

# On the Ground

Public power  
utility experiences  
in wholesale  
electricity markets

Dramatic change in the way an industry operates will never be easy. When deregulation was introduced in the trucking, airline and telecommunications industries, resistance to change was apparent and providers in each of those industries—and their customers—struggled to operate effectively in restructured markets. For the past decade, the electric utility industry has experimented with ways to restructure markets to introduce greater competition and lower consumer prices. The struggle has been enormous and customers are not seeing lower prices.

Because of these problems and because electricity is so vital to the U.S. economy, the American Public Power Association in 2006 launched a comprehensive examination of electricity markets. This program, the Electric Market Reform Initiative (EMRI), is a focused effort to examine the structure of wholesale power markets to analyze problems and determine what public policy changes may be required to achieve the fundamental goal of restructuring—greater efficiency and lower consumer prices. To this end, APPA commissioned a wide range of economic and academic investigations of the electricity market to analyze market conditions to help APPA members formulate recommendations for correcting problems.

Educating lawmakers about problems in the wholesale power markets is another part of the EMRI mission. APPA members from all regions of the country visited Capitol Hill in 2006 to tell their stories about the challenges in electricity markets. This book is a compilation of those stories. Jeannine Anderson, editor of *Public Power Daily* newsletter and managing editor of *Public Power Weekly*, did the reporting for these stories, which originally appeared in the APPA newsletters. Her articles, written over the course of six months, are reprinted here to provide a more complete picture of the challenges faced by wholesale power customers.

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# California ISO’s redesign plan is risky, Currie tells House panel

The California Independent System Operator’s plan for reorganizing the state’s electricity market, a proposal known as MRTU, “will expose all market participants to expanded financial risk,” a prominent public power executive from California warned a House subcommittee July 12.

Municipal utilities are worried that the changes the ISO is proposing in its market redesign and technology upgrade (MRTU) plan “will discourage development of much-needed generation and transmission,” said Phyllis E. Currie, general manager of the municipal electric utility in Pasadena and president of the Southern California Public Power Authority. She testified at a hearing of the House Government Reform Committee’s subcommittee on energy.

“What attracts capital investment in generation and transmission are clear, simple, stable rules that investors understand,” said Currie, a former chief financial officer for the Los Angeles Department of Water and Power. The MRTU proposal the ISO has submitted to federal regulators is more than 4,000 pages long and “is 180 degrees away from what investors want and need,” she told the hearing. The proposed rules “are not clear, not simple and not stable,” she said.

Pasadena Water and Power is both a transmission customer of the ISO and a participating transmission

owner, because it has transferred operational control of its transmission assets to the ISO, Currie said.

Among the flaws in the MRTU plan is that it “does not provide any mechanism to ensure that load-serving entities like Pasadena are able to obtain long-term transmission rights, as directed by Congress in the Energy Policy Act of 2005,” Currie said. To invest in long-term generation, load-serving entities “need to know they will be able to obtain long-term transmission rights so they have reasonable certainty about the delivered cost of energy to consumers,” she said.

“The MRTU proposal, at this point, does not permit a reasonable degree of cost predictability and will not facilitate market transactions or reliability in the Western Interconnection,” Currie told the House panel. She noted that 12 U.S. senators from the West voiced concern about the ISO proposal in a June 26 letter to the Federal Energy Regulatory Commission, urging the commission to “proceed cautiously and provide a thorough vetting of the issues raised.” (See *Public Power Weekly*, July 10, page 5.)

Public power utilities are ready to work with the ISO and other utilities to avert outages this summer, Currie said. Pasadena owns generation, and has plenty of reserves, she said. “But if the California ISO has an emergency, we will shut down our customers to help,” she said.

Rep. Darrell Issa, R-Calif., chairman of the Subcommittee on Energy and Resources, called for last week’s hearing to examine whether the U.S. electric grid can handle a hot summer this year.



The California ISO’s proposed rules “are not clear, not simple and not stable,” said Phyllis Currie, general manager of Pasadena Water and Power in California.  
Photo by Dennis Brack.



# RTOs not essential, Western utility executives say

Electric utilities can buy and sell power on the market just fine without regional transmission organizations or the other trappings of restructured electricity markets, a panel of public power experts from the West told congressional staff Oct. 18.

More than 300 miles of transmission lines were added in 2004 in the Pacific Northwest, said Marilyn Showalter, executive director of the Public Power Council. That compares to 0 miles in the New York ISO region, 0 miles for ISO New England, 0 miles for the Midwest Independent Transmission System Operator, and 6 miles in the PJM Interconnection, she said. No RTO was involved

in building the new transmission in the Northwest, but the region has a long tradition of cooperative planning for transmission, she said. She spoke at a briefing at the Capitol.

In an old-fashioned regulated power market, if a utility built a power plant or a transmission line, “you’d be sure of getting your costs back, with a profit, as long as you didn’t act irresponsibly,” said Showalter. But with a centralized market such as an RTO, a supplier receives the highest bid price that is accepted by the RTO, she said, and costs to consumers are rising.

