

# ELCON REPORT

ELECTRICITY CONSUMERS RESOURCE COUNCIL

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## ELCON Study Reviews Impact Of August 2003 Blackout on Facilities

**M**ulti-billion-dollar estimates of the cost of the August 2003 blackout tell part of the story, but, more important, "this type of event is unconscionable" to the extent that it was caused by a single utility's failure to trim trees, ELCON stated in a recent report analyzing the economic impact of the August 14 event.

The report reviewed various cost assessments done in 2003 and compiled reports of the impact of the blackout on facilities owned by North American man-

ufacturers and other organizations. Studies have been done by the U.S. Department of Energy (estimated cost \$6 billion), ICF Consulting (\$7-10 billion) and Anderson Economic Group (\$4.5-8.2 billion), among others.

ELCON's study was cited in the final report issued by the U.S.-Canada Power System Outage Task Force in April.

The Ohio Manufacturers Association estimated the direct costs on Ohio manufacturing at \$1.08 billion. Affected were

Continued on page 4

## ELCON Elects Officers, Holds Winter Workshop

**E**LCON held its 28th Annual Meeting Feb. 5-6 in Miami, Fla., with a Winter Workshop entitled, "The Future of the Electric Industry -- Who Will Lead Us There?"

New officers elected at the meeting for the 2004-05 year are Mike Miller (Shell Oil Products), chairman; Gary Kajander (Monsanto), vice chairman; and Joe Marone (Occidental Chemical), secretary-treasurer.

ELCON members also toured the Rinker Cement Plant in Miami. **E**

## What a Customer Wants: ELCON's Anderson Shares Insights into Industrials' Varying Needs

**I**ndustrial users of electricity are not alike, and electricity suppliers, like suppliers in all commodity markets, must pay attention to their individual customers' needs or risk losing them, ELCON

Executive Director John Anderson told the Retail Power Market Summit in a recent speech in Orlando.

If a supplier cannot meet a customer's needs, that customer will look for another supplier, Anderson asserted.

When you ask industrials what they want, expect different answers, he said.

Some industrial facilities are electricity-intensive while other companies consume large amounts of electricity at many different facilities. Some can easily interrupt portions of their load while others cannot. Some are risk averse, others less so.

They say they all want low prices, but they really have different needs and will react to sales pitches differently, Anderson told the audience. Some place price high-

Continued on page 7

## State Commissioners Differ on PUC Role

**T**wo state utility commissioners, Laura Chappelle (MI) and S. J. "Jimmy" Ervin IV (NC) talked to ELCON's Winter Workshop about their views on the restructuring of wholesale electricity markets, and it was clear that the two had very different perspectives about the role of state commissions vis-à-vis the role of the Federal Energy Regulatory Commission.

Commissioner Ervin adopted a conservative model -- saying he admitted to "being a Luddite on electricity restructuring." He believes that state responsibility prevails until specifically pre-empted by federal statute. He is wary of "jurisdictional creep" by the

Continued on page 5

### ALSO IN THIS ISSUE...

Chairman's Column.....	2
ELCON Welcomes New Members.....	2
Energy Bill in Doubt.....	3
Yacker Among Top Lobbyists.....	3
States Lack Authority Over RTOs .....	4
FERC Action on SPP.....	4
Highlights of ELCON Meetings.....	5
ELCON at FERC.....	6

## 2004 Offers Multiple Challenges

As ELCON's newly elected chairman, I look at the coming year and see multiple challenges.

Wholesale and retail electricity markets are in transition in at least two dimensions. First, they are in transition as actual markets -- the rules and opportunities for buying and selling power continue to change. Second, they are in transition from a policy perspective as legislators and regulators at the state and federal levels seek to develop and impose new rules (and sometimes reimpose old rules). For energy managers

