

**BEFORE THE
PUBLIC SERVICE COMMISSION OF WISCONSIN**

Strategic Energy Assessment 2024

5-ES-109

**COMMENTS OF THE ENERGY PROFESSIONALS ASSOCIATION AND OF
THE RETAIL ENERGY SUPPLY ASSOCIATION
ON THE DRAFT STRATEGIC ENERGY ASSESSMENT 2024**

The Energy Professionals Association (“TEPA”)¹ and the Retail Energy Supply Association (“RESA”)² appreciate the opportunity to jointly submit comments on the Draft Strategic Energy Assessment 2024 (“Draft SEA 2024”) of the Public Service Commission of Wisconsin (“Commission”). TEPA and RESA offer these comments in the spirit of advancing discussion of policy options that will serve the interests of Wisconsin electricity consumers. TEPA and RESA respectfully urge the Commission to address the question of *effective competition* as a matter of genuine *strategic assessment*. The current Draft SEA 2024, as with past SEAs, treats the issue perfunctorily, merely discussing in the most minimal way, the energy market in MISO. The current Draft SEA 2024 does not come to grips with the question of “low cost” in keeping with the direction given by the law to “*Assess the*

¹ The comments expressed in this filing represent the position of The Electricity Professional Association (TEPA) as an organization but may not represent the views of any particular member of the Association. Founded in 2005, TEPA specializes in providing market knowledge to help consumers make the best energy procurement choices and to uphold the integrity of deregulated retail energy market across the country. TEPA members operate throughout the United States delivering aggregation, brokering, and consulting (ABC) services for electricity and natural gas customers. More information on TEPA can be found at <https://www.tepaua.org/>.

² The comments expressed in this filing represent the position of the Retail Energy Supply Association (RESA) as an organization but may not represent the views of any particular member of the Association. Founded in 1990, RESA is a broad and diverse group of twenty retail energy suppliers dedicated to promoting efficient, sustainable and customer-oriented competitive retail energy markets. RESA members operate throughout the United States delivering value-added electricity and natural gas service at retail to residential, commercial and industrial energy customers. More information on RESA can be found at www.resausa.org.

*extent to which effective competition is contributing to a reliable, low-cost and environmentally sound source of electricity for the public”.*³ If the final SEA is to be a strategic document, then a strategy for addressing Wisconsin’s electricity price problem should be discernible report.

THE PROFESSIONAL ENERGY ASSOCIATION (TEPA)
AND
THE RETAIL ENERGY SUPPLY ASSOCIATION (RESA)

The Energy Professionals Association⁴ is an organization whose members represent electricity customers in New York, New Hampshire, Maine, Massachusetts, Connecticut, Rhode Island, New Jersey, Delaware, Maryland, Washington DC, Pennsylvania, Ohio, Michigan, Illinois, Texas, and California.

The Retail Energy Supply Association⁵ is a broad and diverse group of retail energy suppliers who share the common vision that competitive retail energy markets deliver a more efficient, customer-oriented outcome than regulated utility structure. RESA works cooperatively on a national and state-by-state basis with all stakeholders to promote vibrant and sustainable retail energy markets for residential, commercial, and industrial consumers.

TEPA’s members, as representatives and advisors for customer in the procurement of electricity, and RESA’s members, as competitive suppliers of power to customers participate on a daily basis in competitive retail electricity markets, TEPA and RESA have witnessed competitive

³ Wisconsin Statutes 196.491

⁴ More information about The Energy Professionals Association can be found at <https://www.tepaua.org/>.

⁵ More information about the Retail Energy Supply Association can be found at <https://www.resausa.org/>.

markets delivering accurate and timely price signals to customers, eliciting product offerings for customers that match their individual needs and usage patterns, utilizing information to facilitate better energy decisions by customers and lodging business risk where it can best be managed. Competitive markets do all of these things in a manner superior to that which can be achieved through traditional monopoly. The quality and professionalism of utility management and regulators, while of genuine importance, are not the key factors that make the difference; rather, it is the regulated monopoly format itself. It is inherently incapable of responding to prevailing conditions that are distinctly different from those for which the regulated vertical monopoly was originally designed.

TEPA AND RESA OPINIONS AND SUPPORTING MATERIALS

The opinions of TEPA and RESA reflected in these comments are non-technical and can be understood by general readers. Illustrations supplementing these opinions are to be found in the Appendix and were prepared specifically for submission with these comments. The data source for these illustrations as noted elsewhere in these comments, is the United States Energy Information Administration and all data are in the public domain and accordingly accessible.

WISCONSIN ERRED IN THE PAST WHEN REJECTING CONSUMER CHOICE

Wisconsin made a major strategic error nearly two decades ago in failing to transition to substantially competitive wholesale and retail electricity markets. Rather than continuing on with a dysfunctional traditional monopoly approach that is out of kilter with modern conditions,

Wisconsin should take initial steps toward giving electricity customers access to the benefits of competitive markets.

Competitive electricity retail choice is operating fully and well in fourteen regulatory jurisdictions accounting for one-third of all electricity consumption in the United States.⁶

Among these are other Great Lakes states Illinois, Ohio and Pennsylvania. In all fourteen in-depth retail choice jurisdictions, delivery service remains a regulated function and utilities were accorded recovery of “stranded costs” in the transition to competition.⁷

WISCONSIN’S DISADVANTAGEOUS ELECTRICITY PRICE POSITION

Wisconsin Prices Increases 1997-2017

The Draft SEA 2024 does not confront the unpleasant reality that Wisconsin experienced the second highest percentage increase in overall (All-Sector) average electricity prices in the contiguous United States over the past two decades, 1997-2017, as measured by U.S. Energy Information Administration (“EIA”) data.⁸ Within that second highest All-Sector percentage increase performance, Wisconsin scored the highest percentage Residential class

⁶ Connecticut, Delaware, District of Columbia, Illinois, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Rhode Island and Texas.

⁷ The document linked below is not submitted as part of these comments. However, if any reader may have interest in a more in-depth review of relative performance of customer choice and monopoly states, there is *Restructuring Recharged: The Superior Performance of Competitive Electricity Markets*, a report prepared by Philip R. O’Connor, Ph.D, for the Retail Energy Supply Association at https://www.resausa.org/sites/default/files/RESA_Restructuring_Recharged_White%20Paper_0.pdf

⁸ All empirical information presented in these comments are based on U.S. Energy Administration data. This is in keeping with the reliance on the Draft SEA 2024 on EIA data.

and Commercial class increases. The increase in average Industrial prices was the third highest. This performance is illustrated in Figures 1, 2, 3 and 4 in the attached Appendix.