“There’s a myth that because we’re not in an RTO,



Those who depend on hydro power from the Colorado River are worried about volatility in electricity markets, said George Caan, executive director of the Colorado River Commission in Nevada. Other speakers were Tony Brawn, Kelly Barr and Marilyn Showalter.

we’re not doing much,” said Kelly Barr, an attorney for Arizona’s Salt River Project. But “we have experienced incredible growth in Arizona,” and SRP’s load has been expanding by the equivalent of a small city every year, Barr said. The Arizona utility is doing lots of bilateral trades in the wholesale electricity market, she said. “SRP cleared 60,000 energy schedules last year,” she said. “We have 60 counterparties and we deliver electricity to 30 different areas.”

“We have a really good wholesale market,” Barr said. “We don’t have any problems in Arizona.”

“In contrast to Arizona, we’ve got problems,” said Tony Braun, attorney for the California Municipal Utilities Association. The city-owned utilities that make up CMUA have lower rates than those of neighboring private utilities, but their rates are about double the national average, he said. Despite high rates, California was barely able to meet peak demand last summer, even though no generating plants or transmission lines were down, he said. And municipal utilities in California are leery of a new market design—locational marginal pricing—that has been approved by the Federal Energy Regulatory Commission, Braun said.

“We have grave concerns about how this is going to work

in California,” he said. “We think this emphasizes short-term thinking,” he said. “We are more interested in stability over the long term.”

“Just because [RTOs] are called organized markets doesn’t mean other markets are disorganized,” said George Caan, executive director of the Colorado River Commission in Nevada. “We are concerned about any potential volatility” in electricity markets as a result of federal efforts to reorganize those markets, he said.

The briefing by APPA members and staff was the first in a series for congressional staff presented as part of APPA’s Electric Market Reform Initiative, a special effort to analyze and address challenges in the restructured electric utility industry. 🔦



Customers of public power utilities in California are paying less, on average, than customers of nearby investor-owned utilities, but the rates are still double the national average, said Tony Braun, an attorney for the California Municipal Utilities Association

Photos by Dennis Brack.



# RTO has led to higher power prices, say utility leaders in PJM territory

Electricity prices in the PJM Interconnection—the nation’s largest regional transmission organization—are rising, despite the theory that opening power markets to competition would cause prices to fall, the leaders of three public power utilities told congressional staffers Oct. 25. The formation of RTOs, and the use of new pricing schemes, such as locational marginal pricing, have not led to a smoothly functioning new electricity market, they said.

“One reason we created RTOs was to create competition and choice,” said Patrick McCullar, president and CEO of the Delaware Municipal Electric Corp. Under the deregulated electricity markets, owners of generation “must bear more risk than in a regulated market,” and that probably is good, he said. But other changes in the power markets “may be creating an unfair cost shift,” forcing electricity customers to pay higher prices, he said.

Instead of bringing down prices, the restructured electricity market has raised them, taking more money

from utility customers and putting it in the pockets of private companies’ shareholders, said Duane Dahlquist, general manager of the Blue Ridge Power Agency in Danville, Va.

The community of Chambersburg, Pa., has had to spend nearly \$1 million over the last few years to hire an attorney merely to keep track of the changes going on in PJM, said Richard Hamsher, the town’s electric superintendent. Despite the municipal utility’s efforts to keep itself informed, the RTO “dropped a bombshell on us” last spring by dramatically reducing Chambersburg’s allotment of financial transmission rights, he said. “We’re spending hundreds of thousands of dollars to defend our right to have our historical use” of transmission facilities, he said.

PJM now runs the electricity grid in an enormous area stretching from the Atlantic Ocean to Chicago, and from North Carolina to Pennsylvania’s border with New York state, said Gary Newell, a partner in the Washington law

firm of Thompson Coburn and author of a primer on electricity, *Understanding Electricity Markets*, that was published this year by APPA. PJM dispatches 165,000 MW of generating capacity over 56,000 miles of transmission lines, in an area that covers 51 million electricity customers.

RTOs can be enormously complicated, he said, noting that the tariff for PJM, which operates the largest centrally dispatched grid in the world, is more than 1,000 pages long. And in spite of all those rules, “there are recurring problems in the energy markets,” he said.