By Mike  
Miller,  
Chairman,  
ELCON

trying to plan for the future, the only certainty is uncertainty. Several ELCON members met with FERC Chairman Pat Wood earlier this year where he laid out his three priorities for 2004. The Chairman wants FERC to address market power; he wants to begin the "reliability" effort regardless of whether legislation is passed; and he wants to see the Midwest ISO (MISO) become the nation's premier RTO in its current footprint. Although I am sure that ELCON members will not support *in toto* what FERC and Chairman Wood propose, we fully support FERC as it strives to create truly competitive wholesale electricity markets on a national level. At the same time that FERC is seeking to make markets more competitive, efforts are being made in Congress to cut back on the fledgling competition that we now have. I keep hearing about legislative proposals to prohibit FERC from developing standard, pro-consumer, market rules. I have read about so-called native load protection. (From what? Lower priced power? I thought I was somebody's native load, and I didn't ask for that kind of protection). And utilities keep shouting that they need incentives - paid for, of course, by industrial and residential consumers - to build new, virtually no-risk, transmission lines. Out of all this I see two things: first, more uncertainty, and second, lots of risks and potentially higher prices for consumers.

While all this is going on in Washington, those of us who operate across the nation have to deal with the emergence of regional issues as they surface in ISOs and RTOs. It's tough enough for me to keep track of what's happening at FERC as well as in my home state of Texas. But I can tell you that learning the rules for shipping power in and through PJM, MISO, NEPOOL, NYISO, and CAISO is not a consumer-friendly exercise.

Besides the new regional transmission groups, I still have to deal with the state commissions for each of my company's facilities. I don't know about others, but, in some states, when I am opposing a utility before a state commission I feel like I am playing on the utility's home field. It is not a friendly environment.

On top of all this governmental activity, much of the future of electricity markets is being shaped by the North American Electric Reliability Council (NERC) and the North American Energy Standards Board (NAESB). The standards that they are developing for reliability and commercial practices, respectively, add another level of complexity and uncertainty to my quest of finding competitively priced electricity.

Since I work for the petroleum industry, I have a natural interest and lots of

Continued on page 4

## ELCON Welcomes Four New Members

ELCON is pleased to welcome four new members covering a range of industrial operations.

Colonial Pipeline Company, based in Atlanta, transports refined petroleum products throughout the Eastern United States. Colonial delivers a daily average of 95 million gallons of gasoline, diesel fuel, home heating oil, aviation and military fuels to houses and businesses. For more information, visit the company's website at <http://www.colpipe.com/>.

DaimlerChrysler's products range from small cars to sports cars and luxury sedans, and from versatile vans to heavy-duty trucks or comfortable coaches. DaimlerChrysler's passenger car brands include Maybach, Mercedes-Benz, Chrysler, Jeep®, Dodge and Smart. The company also offers financial and other automotive services through DaimlerChrysler Services. For more information, visit <http://www.daimlerchrysler.com/dccom>.

Honeywell Specialty Materials, a 3.2 billion dollar strategic business group of Honeywell, is a world leader in high-performance specialty materials such as fluorocarbons, specialty films, advanced fibers, customized research chemicals and intermediates. It is also one of the top five providers of materials and solutions to the semiconductor industry, and a major producer of nylon 6 in North America. For more information, go to <http://www.honeywell.com/en/engmat/index.jsp>.

The Procter & Gamble Company, established in 1837, began as a small, family-operated soap and candle company in Cincinnati, Ohio. Today, P&G markets almost 300 products to more than five billion consumers in 140 countries. For more information, visit the company's website at <http://www.pg.com/main.jhtml>.

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**I thought I was somebody's native load, and I didn't ask for protection.**

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# Comprehensive Energy Bill Still in Doubt

Most Washington observers agree that a comprehensive energy law won't happen any time soon, but hardly anyone is willing to say that it can't happen, or won't happen, before Congress adjourns in the fall.

After HR 6 last fall fell two votes short of the 60 necessary to invoke cloture in the Senate, Sen. Pete Domenici (R-NM), chairman of the Energy and Natural Resources Committee, began crafting legislation that he thought could pass. He put together S 2095, formally introduced by Majority Leader Bill Frist (R-TN), reducing tax breaks from \$27 billion to \$14 billion, removing controversial language waiving liability for manufacturers of the gasoline additive MTBE and modifying several other sections.

Left alone in the redraft was anti-consumer electricity language mandating participant funding, repealing the Public Utility Holding Company Act (PUHCA) and restricting FERC's rulemaking ability. Taken out were some pro-manufacturing tax credits.