Illinois, which implemented retail customer choice and wholesale market competition at about the same time Wisconsin was rejecting competition, experienced the lowest percentage increase in All-Sector average electricity prices 1997-2017. This included the lowest percentage increase in average Residential prices, the second lowest percentage increase in average Commercial prices and the third lowest in Industrial prices.

Wisconsin Price Increases 1997-2008

By 2008, all of the 14 competitive jurisdictions had completed their restructuring transitions and had satisfied required compensation to utilities for “stranded costs.” Also, 2008 can be considered the starting point for the shale gas revolution and for the “flat load” era nationally. In the past decade, 2008-2017, Wisconsin’s percentage average price increases were in the upper half for All-Sector, Residential and Commercial and in the upper third for Industrial.

The more interesting fact, as can be seen in the state rankings illustrated in Figures 5, 6, 7 and 8 in the Appendix, is that almost all of the competitive jurisdictions cluster in the lower half of the graphs for all customer segments. Many have had price decreases in the past decade. The critical point here is that the conditions of flat load and plentiful, cheap natural gas have been promptly and effectively reflected in prices in the competitive retail markets. In most traditional vertical monopoly states, including Wisconsin, the benefits of those conditions

have been interdicted or otherwise diluted for customer. In monopoly states, as consumption falls, the utility and regulatory response under the prescriptions of traditional regulation generally is to raise prices. In monopoly states, lower gas prices will moderate energy costs but do not relieve customers of the burden of continuing to pay for a range of fixed costs, most notably coal-fire capacity that is economically problematic and, as many would contend, environmentally undesirable.

The Draft SEA 2024 Misses the Point on Wisconsin Prices

The Draft SEA 2024 acknowledges, albeit in the mildest terms, that Wisconsin electricity consumers in all classes pay among the highest prices in the Midwest region as illustrated in Tables 14, 15, 16 and 17 of the draft SEA 2024 report.

At page 59, the Draft SEA 2024 describes the situation as follows: “*Wisconsin rates are slightly higher than the Midwest region and U.S. average for all rate class sectors*”, thus understating the case to the extent of missing the point.

Further, the Draft SEA 2024 offers an opinion at page 11 in the section reviewing Wisconsin’s participation in MISO: “*The Commission’s review process, along with the increasing amount of low-cost resources in the MISO footprint leads the Commission to conclude that capacity and energy will continue to be available at a reasonable price.*” Most capacity costs for Wisconsin consumers are embedded in bundled utility rates and cannot be considered as priced at market through MISO.

The moderate wording used in the Draft SEA 2024 to describe Wisconsin electricity prices should not obscure the need for an exploration examination of why it is that Wisconsin has performed as poorly as it has on relative price trends.

TWO DIVERGENT PATHS: WISCONSIN AND ILLINOIS

During the mid- and late 1990s, many states, including Wisconsin, started considering alternatives to traditional vertical monopoly. In 1997, Illinois opted for competition and customer choice while a bit later Wisconsin chose to adhere to the conventional model. The decision in Wisconsin must have seemed a cautious and prudent course at the time, while the Illinois path must have seemed untried and experimental to some.

In 1997, Illinois average All-Sector rates were 47.5% higher than in Wisconsin. In 2017, average rates in Wisconsin were 18.4% higher than in Illinois. Between 1997 and 2004, the gap between Wisconsin and Illinois average price began to narrow. The only one year after 2004 in which Wisconsin had a small price advantage was 2008. With the completion of the competitive restructuring process, Illinois' price advantage grew considerably after 2008.

Illustrations 9, 10, 11 and 12 in the Appendix show the radical change in the relative positions of Wisconsin and Illinois in terms of average delivered prices by customer class from 2008 through 2017.

Wisconsin's confidence in the *status quo* of two decades ago has proven costly to consumers. As shown in the table in Figure 13 in the Appendix, since 1997, Wisconsin

consumers of all classes have paid \$3.6 billion more than if Wisconsin average All-Sector prices had been equal to those in Illinois. However, the severity of Wisconsin's deterioration in price competitiveness becomes even more starkly apparent when appreciating that in the period 2009-2017, the price premium paid by Wisconsin consumers compared to Illinois prices totaled \$8.15 billion.

CONSUMERS BEAR BUSINESS RISK UNDER MONOPOLY

The traditional approach to regulating vertically integrated monopoly utilities places most of the business risk on consumers rather than on investors. For example, Wisconsin utility generation investment is heavily concentrated in coal-fired assets that face major competitive challenges in the electricity market from attractively priced natural gas. For the most part, it is customers in Wisconsin who bear the consequences of investment decisions that have turned out to be less than wise.

This allocation of risk is in marked contrast to competitive electricity markets in which generation investment risk is largely borne by the parties that can best manage them – investors and management in generation, supply marketing and price hedging sectors. In competitive markets customers of various types and sizes can, for the most part, make their own decisions as to how much risk to bear or to hedge. Competitive regimes are more easily adjusted than vertical monopoly in accommodating new conditions if policymakers wish to do so.

Policymakers in Wisconsin have recognized the state's disadvantageous electricity price position by including in a location incentive package for a large foreign manufacturing firm an

exception to certain long-standing statutory limitations on retail customer access to market-based rates. Such an exemption from the burden of above-market prices for a large individual consumer certainly implies the question – what about everyone else?

A central question for Wisconsin is whether customers should bear the bulk of the risk in a world of highly uncertain technology, fuel, financial, economic and environmental conditions. TEPA and RESA have found that competitive markets do a far better job of apportioning risk and reward than do regulated vertical monopolies.

RECOMMENDATION

In 2016, the Illinois Energy Professionals Association (“ILEPA”)⁹ provided detailed suggestions for revisions in the Draft SEA 2022 with respect to four important areas: Strategic Assessment, Effective Competition, Mitigation and Innovation. These comments on the Draft SEA 2024 by TEPA and RESA are more limited. The Commission may wish to take notice of those suggestions as they are applicable in many ways to the Draft SEA 2024 (https://apps.psc.wi.gov/vs2015/erf_view/viewdoc.aspx?docid=%20287983).