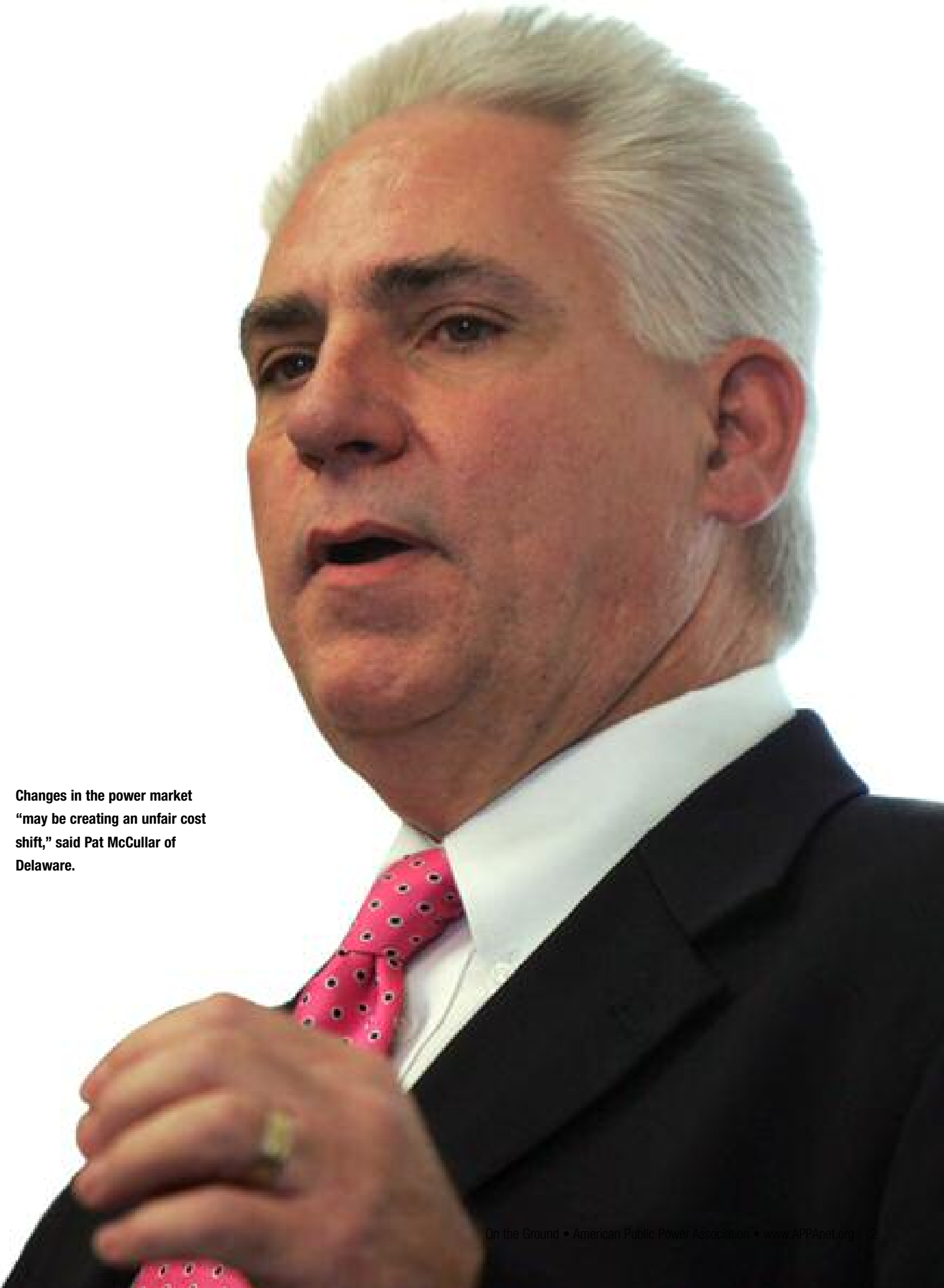
The Federal Energy Regulatory Commission has been trying to promote competition in



Wholesale power costs have skyrocketed, Duane Dahlquist of Virginia told congressional staff.

Photos by Dennis Brack.

Changes in the power market “may be creating an unfair cost shift,” said Pat McCullar of Delaware.





**FERC has tried to bring prices down by establishing RTOs, but what works in theory does not always work in practice, said attorney Gary Newell.**

the wholesale power industry, under the theory that bringing new suppliers into the market will bring prices down, Newell said. One way FERC has tried to do this is by establishing RTOs. But what works in theory does not always work in practice, he said.

One big problem is the lack of transmission to carry power to the places where it's needed, said DEMEC's McCullar. "No significant transmission has been built in the East in 35 years," and this is part of the reason electricity prices are going up, he said. "We need to do something about it."

In 2004, the Delaware joint action agency bought \$55 million worth of power in the bulk electricity market, but had to pay \$5.5 million in congestion costs calculated by PJM, McCullar said. "Ten percent of the cost was

congestion charges," he said. "Customers in Delaware are paying substantially more for electricity" since the RTO was formed, he said.

McCullar urged congressional staff to push federal regulators—and PJM—to make sure that needed transmission links are built.

"Call FERC," McCullar exhorted. "Call PJM. Ask them, 'Why haven't you caused this transmission to be built?'"

"FERC needs to be accountable to the consumer," said Dahlquist of Virginia's Blue Ridge Power Agency. He said the joint action agency has seen its costs skyrocket since PJM, which started out as a power pool, became an RTO.

"Our story is one of promises—promises seemingly met, and promises broken," he said.

After FERC issued its landmark Order No. 888 in 1996

opening up the wholesale electricity market to competition, the Blue Ridge Power Agency asked for bids for its power supply and secured a seven-year fixed-price contract that expired in 2005, Dahlquist said. Meanwhile, in 2001, PJM had become the nation's first fully functioning RTO. When Blue Ridge asked for bids for a new power supply contract, it found prices had risen by 75%, compared to the old contract, Dahlquist said.

"We expected the price to be higher by maybe 35%, but not 75%!" he said. "We thought, 'It's got to improve,'" but a year later, the price had risen by another 25%, he said.

Deregulation of the electricity market has not worked, at least not so far, said Dahlquist. "To me, the whole thing is just a transfer of wealth, from our consumers to stockholders," he said.

The electricity industry needs a structure that will work over the long term, he said. "The short-term structure doesn't discipline the long-term market."