Given the broad scope of the bill, it is not surprising that industrial groups remain divided on the measure.

Sen. Domenici vowed that the bill would come to the Senate floor quickly. (Since it was introduced by Sen. Frist under "Rule 14," it can be brought directly to the floor at any time.) Both Sen. Domenici and Minority Leader Tom Daschle (D-SD) claim they now have the necessary 60 votes for cloture. Nevertheless, the bill seems unlikely to get significant Senate floor time in the near future. This is for a number of reasons.

One, Senate Democrats have been unwilling to agree to limit amendments. Without such agreement, the majority leadership fears that the bill could take three to six weeks of floor time, which they don't have given their other legislative priorities.

Two, it is not clear that 60 cloture votes exist since no senator who opposed cloture last fall has publicly announced a

change in position. Until the ability to invoke cloture is a certainty, the bill is unlikely to be given significant floor time.

Three, there is the "budget issue." Several procedural points of order were lodged against the earlier energy bill in the Senate on the basis that its tax provisions would result in revenue losses exceeding those allowed under the budget resolution. Sen. Domenici claims the new bill addresses those points of order, but no ruling has been made, and some Senate Republicans - sometimes referred to as "budget hawks" - may still try to obstruct the bill.

Four, several House leaders, most notably Majority Leader Tom DeLay (R-TX) and Energy and Commerce Chairman Joe Barton (R-TX), have stated repeatedly that including the MTBE liability waiver is essential, and no bill without it will be considered in the House. Thus, Senate passage of a bill similar to S 2095 - minus the liability waiver - would not necessarily bring the bill significantly closer to enactment since House approval in its present form is not likely.

President Bush continues to state

## Yacker Listed Among 'Masters of Access'

The Hill newspaper, one of two publications that covers Congress and politics on a regular basis, recently listed Marc Yacker, ELCON's director of government and public affairs, among about 30 association lobbyists dubbed "Masters of Access." The article reported that the list "is determined through conversations with members of Congress, their office and committee staffs and lobbyists themselves."

Yacker was described as the "leading advocate for more competitive electricity markets" who "maintains a long list of contacts throughout the manufacturing and consumer communities, as well as on the Hill." E

publicly that passage of a comprehensive energy bill is a priority for his Administration, but Republican Members of Congress in both houses privately say that more personal involvement by the President is necessary to push the measure.

At this point, it seems unlikely, though not impossible, for the bill to come to the Senate floor in the near future for any real consideration. It could come up as "filler," allowing Senators to make statements and offer amendments, recognizing that a vote on final passage is unlikely.

Simply put, the bill is immersed in politics. Several Republicans have voiced the hope that Sen. Daschle, who is up for reelection in November, will eventually push hard for the bill because of the ethanol provisions favorable to his South Dakota constituents and will therefore find the two requisite votes among Democratic Senators (especially those from the Midwest who would also benefit from the ethanol language). Others believe that, in the post-Labor Day rush to adjournment and the election, Members of Congress will want "to do something" to address energy issues, and will turn to S 2095. Rising gasoline prices or another blackout might increase that possibility (though a blackout might instead increase the possibility of smaller electricity bill focused on "reliability" and not much more). Democrats, led by Sen. Maria Cantwell (D-WA), are already mounting an effort, almost certainly doomed, to bring a reliability-only bill (S 2236) directly to the Senate floor in an effort to demonstrate an alternative approach to a comprehensive bill.

In the fall, if Republicans see polls indicating that either house or the Presidency might go Democratic, they would be more likely to find compromises to get a bill passed this Congress. The corollary is that such polls could encourage Democrats to prevent such a bill from being approved. Cynics from both parties point out that members interested in fundraising will have an easier task if the fate of the energy bill remains unresolved.

In an election year, virtually anything is possible -- except accurate legislative forecasting. The energy bill is proving to be the perfect example of that. E

## States Lack Authority to Limit RTO Membership, Judge Rules

An administrative law judge at the Federal Energy Regulatory Commission confirmed that states do not have authority to prevent utilities within their borders from joining RTOs. The ruling came in a case involving efforts by Virginia and Kentucky to create obstacles to AEP's membership in an RTO.

