

A Presentation on Energy Issues for the Food Industry Environmental Council ("FIEC")

Presentation By:
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The Brave New World of Electricity

- In Many States, Electric Utilities Have Sold Generation Assets to Independent Owners
- Most Northeast, Mid-Atlantic and Midwest States Have Deregulated Electricity Markets
- Wholesale Commodity Price of Electricity is Established By Market Rules Set By Independent System Operators (“ISOs”)
 - Wholesale Commodity Prices Not Regulated by the State and Subject to Significant Volatility

The Brave New World of Electricity

- In General, in Deregulated Markets (like New York) Risk of Wholesale Market Volatility is on Consumers
- Deregulation Has Increased Electricity Rates and Forestalled Infrastructure Investment
- The Gap Between Regulated and Deregulated Electricity Rates Has Grown By 40 Percent in the Last 10 Years

Electricity Markets – Where Are We Going?

- ISO Markets Are Extremely Volatile; Volatility is Passed on to Consumers
 - ISO Energy and Ancillary Services Prices Are Tied Directly to Price of Natural Gas
 - Natural Gas Supplies Are Tight
- Capacity Markets Created; New Auction Rules Hurt Consumers

ISO Markets

- Market Rules Dictate that All Sellers Receive the Highest Bid Price that Clears the Market
 - Natural Gas Fired Generators Set the Market Clearing Price Most of the Time
 - Result: Wholesale Electricity Prices Are High Year Round
 - Very High Electricity Prices Now Occur During Low Electricity Usage Periods
 - Consumers Have Lost the Benefit of Fuel Diversity

ISO Markets – Other Issues

- Opportunities for the Exercise of Market Power
 - ISOs and FERC Are Disinclined to Order Refunds
- Sellers Have No Motive to Offer Long Term Contracts
- Sellers Are Deeply-Entrenched in ISO Processes and Management

What To Do?

- There is a Need For Coordinated Consumer Advocacy
- Federal Advocacy:
 - Campaign for Fair Electric Rates
- State-Level Advocacy:
 - New York – Multiple Intervenors
 - Connecticut – Connecticut Industrial Energy Consumers

Campaign For Fair Electric Rates

- Driving Force is American Public Power Association
 - Many State and Regional Consumer Groups Have Added Their Support
- Requesting FERC Investigation of ISO Markets to Protect Consumers
- Requesting Increased Congressional Oversight of FERC

Overview of Multiple Intervenors

- Membership Organization Designed to Secure Safe and Reliable Supplies of Electricity and Gas at Fair and Equitable Prices
 - Formed in 1972
- Membership Open to Large Consumers of Electric and Natural Gas Service in New York State
 - Current Membership Totals 53

Overview of Connecticut Industrial Energy Consumers (“CIEC”)

- Membership Organization Founded in 1979. Designed to Secure Adequate, Efficient and Reliable Supplies of Electricity and Natural Gas at Competitive Prices
- Works with Elected Officials, Suppliers and State and Federal Regulators to Promote Energy Technology, Operations, Policies, Laws and Regulations that are Fair to Industrial and Large Commercial Energy Users
- Membership Open to Large Consumers of Electric and Natural Gas Service

Primary Activities and Benefits of Multiple Intervenors and CIEC

- Provide an Effective Way to Monitor Actions Affecting Electricity and Natural Gas Prices
- Act as the Only Entities Exclusively Representing the Interests of Large Consumers; Providing a Cost-Effective Means to Affect Utility Rates
 - Tens of Millions of Dollars in Cumulative Refunds in Utility Proceedings
 - Successful Reduction in Capacity Costs
 - Key Player in the Conception and Development of Demand Response Programs
- Provide Members With a Strong, Effective Voice to Affect the Regulatory and Legislative Process

Primary Activities and Benefits of Multiple Intervenors and CIEC

- Actions
 - Monitor Utility Filings/Interventions at State and Federal Regulatory Commissions
 - Alert Members; Take Action
 - Only Representative of Large End Users
 - Oppose Rate Increases and Burdensome Tariff Changes
 - Propose Actions Beneficial to Members

Proven Successes – Multiple Intervenors

- Provide a Cost-Effective Means to Affect Wholesale Electricity Commodity Prices By Action at the NYISO
 - Representation Results in Direct Annual Savings to Members
 - Created the Opportunity for Members to Receive Substantial Payments from Demand Response Programs
- Savings From Utility Intervention Efforts
 - \$110 million in Rebates in Recent RG&E Rate Case
 - Substantial Reductions in Rate Increases in Recent National Grid Rate Filings
 - Refunds and Rate Decreases in Recent New York State Electric & Gas Case

Proven Successes - CIEC

- Maintained CL&P's Interruptible Electric Rates While Increasing Demand Response Opportunities Resulting in Significant Annual Savings to Members
- Represented Industrial Energy Users in 2006-2007 CL&P and UI Rate Proceedings, Successfully Advocating Rate Design Beneficial to Members
- Successfully Advocated for Modification of Existing Rate Decoupling Statutes to Require the Connecticut DPUC to Consider the Cost Impact of Decoupling; Successfully Opposed Decoupling Implementation

Couch White Representation on Energy Issues

- Act as Counsel to Multiple Intervenors and CIEC
- Assist Individual Clients to Analyze Energy Purchasing Options
 - Provide Analysis and Strategic Advice on Purchasing Options Based on Expertise and Experience
 - Assist in Energy Procurement; Negotiate Energy Supply Contracts and State and Federal Grants
 - Provide Legal and Technical Support for On-Site Generation Projects
 - Develop and Permit On-Site Generation
 - Economic Development Funding
 - Efficiency Program Rebates; Grants

A Role for FIEC And Its Members?

- Members in New York and Connecticut Would Benefit from Membership in Multiple Intervenors or CIEC
 - Opportunity for Significant Savings
 - Ability to Take Proactive Steps to Reduce Rates and Make Informed Decisions
 - Members Should Investigate Rate Options and Economic Development Grants Where Their Plants are Located

A Role for FIEC And Its Members?

- FIEC Should Consider Joining the National Debate Addressing Out-of-Control Electricity Prices in States with Restructured Markets
 - High Prices are Largely Attributable to Market Rules Adopted by Federal Regulators
 - Grass-Roots Consumer Effort Underway to Highlight the Economic and Reliability Problems Created by the Current Markets
 - A Strong Message that FERC Must Be Held Accountable

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