McCullar said one of the problems is locational marginal pricing. This pricing scheme "was designed by professors in academia," he said. "The idea was that higher prices would spur generation," but it has not worked, because there are many factors that affect whether a power plant gets built, he said.

Newell agreed that it is impossible to build power plants in some areas. "You can't build anything in northern New Jersey," he said. "You can send all the price signals you want, but nothing will be built there."

A report issued earlier this month by the North American Electric Reliability Council finds that demand for electricity will outstrip generating capacity in some regions of the United States within three years, said APPA

Senior Vice President Joe Nipper.

An RTO-run market is supposed to stimulate investment, "yet we don't see that," Nipper said.

The wholesale electricity markets "have to work for us to reliably serve our customers," and there are fundamental problems with the way the market is working today, he said. "It will take quite a while for us to work our way out of this," he said.

Last week's briefing by APPA members and staff, held at the House Cannon building, was the second in a series for congressional staff presented as part of APPA's Electric Market Reform Initiative, an effort to analyze and address challenges in the restructured electricity industry. 📌



**PJM "dropped a bombshell" on Chambersburg, Pa., when it slashed its allotment of financial transmission rights, said utility Superintendent Richard Hamsher.**



# Midwest ISO has raised costs for consumers, public power executives tell congressional staff

Life under an independent system operator has raised costs for municipal electric utilities in the Midwest and has provided little or nothing in the way of benefits, three public power utility executives from the region told congressional staff at a Nov. 16 briefing at the Capitol.

The region's ISO, the Midwest Independent Transmission System Operator, "started out as a transmission operator, and that was fine," said Dan Cooper, engineering manager for the Michigan Public Power Agency. "But now, with the energy markets, the tail is wagging the dog."

Federal energy regulators directed the ISO to organize the electricity market, and today MISO is spending far



Now that an ISO is running the Midwest's electricity market, "the tail is wagging the dog," said Dan Cooper, engineering manager for the Michigan Public Power Agency.

Photos by Dennis Brack.

more on developing the energy market than on its efforts to make sure the grid is reliable, Cooper said. This is costly, and consumers are not seeing a decrease in their bills, he said—on the contrary, their costs are rising.

"Our rates aren't as high as in the Northeast, but we're going to get there," said Marc Gerken, president and CEO of American Municipal Power-Ohio.

One reason consumers' costs are rising is that, under MISO's single clearing price, the highest price the ISO agrees to accept from a supplier becomes the price all suppliers are paid, Cooper said. The owner of a coal-fired power plant may be able to produce electricity at a cost of 1.5 cents per kWh, but might be paid several times that—say, 5 or 6 cents—under the single clearing price in auctions run by MISO, he said. This amounts to a windfall profit for the supplier and higher costs for consumers, Cooper said. The Michigan Public Power Agency wants to build more generation so its members are less dependent on the market, he said.

Gerken nodded. "We're in the build mode," he said. "I sit in the heart of coal country." Environmental concerns, however, are making it harder to build coal-fired power plants, and worries over global warming are likely to make it even more difficult in the future, Gerken said.

When MISO was founded in 1998, the vision was that it would be a transmission provider only, that it would not have a hand in the energy market, said Mike Stuart, senior vice president for Wisconsin Public Power Inc. Now, at the prodding of federal regulators, MISO is heavily involved in organizing the market and has growing administrative costs that consumers end up paying for, he said. The ISO now has some 600 employees and is "heading for 700," he noted.

MISO's overhead—its need to pay for

MISO has increased costs to consumers, said Marc Gerken, president and CEO of AMP-Ohio.



things such as building space and employees—has increased WPPI’s revenue requirements by 2%, Stuart said. Yet the joint action agency cannot earn enough money in the wholesale electricity market to offset that increase, he said. Nor is WPPI obtaining cheaper electricity in the market, when it needs to buy power, than it did under the bilateral trades it carried out before MISO was in control, he said.

WPPI has had to buy new software because of MISO, and also has had to hire an employee to reconcile the many notices it receives from MISO every day, Stuart said. “We get 50 or 60 settlement statements daily,” he said—notices of energy WPPI either has bought or sold. With the price of electricity changing every five minutes, there is a lot of paper to keep track of, he said. “It’s a tremendous burden on our part.”

Gerken said AMP-Ohio spends \$5 million a year just in administrative costs made necessary by MISO.

Despite the expense, the electricity market under MISO “doesn’t work as smoothly as it should,” Cooper said. When MISO took over operation of the region’s grid, it “forged blindly ahead without being prepared,” he said. That led to many problems, Cooper said, and he warned that the same thing may be about to happen with the ISO’s market for ancillary services, which is supposed to start in the spring of 2008.

“We think they ought to fix their market—get the first part right—then go on to things like ancillary markets,” Gerken said.

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**Expenses incurred by the Midwest ISO have increased Wisconsin Public Power’s revenue requirements by 2%, said Mike Stuart, WPPI’s senior vice president.**





## ISO has caused power prices to rise, New Englanders say

**Reliability “is very important,” said MMWEC’s Glenn Steiger. “But at what cost?”**

Photos by John Whitman

Living with an independent system operator has raised electricity prices in New England, and consumers need to be protected from the escalating prices, three public power utility executives told congressional staff Dec. 7. The problems have been so significant that state lawmakers in Maine considered a bill last year that would have taken the state out of the ISO, one of the public power managers said.