TEPA and RESA instead jointly offer a single suggestion: **The Draft SEA 2024 should be revised to take a clear-eyed view of the genuinely serious price problem that Wisconsin has developed over the past two decades.**

⁹ ILEPA merged into TEPA on January 1, 2018.

Many of the innovations and accommodations cited in the Draft SEA 2024 are laudable and positive. Yet they are essentially reactive and likely to prove futile or at best marginally useful in ameliorating the fundamental problem of a regulatory model incompatible with new conditions.

The four most recent SEA reports articulated in nearly identical language a commitment by the Commission to continue to seek ways to mitigate price increases. As SEA 2022 stated, *“The Commission continues to investigate ways to mitigate electric rate increases to ensure Wisconsin remains competitive in a global marketplace.”* That formulation presupposed inexorable increases. The Draft SEA 2024 contains no comparable language. That would seem appropriate, since “mitigation” is a half-measure. It should be increasingly clear that nothing less than a serious reconsideration of the role of competition is the only measure that holds out the promise of significant change for the better.

The Commission can take the first step in encouraging Wisconsin policymakers to directly confront the problem. The Commission would have the basis for inaugurating a serious and thoughtful discussion of regulatory reform that will provide a forum for stakeholders, especially consumers, an opportunity to address market access for Wisconsin electricity consumers. In this way, SEA 2024 and the Commission could embrace the invitation in the law establishing the biennial SEA process to actually consider the role “effective competition.”

CONCLUSION

TEPA and RESA appreciate the difficulty facing the Commission in addressing a problem long in the making, with roots in policies and processes chosen many years before any of the current Commission members, most Wisconsin legislators, most senior management of utilities and major commercial and industrial customers assumed their leadership positions. However, neither inherited causes nor effects need to be accepted as permanent nor remedy beyond reach. The conditions and environment that framed those prior decisions, one that may have seemed reasonable, have changed in basic ways.

The Final SEA 2024 is an opportunity to address strategic issues with an eye toward improvement of Wisconsin's relative electric price position rather than acceptance of ongoing deterioration.

Respectfully submitted,

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APPENDIX

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Figure 1: Residential % Average Price Change 1997-2017