FERC issued a decision last November that state laws and regulations interfering with RTO formation are preempted by Section 205 of the Public Utility Regulatory Policies Act (PURPA). The ALJ decision upheld that finding.

Specifically, the ALJ said Congress gave FERC authority to "prevent states from blocking or frustrating coordination efforts" related to RTOs. Both Virginia and Kentucky were found guilty of such blockage. The Kentucky Public Service Commission had denied AEP's transfer of transmission facilities to PJM, and Virginia had passed a law prohibiting any Virginia utility from joining an RTO without the approval of the Virginia State Corporation Commission.

ELCON had urged FERC to order AEP and ComEd to join either MISO or PJM per the conditions of AEP's merger with Central Southwest. **E**

### Blackout

From Page 1

some 12,300 manufacturers, representing about 55 percent of the state's manufacturers, with an average estimated direct cost of \$88,000.

For the automobile industry, at least 70 assembly and parts plants and several offices were shut down by the blackout, idling more than 100,000 workers. The Detroit Regional Chamber estimated the financial loss to the region would reach \$220 million.

At least eight North American oil refineries were affected. The loss of production threatened gasoline shortages in the Detroit area, creating the potential for a broader energy emergency. The governor of Michigan issued two emergency declarations that, in part, suspended certain air quality regulations that might have exacerbated a gasoline shortage.

More than 30 chemical, petrochemical and oil refining facilities located near Sarnia, Ontario, suffered some form of outage, resulting in the need to flare products at most of the facilities. Clouds of black smoke were visible throughout the area. Estimates of costs to producers in the area range from \$10-20 million per hour of outage.

Explosions occurred at a refinery, when a boiler failed to shut down properly during the emergency, and at a blast furnace when the facility lost the ability to cool the iron inside the furnace and the metal burned through the side of the structure and started spilling inside the building.

Steel facilities were shut down for days in Michigan and Ohio.

An important indirect cost -- impossible to quantify -- was the "cascading" consequences on regions outside the blackout footprint created by manufacturers just-in-time production scheduling, according to the report. **E**

### Chairman's Column

From Page 2

experience in by-products. And I have found that a major by-product of restructuring the electricity industry is market uncertainty. As all ELCON members know, it is difficult to manage a company's energy profile in that kind of environment. I look forward to the coming year. It will be a year of multiple challenges. And, at ELCON, we like challenges.

*Mike Miller is Director, Energy and Utility Services, Shell Oil Products*

## FERC Action On SPP Addresses ELCON Concerns

FERC conditionally approved the Southwest Power Pool's (SPP)'s application to become an RTO, incorporating a number of requirements based on comments by ELCON. Most important, FERC refused to approve RTO status until SPP meets the required conditions, rather than giving it status in advance as the Commission did MISO. The decision to require compliance with Order 2000's characteristics and functions before being recognized as an RTO was a priority for ELCON.

Among the preconditions, SPP must install an independent board before obtaining RTO status, and it must provide balanced stakeholder participation on the Members Committee.

ELCON had also criticized SPP's scope and configuration as inadequate, especially in the absence of a common market with MISO and PJM. FERC responded by requiring SPP to develop a seams agreement with MISO in addition to reviving a proposed joint and common market with MISO and PJM. The order also requires AEP and Southwestern Public Service to obtain approval from FERC before withdrawing from SPP so as to prevent further disintegration of SPP's scope and configuration.

Signaling agreement with ELCON in other areas, FERC agreed that before SPP obtains RTO status, it must submit an updated list of the transmission facilities that would be under the jurisdiction of the RTO. The order further requires SPP to delineate more clearly the responsibilities of the transmission owners and RTO in the transmission planning process. **E**

## Highlights of ELCON's Winter Workshop, Annual Meeting

### Kelliher Declares Support For Active FERC

Joe Kelliher, a commissioner at the Federal Energy Regulatory Commission (FERC) for only a few months, told ELCON's Winter Workshop that FERC may be changing its focus.