“We have an obligation to make sure we provide reliable and reasonably priced electricity to our customers,” Glenn Steiger, general manager of the Massachusetts Municipal Wholesale Electric Co., said at the Capitol Hill briefing. But under ISO-New England, “it’s reliability at any cost,” he said.

“We certainly agree that reliability is very important,” he said. “But at what cost?”

“We are very happy” that the ISO has dropped its original plan for a forward capacity market using LICAP [locational installed capacity] pricing, Steiger said. However, even under the new, revised forward capacity market, “we expect to see rate increases of close to 20% overnight,” he said.

Part of the reason for the high prices in New England is the region’s over-reliance on natural gas as a fuel for generation, he said. Another reason is the lack of adequate transmission, he said.

“There is a very, very pressing need for transmission in New England,” Steiger said. In some cases, a simple upgrade in a transmission link would eliminate the need for high-cost units that are kept at the ready as the ISO’s “reliability must-run” units, he

said. For example, MMWEC wants to build a nine-mile transmission line near Springfield, Mass., that it estimated would pay for itself in less than a year in reduced charges, he said.

But even though public power utilities have offered to build transmission, their offers have met “very little enthusiasm,” he said.

Help from Congress is needed to “put the consumer back in the equation,” said Brian Forshaw, director of energy markets for the Connecticut Municipal Electric Energy Cooperative.

“It seems like every six months or so the ISO identifies a new problem with the market,” and needs to make a correction to fix the problem, he said. Each revision must, in turn, be approved by federal regulators, and this “adds a layer of cost to the consumer,” Forshaw said.

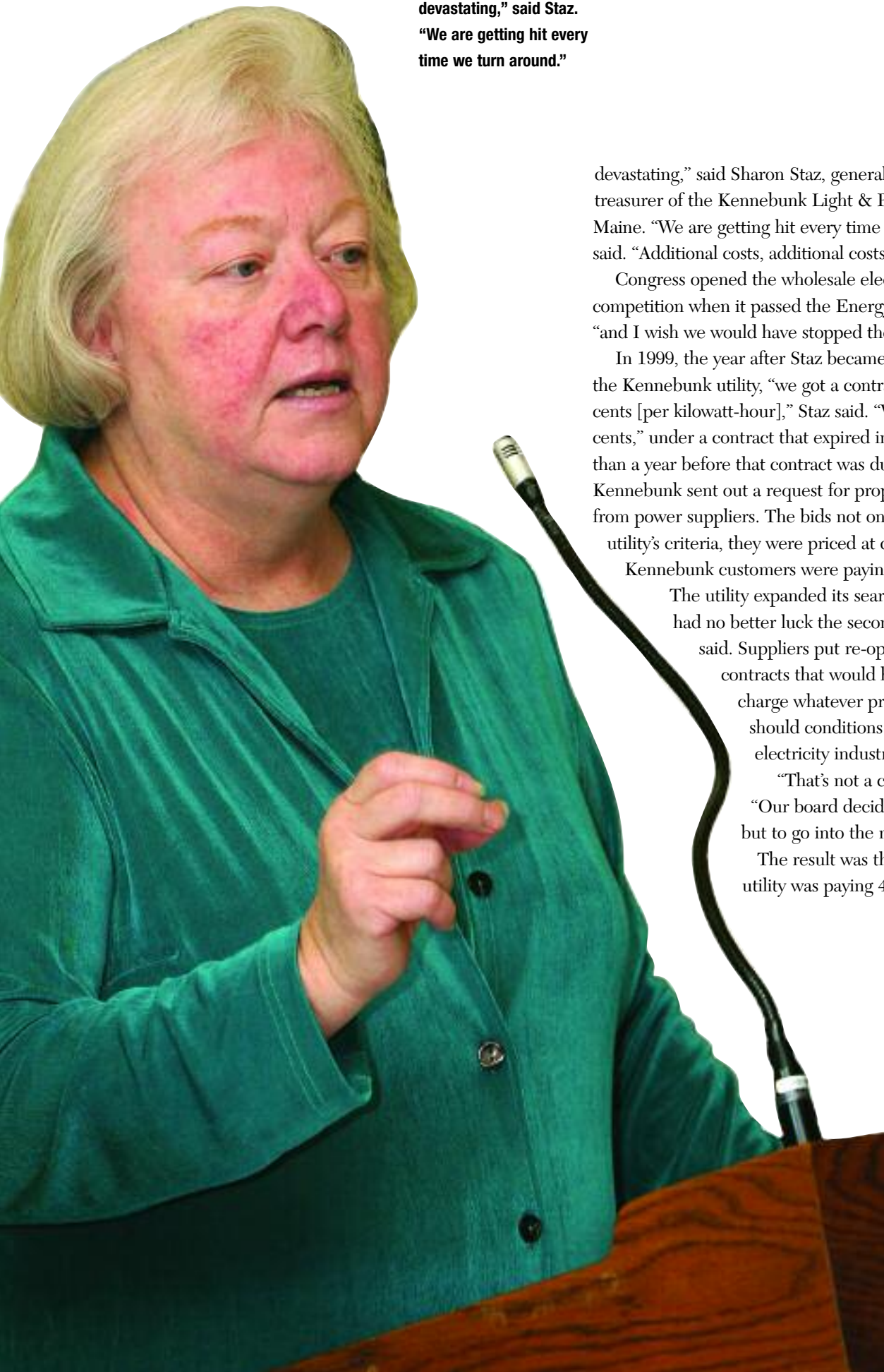
“What’s been happening to us in Maine has been