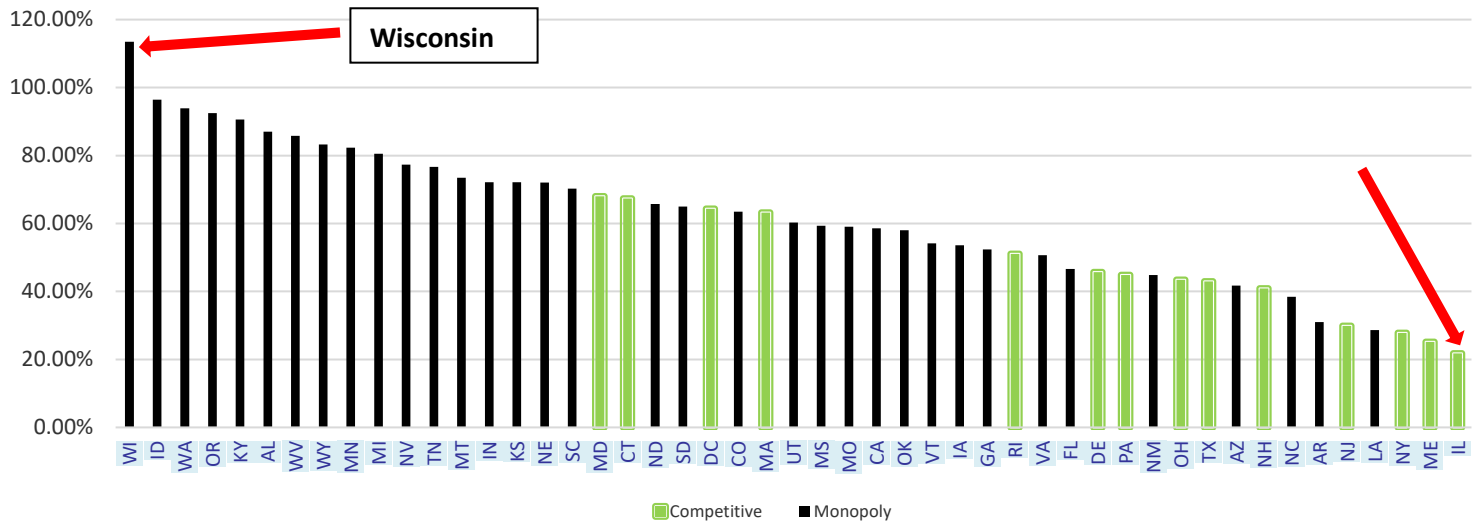


Figure 2: Commercial % Average Price Change 1997-2017

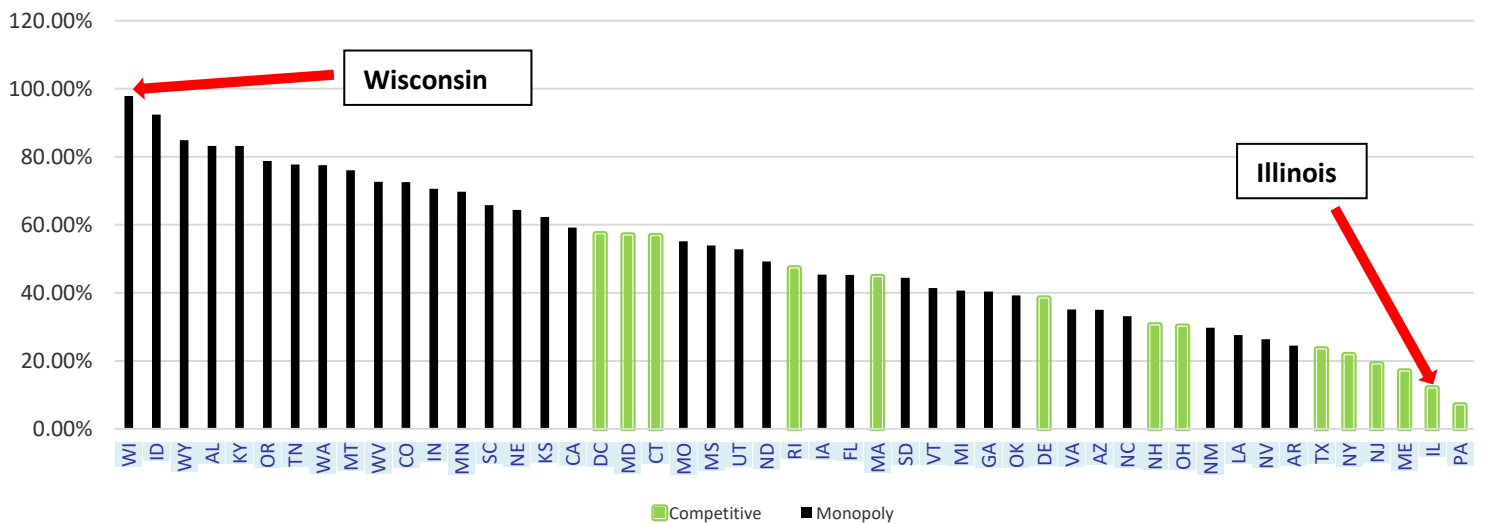