FERC's primary activity traditionally has been to set rates, he said. "But now we need to begin to regulate markets as well." He joked that except for major league baseball, "all markets have rules to protect against antitrust activities" that can harm consumers. Efforts to manipulate the market should be prosecuted, even if unsuccessful, he said. By way of analogy, he pointed out that attempted murder is a crime, even if the victim survives.

Having worked for years on Capitol Hill as an energy staffer before being named to FERC, Commissioner Kelliher

pointed to the many pieces of legislation enacted by Congress to promote competition in electricity markets, including the Public Utility Regulatory Policies Act (PURPA) and the Energy Policy Act of 1992 (EPAct). He said he believes a primary responsibility for FERC is to contin-

ue to promote such competition until directed to do otherwise by Congress.

The Commissioner also stated that FERC must promote policies to encourage greater investment in the electricity transmission grid. He observed that such increased investment might be effected through incentives or by encouraging the creation of new independent transmission companies. E

### Buying Electricity Likened to Risk Management

Purchasing electricity is becoming an exercise in risk management, and industrial purchasers "must figure out what risk you expect the utility to bear and what risk you manage yourself," according to Paul Barber, president of Barber Energy and the facilitator of the NERC Steering Committee investigating the August 2003 blackout. That will be the challenge for the next decade, he said.

Barber gave ELCON members a detailed presentation on the causes of the blackout and what must be done to prevent a reoccurrence.

He placed most of the blame on First Energy in Ohio, where the computers were not working properly, the alarm system failed, and warnings from several groups were ignored. He said several NERC standards were violated during the events leading up to the blackout. E

### Gallagher Examines Transmission Funding

Frank Gallagher, retired from Entergy as senior vice president for generation, transmission and energy management, endorsed the concept of independent transmission companies (ITCs) as best structured to deal with issues such as where to build new transmission and how to fund it, but he said state commissions generally -- and the Louisiana state commission in particular -- do not believe that such companies serve the best interests of ratepayers.

He said ITCs give customers the best opportunity to take advantage of often lower-priced power from independent power producers (IPPs). But, he insisted that native load customers "should not subsidize IPPs" by paying for transmission upgrades from which they derive no benefits. IPPs make siting decisions for their own economic reasons, fully cognizant of existing transmission capacity, he said. E

### Market Power is Real Threat, Speaker Says

In a reminder of the harsh realities of the electricity marketplace, Washington attorney Sue Kelly advised ELCON members to prepare for more market abuse because mandatory membership in regional transmission organizations (RTOs) is the only way to curb abuse, but politically it is not going to happen anytime soon.

Kelly's remedy for market power is not unique: divestiture of generation, behavioral remedies, and independent operation of the grid through regional transmission organizations (RTOs), along with a FERC requirement for RTO membership. But, she said her political instincts tell her that mandatory RTOs are not a real possibility in the current political climate.

The abuse of market power by utilities is the greatest threat to competitive wholesale markets, she said. As long as

regional generation is concentrated in one or a few companies, true competition will never be realized, she said. The problems of market power abuse are compounded by the fact that transmission facilities are often owned by the same companies that own generation, she added. E

### State Commissioners

From Page 1

federal government which he identifies as additional authority being asserted without clear statutory authorization.

Commissioner Chappelle sees FERC as the natural agency to regulate the interstate transmission grid. She said she believes that there "must be a strong federal traffic cop," and that that job belongs to FERC. E

# ELCON Activities Before The Federal Energy Regulatory Commission

## *Supplier Margin Assessment Screen*

The Federal Energy Regulatory Commission should evaluate the merits of different mechanisms outlined by FERC staff to screen for electricity market power, particularly in the context of ISOs and RTOs, ELCON said in comments to the Commission. Suppliers (generators) that fail any of the screens -- in other words, that are found to have market power -- should be subject to mitigation, ELCON said.

FERC earlier proposed a Supplier Margin Assessment (SMA) screen to determine whether applicants are able to exercise market power through control or ownership of generation, or whether, lacking such power, they should be permitted to adopt market-based pricing.

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"The electric industry  
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Although FERC did not intend for the SMA screen to be permanent or to be used on suppliers in approved ISOs or RTOs, which have market monitoring functions, ELCON has argued that regional organizations are still at such an early stage of development that SMA should continue to be used.