**Brian Forshaw of Connecticut Municipal Electric Energy Cooperative, Sharon Staz of Kennebunk, Maine, Sue Kelly of APPA and Glenn Steiger of Massachusetts Municipal Wholesale Electric Co. spoke at the Dec. 7 briefing on New England power markets.**



**“What’s been happening to us in Maine has been devastating,” said Staz. “We are getting hit every time we turn around.”**



devastating,” said Sharon Staz, general manager and treasurer of the Kennebunk Light & Power District in Maine. “We are getting hit every time we turn around,” she said. “Additional costs, additional costs, additional costs!”

Congress opened the wholesale electricity market to competition when it passed the Energy Policy Act of 1992, “and I wish we would have stopped there,” Staz said.

In 1999, the year after Staz became general manager of the Kennebunk utility, “we got a contract for power at 3.8 cents [per kilowatt-hour],” Staz said. “We renewed at 4.3 cents,” under a contract that expired in May 2005. More than a year before that contract was due to expire, Kennebunk sent out a request for proposals asking for bids from power suppliers. The bids not only failed to meet the utility’s criteria, they were priced at double what

Kennebunk customers were paying, Staz said.

The utility expanded its search for suppliers, but had no better luck the second time around, she said. Suppliers put re-opener clauses in their contracts that would have allowed them to charge whatever price they wanted, should conditions change in the electricity industry.

“That’s not a contract,” Staz said.

“Our board decided we had no choice but to go into the market” to buy power.

The result was that in May 2005, the utility was paying 4.3 cents for

wholesale power and in June it was paying 6.8 cents.

“Prices are not going down, and we’re in trouble,” she said. The ratepayer “has to be protected from these atrocious costs.”

Meanwhile, “I’m having to learn a whole new way of business,” said Staz, who headed the municipal electric utility in Princeton, Mass., before going to Kennebunk in 1998. “We have to watch the daily and futures markets. My time is being diverted” to this kind of thing, which is very different from traditional customer service.

Under the old regulated system, before restructuring, prices were cost-based, power was centrally dispatched, and the system was reliable, Staz said. “Now we’re paying consultants. We’re paying lawyers. We’re being hit on all sides—and it’s just the beginning.”

The problems have been so severe that last year, the Maine Legislature considered a bill to take Maine out of ISO-New England, and connect to the grid via Canada, she said.

The briefing by APPA members and staff was one in a series for congressional staff presented as part of APPA’s Electric Market Reform Initiative, a special effort to analyze and address challenges in the restructured U.S. electric utility industry. 🗳️



**Members of Congress can help “put the consumer back into the equation,” said Brian Forshaw of CMEEC.**



# Old-style market still works in Southeast, managers say

The Southeast has steered clear of the changes that have swept the electric utility industry in much of the United States, public power leaders from that region told congressional staff. However, as in the rest of the nation, electricity suppliers are hard-pressed to keep up with the burgeoning demand for power, and there often are not enough transmission lines to handle the growing load, they said at the Dec. 7 briefing.

“If you look at retail rates in the Northeast and Southeast, I think the Southeast is doing pretty well,” said Stephen Pelcher, associate general counsel for rates and regulatory affairs for Santee Cooper, the state-owned utility in South Carolina.

In the Southeast, utilities still are vertically integrated (with the same utility owning its generation, distribution and transmission) and they still adhere to the traditional way of doing business, Pelcher said. “In exchange for an exclusive service territory, the utility meets the needs of its customers, and plans for future needs,” he told the audience of congressional staffers. “That distinguishes the Southeast from other parts of the country, where the obligation to serve is gone and vertical integration is gone, too.”

The price of electricity is based on the utility’s costs, not whatever the market will bear, and “our customers usually have reasonable rates,” Pelcher said. “Because we don’t have Day Two markets [electricity markets organized by a regional transmission organization], we are serving as the control group for the experiment” of restructuring, he said.

“We’re satisfied with the market the way it’s operating now,” Pelcher said. “We’re not looking to really change anything about it.”

The Southeast “is in a build mode,” he added, with plenty of power plants and new transmission lines in the works. Santee Cooper has nearly finished a new 600-MW coal-fired power plant that is due to go on line in January, and has started building another 600-MW plant that is to go into service in 2009, Pelcher said. The utility has plans for yet another coal-fired plant to go on line in 2012, “and we’re looking into building a nuclear plant,” he said.

“There is some generation being built in the Southeast, but I’m not sure enough is being built,” said Clay Norris, senior vice president of planning, marketing and member services for ElectriCities of North Carolina. Load is growing in the region at the rate of 3,400 MW a year, he said.