Figure 3: Industrial % Average Price Change 1997-2017

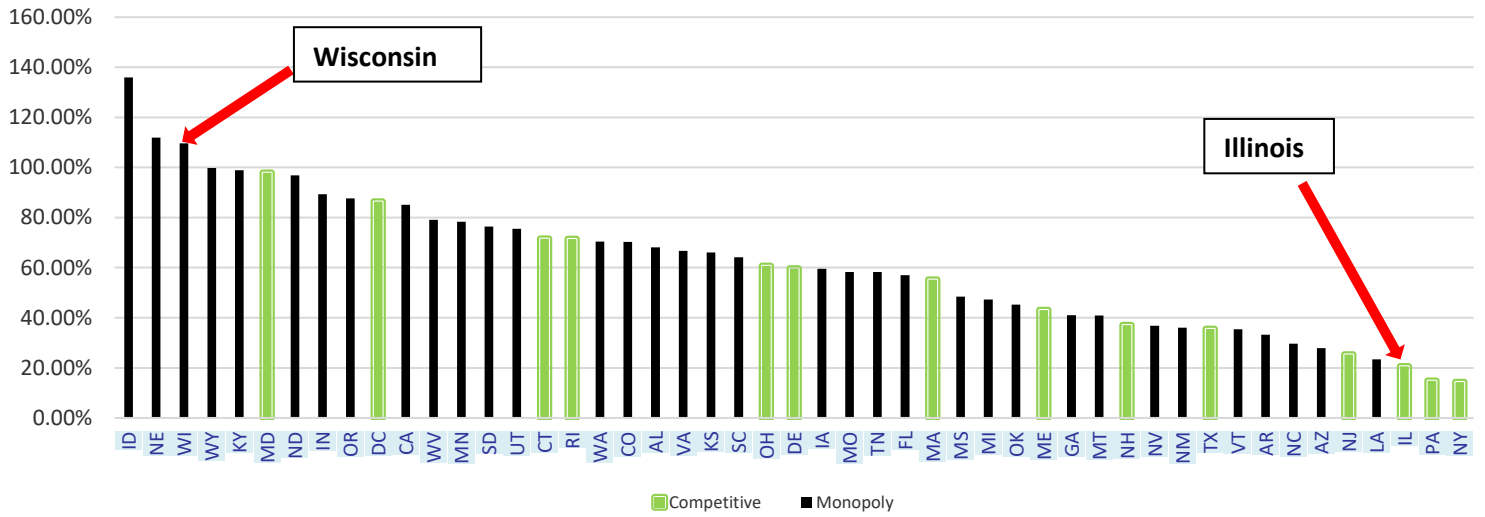
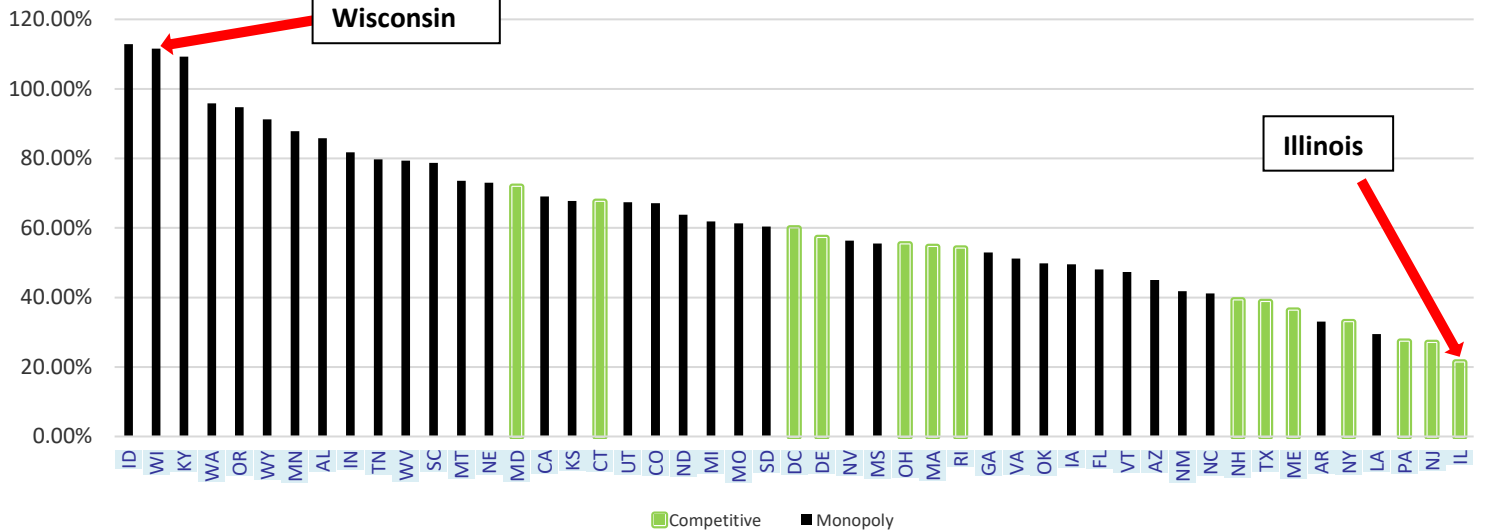
