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Lashway, Lisa

From: NJLM - Municipal Clerks [njlm-clerks@cityconnections.com]
Sent: Wednesday, August 27, 2008 4:08 PM
To: Lashway, Lisa
Subject: municipal Clerks from NJLM

		
LEAGUE ALERT		
Municipal Clerk: Please forward to Mayor and Governing Body.		
August 27, 2008		
Re: Energy Price Rise Resolution		
Dear Mayor:		
<p>On July 2, we forwarded, for your consideration, a sample resolution that would ask our federal legislators to encourage the Federal Energy Regulatory Commission (FERC) to promote “just and reasonable” energy pricing, as required by law. The cover letter for that sample resolution directed you to the American Public Power Association’s Energy Market Reform Initiative (http://www.appanet.org/aboutpublic/index.cfm?ItemNumber=16772) for further information.</p>		
<p>We were contacted by PSEG, which questioned the accuracy of some of the information that we provided. Accordingly, we invited PSEG to present their perspective on this important matter. That response follows.</p>		
<p>We have also asked both PSEG and Seaside Park Councilman Jim Jablonski, Executive Director of the New Jersey Public Power Association, to prepare a short analysis of this issue for the readers of our magazine, <i>New Jersey Municipalities</i> . Those articles will appear in our November edition.</p>		
<p>If you have any questions on this, contact Jon Moran at 609-695-3481, ext. 121.</p>		
Thank you		

Very truly yours,

William G. Dressel, Jr.
Executive Director

Dear League of Municipality Members:

Thanks very much for giving PSEG a chance to offer its viewpoint on the proposed resolution regarding competitive electricity markets. We understand that higher electricity rates are causing hardship, both in government councils and around kitchen tables. We get it. And we are trying to help by making significant new investments to modernize the state's energy infrastructure, while helping our customers find ways to conserve.

But we believe this proposed resolution would steer New Jersey in exactly the wrong direction.

For starters, it claims that prices are rising faster in competitive markets than in traditionally regulated markets, and that the market structure itself is partly to blame. We dispute those facts.

According to data from the federal Energy Information Agency, prices in both types of markets have risen at roughly the same rate since 1997, when competitive markets began to take root. The average increase between 1997 and 2007 was 32 percent in regulated markets, and 35 percent in competitive markets.

In New Jersey, electricity prices rose by a smaller 27 percent during the same period – despite the added costs we face due to our unusually strong environmental regulations.

These price increases are driven by rising fuel costs, not market design. And while the price of all fuels is rising, the increases have been steepest for natural gas, a more prevalent fuel source in competitive states.

Recently, coal prices have been rising steeply, and that's had an impact in the traditionally regulated markets, where coal is the more prevalent fuel. Xcel Energy in Colorado recently raised its rates by 38 percent. Entergy in Mississippi raised rates by 28 percent. And AmerenUE in Missouri raised rates by 12.1 percent. Monopoly markets like these are not immune from price increases in global energy markets.

Competition is not the problem. In fact, it is delivering tangible benefits.

Begin with the environment. The American Wind Energy Association has endorsed competitive markets, in part because prices are set in a transparent way at auction, not as the result of secret long-term contracts with favored clients. The boom in wind energy, perhaps the most promising form of green

energy, is happening primarily in these competitive markets. While they contain only 44 percent of the nation's wind resources, they accounted for 73 percent of installed wind capacity as of 2006, according to the Department of Energy.

Markets also help the environment by encouraging greater efficiency. The reason for that is simple: In the era of monopoly markets, power companies had little incentive to operate as efficiently as possible. They were essentially guaranteed a fair return on their investments either way. By contrast, power companies in a competitive market face intense pressure from shareholders to improve operations.

To get a sense of the impact that has had, look at the performance of nuclear power plants. Prior to competition a decade ago, nuclear plants in America operated at 71 percent of capacity. By last year, the number had risen to 92 percent, a change that was pioneered in competitive markets.

That improved efficiency has added 177.8 million MWh of electricity, without a single new power plant. To get that same added power from coal would require building 54 more power plants of 500 MW each, each one emitting millions of tons of carbon in the atmosphere annually.

The bottom line is this: Efficiency is green. And markets deliver efficiency.

The nostalgia for the days of monopoly markets is misplaced. Remember that in these markets, when a power company makes a bad investment, it is the captive customers who must cover those losses through higher rates. In competitive markets, any loss falls directly on shareholders.

Finally, competitive markets allow customers greater choice in how they want to buy their electricity, and greater transparency on pricing.

We appreciate the chance to make our case, and we urge the local governments that are considering this resolution to reject it. If anyone has further questions, we would be more than happy to continue this discussion.

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