Referring to Santee Cooper’s plans for new 600-MW power plants, Norris said, “We need five or six of those every year for the foreseeable future.” And that is not accounting for old units that need to be retired, he said.

Norris agreed with Pelcher that old-fashioned bilateral trades in the wholesale electricity market continue to work well today. “You don’t have to be in an ISO or RTO to have a market that works,” he said.

Calling transmission “our life blood,” Norris said, “we need to partner with others to build generation, and to get the energy in, we need transmission lines.”

The municipal electric utility in Lafayette, La., has offered to put up money to help build needed transmission



Transmission is “our life blood,” said Clay Norris of ElectriCities. “We need to partner with others to build generation, and to get the energy in, we need transmission lines.”

Photos by Dennis Brack.

lines in its area, but the neighboring utilities have not taken Lafayette up on its offer, said Terry Huval, director of the Lafayette Utilities System.

The huge blackout in the Northeast in the mid-1960s resulted in utility regulators putting heavy emphasis on reliability, Huval said. Utilities were forced to build more infrastructure to provide for redundancy in case a power plant or a transmission line went off line, and then generators began clamoring to use extra capacity on the lines to get their power to market, he said. But in the early 1990s, “investor-owned utilities, at least in our area, stopped building transmission,” he said.

Meanwhile, the nation’s transmission “highway” has

**The region needs more transmission, said Terry Huval, director of the Lafayette Utilities System in Louisiana. But some suppliers have been reluctant to build new lines, because an inadequate transmission grid “worked to their advantage because it would help strangle competition,” he said.**



**“We are serving as the control group for the restructuring experiment,” said Stephen Pelcher of South Carolina’s Santee Cooper. “We’re satisfied with the market the way it’s operating now.”**

become more and more crowded, and is breaking down when it should not, he said. “Yesterday we had the transmission capacity available to us cut by more than half, and our customers almost had a major blackout,” he said.

When a member of the audience asked why there is not enough transmission, Huval replied in a colorful way: “It’s an issue of cheese: where is the cheese and how big is the chunk of cheese.”

When the electricity market was deregulated, “the biggest cheese was [to be had] in selling generation at the highest price possible,” he said. For some suppliers, an inadequate transmission grid “worked to their advantage

because it would help strangle competition,” Huval said.

Utilities “have the ability to build more transmission, but have chosen not to,” he said.

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## In New York, ISO has raised prices, executives say

The creation of the New York Independent System Operator seven years ago has resulted in higher prices—not lower ones—to consumers, executives of four public power utilities in New York said Dec. 13 at a Washington, D.C., briefing for congressional staff.

The organizations that manage the electric grid in both New York and New England are too small to reap the benefits of competition in wholesale markets, said Richard Bolbrock, vice president of power markets for the Long Island Power Authority. They also are too full of “seams,” or barriers to trade, he said.

“Markets need to be very large, and need to be free of seams,” Bolbrock said.

As an example, he described an underwater cable between New York and Connecticut that used to carry economical transfers of energy between the two states, in an area where transmission is severely constrained. When the New York Independent System Operator was created, “no power was allowed to flow over this connection,” because the New York ISO had not built in the correct software, Bolbrock said.

The Long Island Power Authority, which serves a million customers on Long Island, “has tried for years to get the ISO to correct the software,” he said. The ISO’s failure to get the underwater cable working “has cost ratepayers on Long Island \$10 million a year,” he said, adding that this is a conservative estimate.

Attempts to create one large regional transmission organization for the Northeast have failed, and this makes it more important to resolve the seams issues, Bolbrock said.

“We’ve supported competition in the wholesale market, but we’ve been very discouraged by this seams issue,” he said.

Two other public power utility executives from Long Island, and one from western New York state, agreed that

costs have risen under the ISO.

“I don’t want you to think we are against competition,” said Hubert Bianco, superintendent of the municipal electric utility in Freeport, N.Y., which is on Long Island. But “there is no accountability for the ISO,” said Bianco, a former member of APPA’s board of directors.

“We were active with APPA in supporting the Energy Policy Act of 1992,” the law that opened the electricity market to competition at the wholesale level, and also supported the Energy Policy Act of 2005, he said.

But, under the electricity market run by the New York ISO, “no one is focusing on long-term contracts for load-serving entities” such as Freeport, Bianco said. “Long-term transmission rights are not available today,” he said. “The system is not working.”

Paul Pallas, president of New York Association of Public Power, agreed that the system under the New York ISO is not working well for load-serving entities that are transmission-dependent. Costs are too high, he said.

**“There’s not a lot of generation that’s being built that’s reasonably priced,” said Haase. “There is no new transmission being built.”**

Photos by Dennis Brack



**“Markets need to be very large, and need to be free of seams,” Bolbrock said.**

Pallas, who is superintendent of electric utilities for the village of Rockville Centre, N.Y.—another Long Island community—said the ISO has imposed extra costs on Rockville Centre and other utilities. “Our added costs in 2003 were \$2 million,” he said.

Now the ISO is creating a forward capacity market, even though that plan is opposed by state regulators and consumer groups, Pallas said. If the plan goes forward, it is expected to increase further the price consumers pay for electricity, he said.

