

# Rising Electricity Rates: Straight Answers

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# Overview

- **Background on APPA members – geography, fuel mix, regulation**
- **Defining rates: retail (rate caps in retail choice states), wholesale, fuel adjustment charges**
- **What causes rate increases?**
  - Fuel price fluctuations: natural gas prices, coal freight rates, environmental regulation, other factors
  - Regional Transmission Organizations
- **What can curtail/minimize rate increases?**
  - Hedging/risk management
  - Keeping core business goals in mind
  - Energy efficiency
  - Market stability
  - Controlling power supply
- **Public power and NASEO members**

# Public Power Stats

- 2,009 publicly-owned electric utilities in 49 of the 50 states (all but Hawaii)
- Provide electricity to 43 million Americans (serve about 14% of electric customers in the U.S.)
- Own 9.6% of generating capacity in U.S. (so, net buyers of electricity)
- Public power generating capacity is 32% natural gas, 29.6% coal, 20.9% hydro, 8.7% nuclear, 8.2% oil, and .8% non-hydro renewables
- Fuel mixes vary widely from region to region

# More Public Power Stats

- Public power electric systems' rates are typically regulated at the local level by mayors, city councils or locally-elected or appointed boards.
- Public power systems are usually formed on the municipal level, but some are formed by utility district (usually along county lines) or at the state level (like Salt River Project in Arizona or Santee Cooper in South Carolina).

# Defining Rates

- Retail rates are those charged to ultimate consumers
- Wholesale rates are charged by utilities/non utility generators/federal power marketing administrations to utilities that serve retail load
- Typically there is a “base” utility rate factored per kilowatt hour that cannot be changed unless approved by the regulator (in the case of public power, the Board, mayor or city council and in the case of investor-owned utilities, the public utility commission)
- Also typically, however, there is a “fuel adjustment charge” that is allowed to be added to the base rate when fuel prices increase and is determined by an agreed-upon formula

# What Causes Rate Increases?

- In a traditionally regulated market, fuel price fluctuations may cause rate increases through either a fuel adjustment charge or, if approved, in the base rate
- **Current situation regarding fuel prices, etc.:**
  - Natural gas prices. Very susceptible to price volatility when demand outstrips supply. Also issues with transparency in natural gas markets.

# What Causes Increases? (Cont.)

- Coal freight rates. Problems with railroad monopoly rates to ship coal have become more acute in recent years.
- Drought. While the Pacific NW is experiencing a decent water year this year, the Midwest has been under drought conditions for several years.
- Environmental regulation. Increased instances of state renewable portfolio standards, actions to curtail greenhouse gas emissions, Endangered Species Act (particularly an issue for hydro).

# What Causes Increases? (Cont.)

- **Restructured Markets (retail choice, Regional Transmission Organizations):**
  - Retail choice.
    - 18 states and D.C. have deregulated at the retail level (6 states that had initially decided to restructure have subsequently delayed or repealed their efforts).
    - Recent studies (e.g. Blumsack, Electricity Journal, March 2006) indicate that no rate benefit has been achieved in these states. In some cases, rate increases are occurring in states with rate caps coming off.

# What Causes Increases? (Cont.)

- **Wholesale Markets Impact Retail Markets** – restructuring has produced RTOs/ISOs, mainly in states that also have retail choice (though a few exceptions). Consumers being impacted by wholesale markets when rate caps come off, until then, utility has absorbed increases in costs.
  - **RTOs/ISOs – “Day 2” market characteristics drive up prices.**
    - Bid-based auction for generation.
    - Locational Marginal Pricing”
    - RTO Administrative Costs
    - Public power examples – Kennebunk, Maine; Owatonna, Minnesota

# What Can Curtail/Minimize Rate Increases?

- **Hedging/risk management.** FMPA – joint action agency able to stabilize prices in the near term because of significant natural gas hedging program.
- **Power supply/fuel diversity.** When prices in one fuel go up, overall costs can be managed by lower prices with other fuel in portfolio. Lincoln Utility System.
- **Market stability.** Long-term bilateral power supply contracts and long-term transmission rights help to minimize rate volatility. RTO markets have a short-term focus, and therefore have had difficulty in developing long-term solutions.

# What Can Curtail/Minimize Rate Increases? (Cont.)

- **Keep core business goals in mind.** Public power systems' mission is to provide low-cost, reliable electricity to our customers in an environmentally responsible manner. Period.
- **Energy efficiency/demand side management.** Public power examples: SMUD, Seattle.

# Public Power and Energy Officials

- Open dialogue at the state level necessary – there already is in many states.
- We need to ensure that you understand our mission and vice versa.
- APPA just joined NASEO, so will see increased dialogue at federal level.

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