

November 7, 2007

Dear U.S. Electricity Policy Makers:

Empowered Electricity Consumers are Driving Markets

As policymakers across the country wrestle with different options regarding the future of electricity markets within their states, a remarkable phenomenon is changing the way society thinks about electricity service. With prices rising as a result of increased fuel prices and other rising costs, such as more stringent environmental regulation, electricity consumers are seizing their own destiny, changing their behavior, and taking control to limit the impact of rising prices.

There is considerable agreement about the current state of America's electricity industry. The Edison Electric Institute, Standard and Poor's and others have documented how the cost of providing power has dramatically risen in all regions and regulatory structures. Elected and appointed energy decision makers agree that conservation, demand response and alternative energy resources are important to our energy future.

The undersigned former state public service commissioners from across the country, having been given the privilege of protecting the public, were there to witness that the "good old days" of electricity regulation were actually not that good. Project cost overruns ran into the billions, investment in critical infrastructure only received lip service, and conservation of resources was only a pipe dream. Prior to restructuring to promote greater competition in electricity, consumers had government-imposed restrictions on their ability to manage their electricity destiny. While state regulators and legislators gave some very select customers the ability to enjoy a certain degree of flexibility in how they received service, most consumers were told who would be selling them electricity and the price that they would pay for it.

On behalf of consumers, state and federal policymakers decided that they could do better by allowing consumers, instead of state regulators, to have a greater say in their ability to shape their electricity purchases. As former state regulators, we believe this is the best policy and the one that will produce the best long-term results for our consumers. The reason is simple - educated and empowered consumers will make decisions that are in their best interests and force the market to respond. Not surprisingly, that is exactly what is happening.

Consider this small sample of recent news:

- On October 16, 2007, PJM announced the results of its Reliability Pricing Model auction. An eye-catching 893 megawatts of "demand response" was bid in to the system. In essence, 893 MW of consumer demand stepped forward and said that when called upon, it would conserve power instead of consume. The willingness of these consumers to elect to not use electricity in times of peak demand means lower prices for all consumers and helps reduce the need to construct costly new power plants.

- On August 10, 2007, PJM announced it had set a new record for demand response in the PJM region. Consumers voluntarily chose to reduce usage during one of the hottest days of the year by nearly 2,000 megawatts, enough to power a mid-size city. These consumers not only saved money, but also enhanced power grid reliability for other electricity consumers.
- In Illinois, competition has helped promote 900 megawatts of increased generation capacity from nuclear power plants, enough to serve more than 1 million residential consumers, and more than 12,000 megawatts of new generation has been built by independent power producers. More than 51,000 gigawatt-hours of load has elected to switch electricity providers.
- In Texas, approximately 67 percent of residential customers as of the end of September 2007 have switched to competitive retail electric service since customer choice began in January 2002. In some areas of Texas, residential customers have approximately 90 products and services from which to choose. In a number of cities, some competitive rate offerings are lower than the last regulated rate charged to residential customers just prior to market opening. These lower prices exist even though the price of natural gas (Texas' dominant fuel source) has increased threefold since 2002.
- In California, Wal-Mart has reported that they have shaved over 20% off their electricity costs by using the power of the competitive market to their advantage.
- In New York, electricity rates fell by 9.2 percent from 2004 to 2006. Transmission congestion costs decreased by \$200 million in 2006 due to the addition of 1,000 megawatts of generating capacity in New York City. More than two-thirds of the state's industrial customers purchased their electricity from competitive suppliers, while more than one-fifth of small and medium commercial customers purchased their power from competitive suppliers.

These are just a few of many recent examples of how consumers liberated from the constraints of government regulation are responding to improve their bottom lines, promote a healthy environment and create a better market for all consumers.

For instance, nationally nearly 80 percent of the nation's wind turbines are located in organized competitive electricity markets, even though only 44 percent of the nation's wind potential is in those areas. Generation output at existing power plants is far higher than before markets opened, providing environmental as well as economic benefits by producing more electricity from existing plants. Competitive electricity markets also provide the transparent price signals needed for robust demand response and energy efficiency. Demand response programs in organized electricity markets are growing in scope and providing significant consumer savings.

While no one is happy about the increases in electricity prices brought about by high fuel prices and more stringent environmental regulation, it is very important that consumers have as many tools as possible to respond.

Empowered consumers have an amazing history of driving the American economy – electricity markets are no different. If given a chance, consumers will tell the market what they want and the market will respond.

It may take time, but as former regulators we believe American consumers are in the best position to ultimately know what's in their best interests.

Signed,

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