Three companies on which SMA was tested failed, triggering market power mitigation procedures. Because of criticism

that followed, largely from suppliers, FERC staff identified possible revisions and alternatives to the SMA screen.

ELCON believes that strong, effective generator market screens are needed that apply both within and outside ISOs and RTOs.

Instead of waiting to find the perfect screen, FERC should test the alternative screens proposed by staff and require mitigation if applicants fail any one of them.

"The electric industry in the United States is in a sorry state of arrested development -- even the most successful ISOs or RTOs are structurally flawed and immature as competitive markets," ELCON said. "The threat of horizontal market power (including the potential for tacit collusion) is as strong as ever with or without RTOs. Unregulated generators and marketers that are typically the affiliates of traditional utilities, and increasingly the dominant players in ISO-RTO markets, seek to exercise their considerable market power in bid-based markets by economic or physical withholding and other gaming strategies."

While FERC has taken steps to outlaw such practices, its ability to police or mitigate gaming strategies "is, at best, a work in progress because of the continued absence of meaningful markets for demand response in any ISO or RTO and other structural necessities," ELCON said.

ELCON made additional recommendations on the staff paper:

- Application of the SMA or any other generation market power screen should not be a form of punishment for utilities that fail to form or join RTOs. This would belittle the real problem of general market power throughout the electric grid.

- As suggested in the FERC staff paper, spot market mitigation may encourage forward market development by eliminating any bias in spot markets for "prices" consistently above cost of service. Forward market development is essential if the goal of FERC's pricing policy is workable competition in wholesale markets.

- Control areas that operate outside organized ISOs and RTOs should be required to have independent market monitors (IMM) that perform the screening and mitigation.

- Generation market screens should be applied on a short-term basis.

- Screening should err on the side of triggering too many rather than too few failures because spot-market mitigation is a hold-harmless backstop from the perspective of retail consumers.

- Spot market mitigation is not harmful to consumers.

## *Demand Bids*

The New England ISO's proposed locational ICAP (LICAP) demand charge to recover costs for low capacity-factor generating units will cost consumers too much because it is set administratively, ELCON told FERC. The American Iron and Steel Institute joined ELCON in the comments.

A better approach would allow price-responsive demand bids to compete for payments against other resource providers in bid-based markets, ELCON said. In other words, payments would be made for decreased demand. FERC should establish energy markets for demand response and "avoid the temptation to fabricate a demand curve," the industrials said.

In April last year, FERC established a mechanism designed to give generating units that operate only occasionally (i.e., peaking units) a reasonable opportunity to recover fixed and variable costs through market bids. Generators argue that the market value of low capacity-factor units is often too low to maintain continued operation and to attract investment to meet future needs.

ISO-NE's proposal, like the one from New York ISO, allows the price to vary with the amount of capacity available at any given time, but also sets a minimum. The problem with such proposals is that consumers pay true market-clearing prices when such prices are high, but when prices are low the model protects generators from risk. ELCON views this as a perversion of the competitive model.

ISO-NE proposed to price capacity separately in four regions, allow price caps to rise over time and provide additional transition payments of \$5.34 kW-month to units in constrained sub-regions that operate no more than 15 percent of the time.

Including demand response in the recovery formula will better serve regulatory objectives, foster competitive markets, counter market power and prove more cost-effective to consumers, according to ELCON.

In order for incentive pricing such as NE-ISO's to pass muster with the courts, FERC will have to show that it is not excessively costly in relation to its benefits, the industrials said. FERC does not have carte blanche on incentive pricing but must show that incentives are an efficient means to achieve the desired goal, and the Commission must consider reasonable alternatives.

ELCON's and AISI's comments cited past cases in which courts have rejected FERC's acceptance of administratively set demand charges because they did not accurately represent the cost of building new peaking facilities.

Other industrials filed comments in the case agreeing that ISO-NE's proposal is likely to cost too much and arguing there is little evidence it would spur construction of new generation. E

## Consumers' Needs Vary

From Page 1

er than others on the scale of importance.