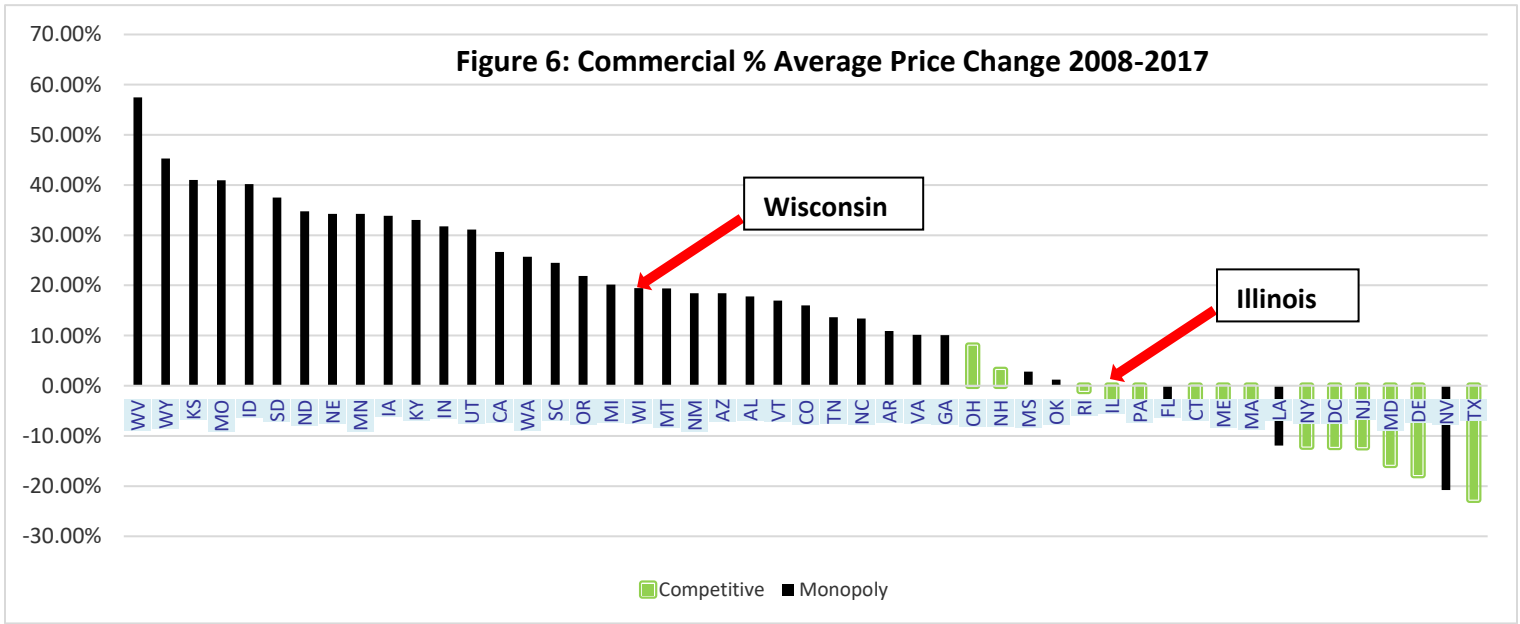
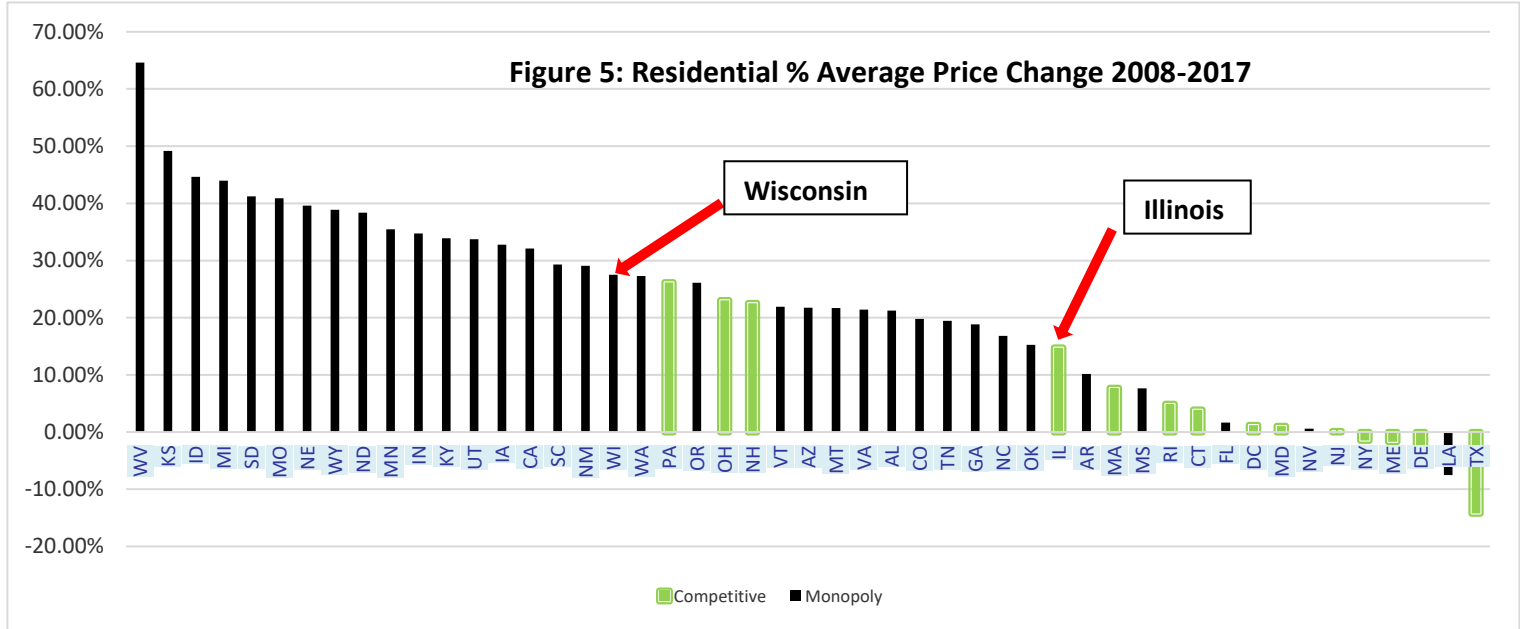
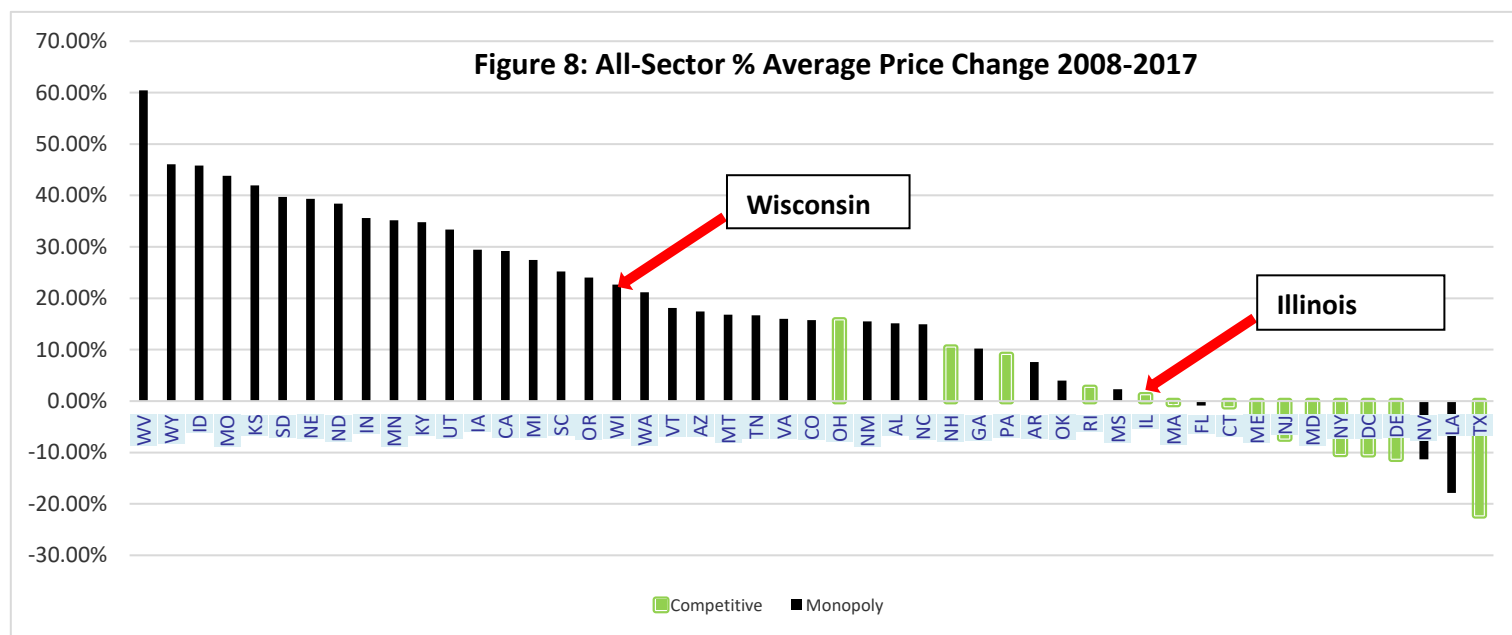