New York state has grown too dependent on natural gas as a fuel for power plants, and this has pushed electricity prices up, said Wally Haase, general manager of the municipal electric utility in Jamestown, in western New York state, and a member of the APPA board and Executive Committee.

The Jamestown Board of Public Utilities, which is in an economically depressed area, relies on low-cost hydro power from the New York Power Authority, but needs more power, so it is planning to build a new coal-fired plant, Haase said.

“We want to make sure we have a reliable, long-term power source for our customers,” he said. “There’s not a lot of generation that’s being built that’s reasonably priced,” he added. “There is no new transmission being built.”

In 1999, when the New York ISO was formed, New York ranked 49th out of 50 states in terms of electricity rates paid by residential customers, he said. Only Hawaii had residential rates higher than New York’s. The ISO has not helped with that sad statistic, Haase said. “We are still 49th out of 50,” he said.

The Capitol Hill briefing by APPA members and staff was one in a series for congressional staff presented as part of APPA’s Electric Market Reform Initiative, a special effort to analyze and address challenges in the restructured U.S. electric utility industry. 📍



**The creation of the New York Independent System Operator has not brought lower electricity prices to consumers, utility executives from the state told congressional staff.**



# Transmission problems reported by utilities in SPP

Public power utilities in the territory of the Southwest Power Pool—a regional transmission organization—are having trouble getting transmission service, experts from three states told congressional staff at a Dec. 14 briefing in Washington, D.C. And the transmission service they are able to get is not as reliable as it should be, said utility executives from Kansas, Missouri and Oklahoma.

City-owned utilities “are embedded in the transmission system that is owned by others,” said Max Speegle, general counsel of the Oklahoma Municipal

Power Authority. He explained that the Federal Energy Regulatory Commission opened up the nation’s transmission networks in the late 1990s, directing those who own transmission lines to provide “open access” to those lines that is comparable to the access they provide to themselves.

“One reason for this briefing is to tell you what some of the problems are” in the Southwest Power Pool region, Speegle told congressional staff. “Primarily, they fall under the category of ‘lack of comparable service.’”

Max Speegle of Oklahoma Municipal Power Authority, John Stephens of City Utilities of Springfield, Mo., and Colin Whitley of Winfield, Kan., told congressional staff about conditions in the Southwest Power Pool market.

Photos by John Whitman

“We have a lot of trouble with that,” he said.

For example, he said, the Oklahoma Municipal Power Authority—a joint action agency—recently made a deal to buy 25 MW from the Grand River Dam Authority in Oklahoma. OMPA needed transmission to move the power from near Tulsa to its member cities.

“We had to get in a study queue for the SPP,”

Speegle said. It cost \$50,000, and a considerable amount of time, just to do the study, he said.

Sue Kelly, vice president of policy analysis and general counsel for APPA, noted that the SPP operates under the open access transmission tariff developed by FERC, which the commission is revising. The commission knows about problems with

transmission queues, and is considering

“We have a lot of trouble” getting comparable transmission service, said Max Speegle of the Oklahoma Municipal Power Authority.

tightening the process, she said.

“The [transmission] system is very congested,” Kelly noted. “You might put in a minimal request for a small amount of power, but a small request can result in a very large bill” for improvements to the transmission grid, she said.

“We formed the Kansas Power Pool at about the same time SPP began operating as an ISO,” said Colin Whitley, director of electric and water for the city of Winfield, Kan., and general manager of the Kansas Power Pool, a municipal energy agency representing 26 city-owned utilities. “We asked for comparable service. We were told there was zero transmission availability—for cities that had been served by the transmission system for decades.”

“We offered to help fund transmission improvements,” Whitley said. “We wanted to be a joint owner.” But “we still don’t have the transmission service we applied for,” he said. And the transmission improvements have gone nowhere—not even as far as the design stage, he said.

A congressional staffer asked why there are delays in building needed transmission.

“The system is congested and people make money off the congestion,” Speegle replied.

“We’ve offered to help build new lines,” he said. “The projects don’t get past the study stage.”

Transmission service interruptions have increased dramatically, Whitley said. “When you have an interruption, you have to get additional resources, and usually they are more expensive,” he said.

John Stephens, director of power system control for City Utilities of Springfield, Mo., said City Utilities also has noticed an increase in transmission interruptions.

Recently, the utility purchased power off the system, from Kansas, he said. “We were importing about 70 MW, and our [transmission] schedule was cut” for about six hours. Springfield had to run turbines fired by natural gas, a much more expensive fuel, during that six-hour period, he said. This cost the city’s customers an additional \$12,000, he said.

During 2006, there were more than 500 such transmission interruptions, or “transmission loading relief” events, in the SPP, Stephens said.

The costs SPP is incurring as it begins to develop a centrally organized power market also “are a big concern,” he said.

“GEICO is out to eliminate the middleman,” he joked, referring to an ad for the insurance company. “FERC, it seems, is here to create the middleman.”

The Dec. 14 briefing was one of a series of regional briefings for congressional staff presented in 2006 as part of APPA’s Electric Market Reform Initiative, a special effort to analyze and address challenges in the restructured U.S. electric utility industry. 🇺🇸



**There have been more than 500 transmission interruptions, or “transmission loading relief” events, in the SPP so far this year, said John Stephens of City Utilities of Springfield, Mo.**





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