to heavy handed regulation could well become a reality. That wasn’t good for consumers before, and we do not believe it would be good for consumers now.”

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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. More information about ELCON is available at ELCON’s website, [www.elcon.org](http://www.elcon.org).