For example, an auto company, asked what it wants, talked about power quality and administrative needs, he said. In terms of power quality, the firm wanted guarantees of no outages (or only specified numbers of outages with financial penalties for exceeding that number) and no power spikes. The robots widely used in auto assembly lines are very sensitive to power spikes, Anderson said. Programming a single robot can cause a significant gap in production.

In terms of administrative needs, the automobile company wanted economic stability (suppliers that are likely to be there in the future), back-office support (a supplier able to handle a large number of invoices), a single point of contact even over multiple states, and regulatory knowledge adequate to keep the customer informed of potential opportunities and pitfalls in both the commission and the legislature, Anderson said.

The company also wanted flexibility and recognition that the customer must go through a learning process. Finally, the company wanted honesty -- acknowledgement by the supplier when it makes mistakes and a willingness to point out those made by the customer.

A paper company asked the same question said it wanted reasonable credit terms, Anderson reported. The standard NAESB credit terms are too open-ended. When suppliers change them they typically take a "mutually assured destruction" approach requiring performance assurance that greatly exceeds the risk that they bear. The paper company also said it wanted to use industry standard contracts (e.g., NAESB, Gas EDI, GISB), according to Anderson.

A pipeline responded that what it wanted was flexibility in pricing based on time-of-use. This customer had the ability to alter its operations to move load to off-peak times and sought a pricing system that included incentives to shift load, Anderson said.

The company also wanted monetary

recognition of the value of its business -- awareness that interruptible load is just the same as generation and that reduced consumption should be compensated the same as increased generation.

Other pipeline 'wants': cooperation and creativity in taking into account the specific characteristics of the customer's load, even if that requires some new actions by both the supplier and the PUC; the ability to aggregate load in various utility service territories and states; and willingness to help with transmission when the customer generates at one site but consumes at a number of other points.

A chemical company said what it wants is price predictability to be able to plan for the future. The company also wants its supplier to demonstrate that it is willing to "go the extra mile" when a problem occurs. The company also indicated it is interested in the supplier's view of what is driving the market and where its company is heading in the future.

Other companies had still other needs.

The bottom line, Anderson said, is that suppliers should be prepared to offer each customer what it individually needs; be flexible and responsive to changes required by each customer; have and be willing to share good market, legal and regulatory information; be financially stable and reliable; and be creative.

How do customers get what they need? Anderson asked rhetorically.

First, they need real markets where suppliers "truly care about customers and their needs." Such markets do not exist in the U.S. today, he said. "Instead, we have single-price, bid-based schemes that offer lucrative opportunities for generators to game the 'markets' and ignore real customers. All too often there are separate 'capacity' and 'energy' markets -- reportedly to assure adequate capacity," he said. Separate capacity markets are completely foreign to real commodity markets, he added.

There will never be a real market without vibrant demand response, according to Anderson. Simply sending "price signals" to end users will not work. End-use customers must be given the same opportunities to participate in the market as generation. "No more, but no less," he said. E

*Learn more  
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### WHAT IS ELCON?

- **DATE ORGANIZED:** January 15, 1976
- **WHO WE ARE:** The Electricity Consumers Resource Council (ELCON) is the national association representing large industrial consumers of electricity. ELCON was organized to promote the development of coordinated and rational federal and state policies that will assure an adequate, reliable and efficient supply of electricity for all users at competitive prices. ELCON's member companies come from virtually every segment of the manufacturing community.
- **MEMBER COMPANIES:** A.E. Staley Manufacturing Company • Air Liquide • Anheuser-Busch Companies, Inc. • BOC Gases • BP • Bunge Corp. • ChevronTexaco • Colonial Pipeline Company • DaimlerChrysler • Delphi Automotive Systems • E.I. du Pont de Nemours & Co. • Eastman Chemical Company • ExxonMobil • FMC Corp. • Ford Motor Company • General Motors Corporation • Honda • Honeywell • Intel Corporation • International Paper • Lafarge • MG Industries • Monsanto Co. • Occidental Chemical • Praxair • Procter & Gamble • Shell Oil Products • Smurfit Stone Container Corp. • Solutia, Inc. • Weyerhaeuser
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