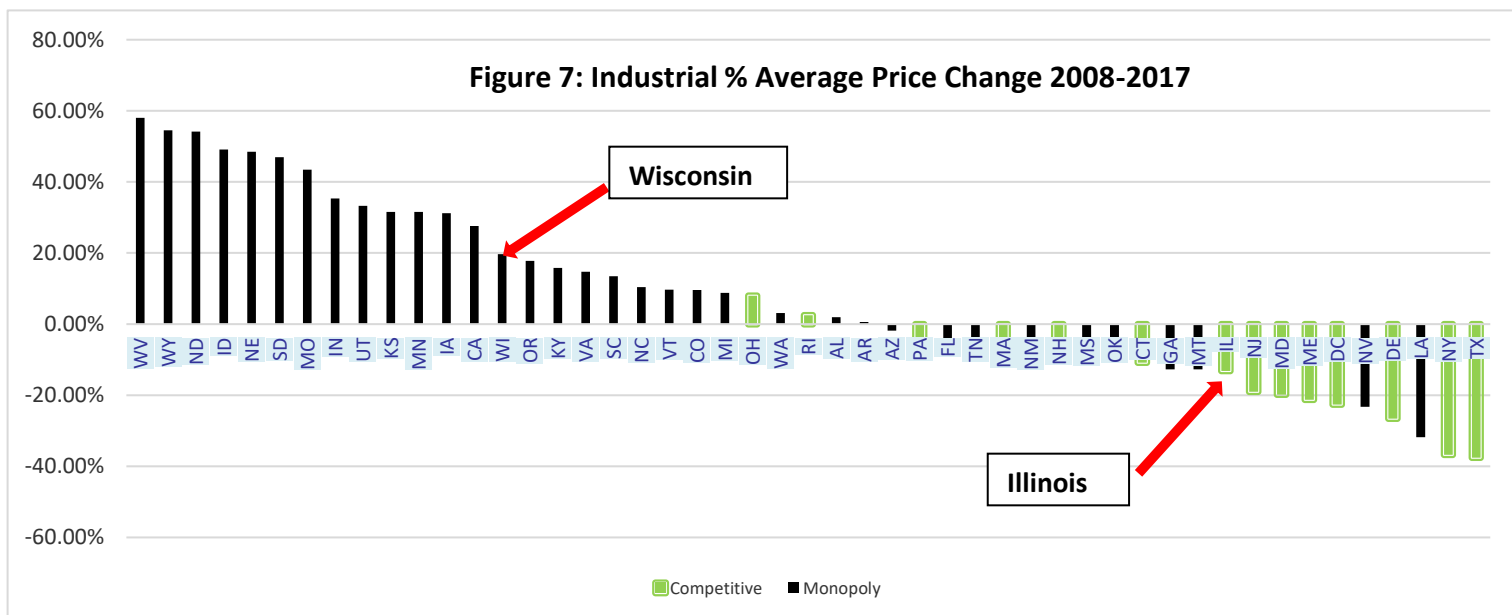
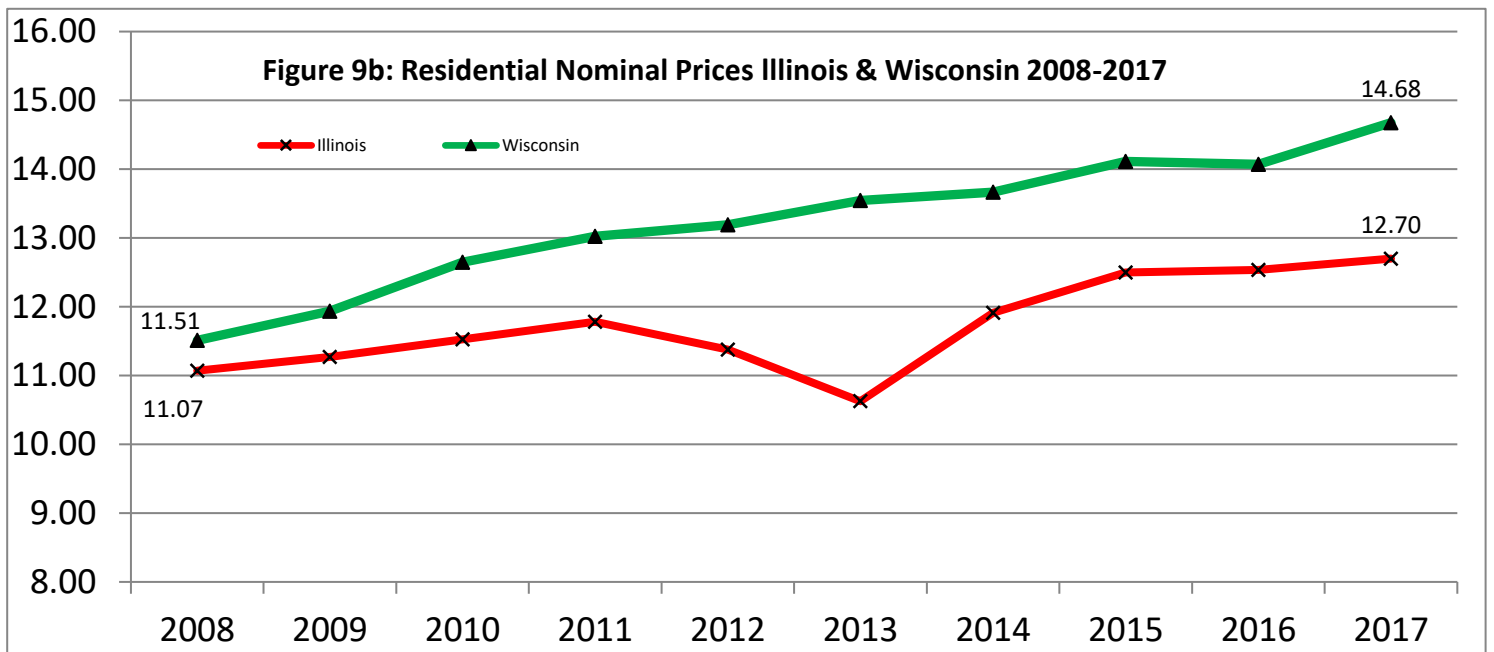
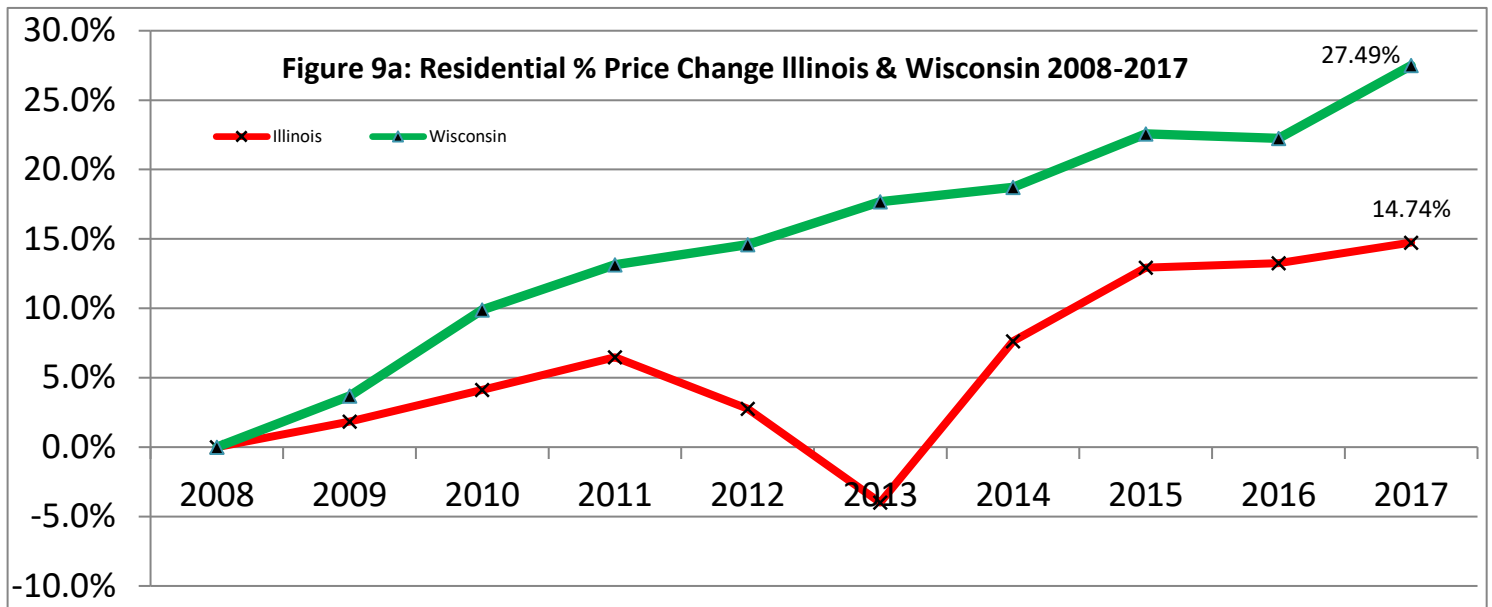


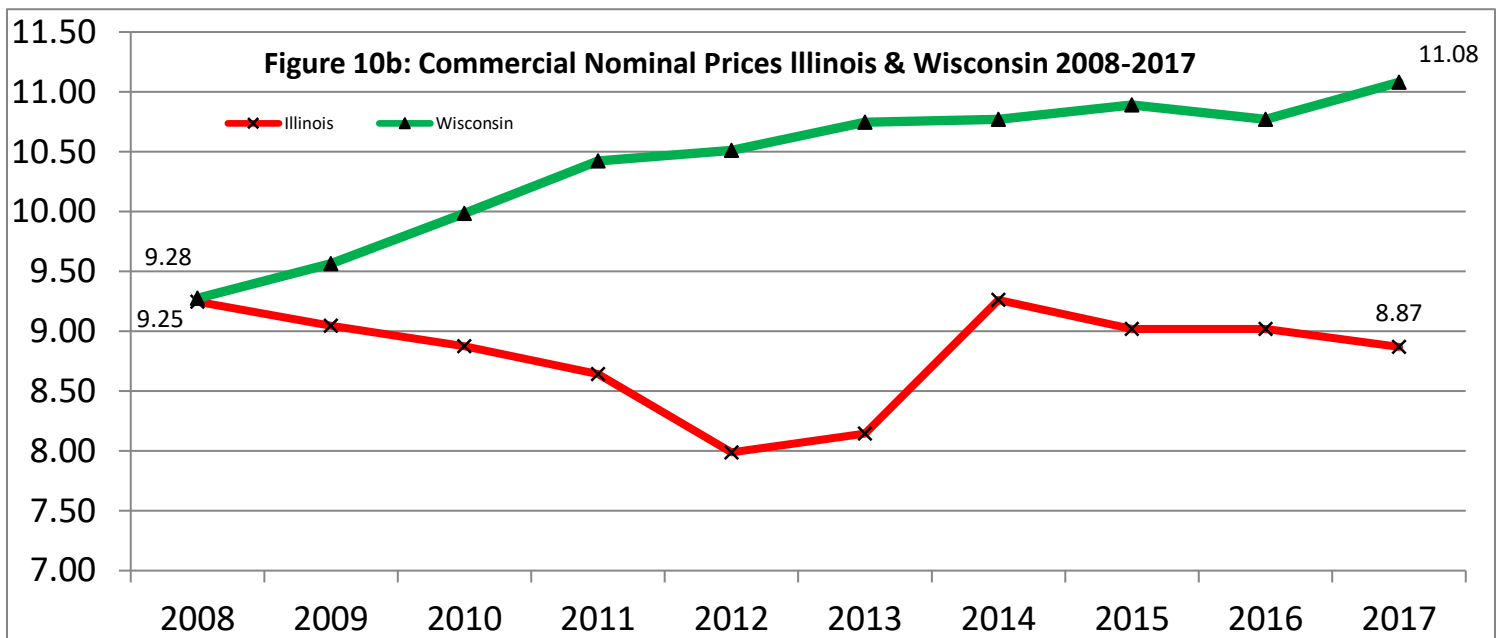
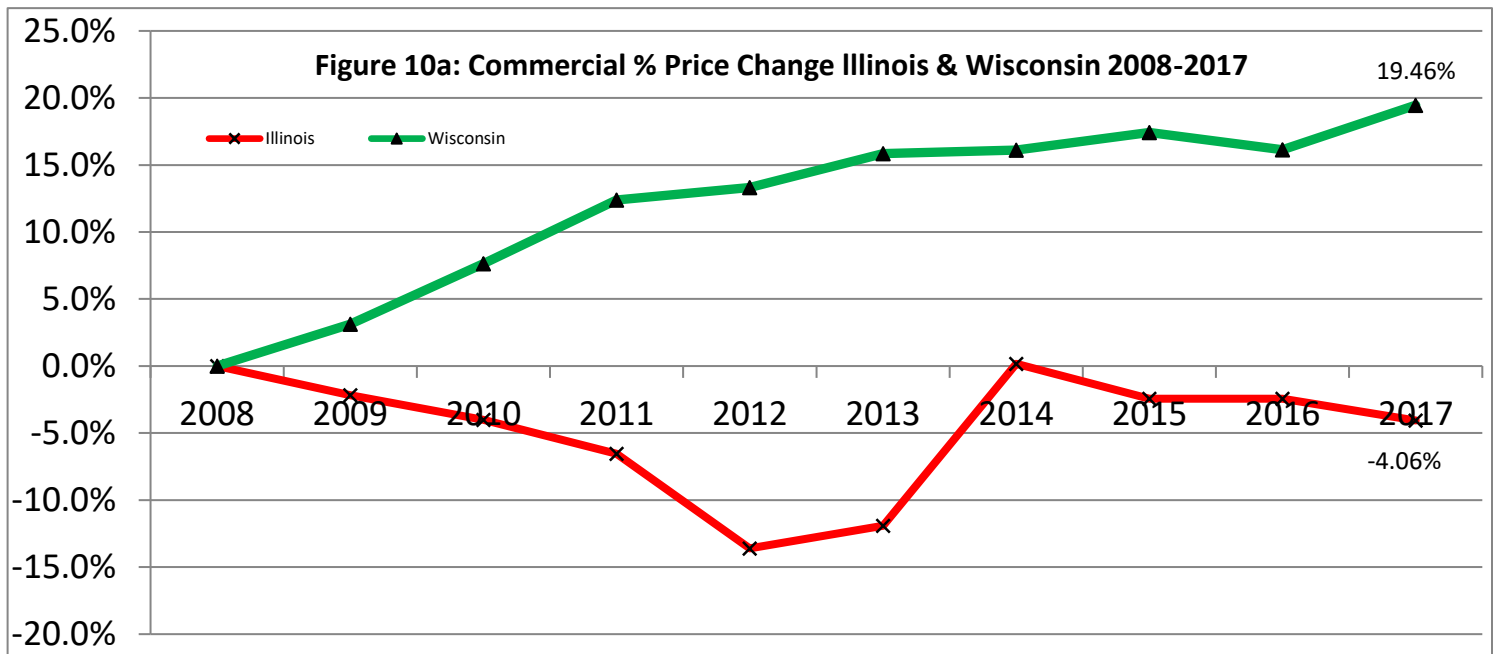
Figure 4: All-Sector % Average Price Change 1997-2017

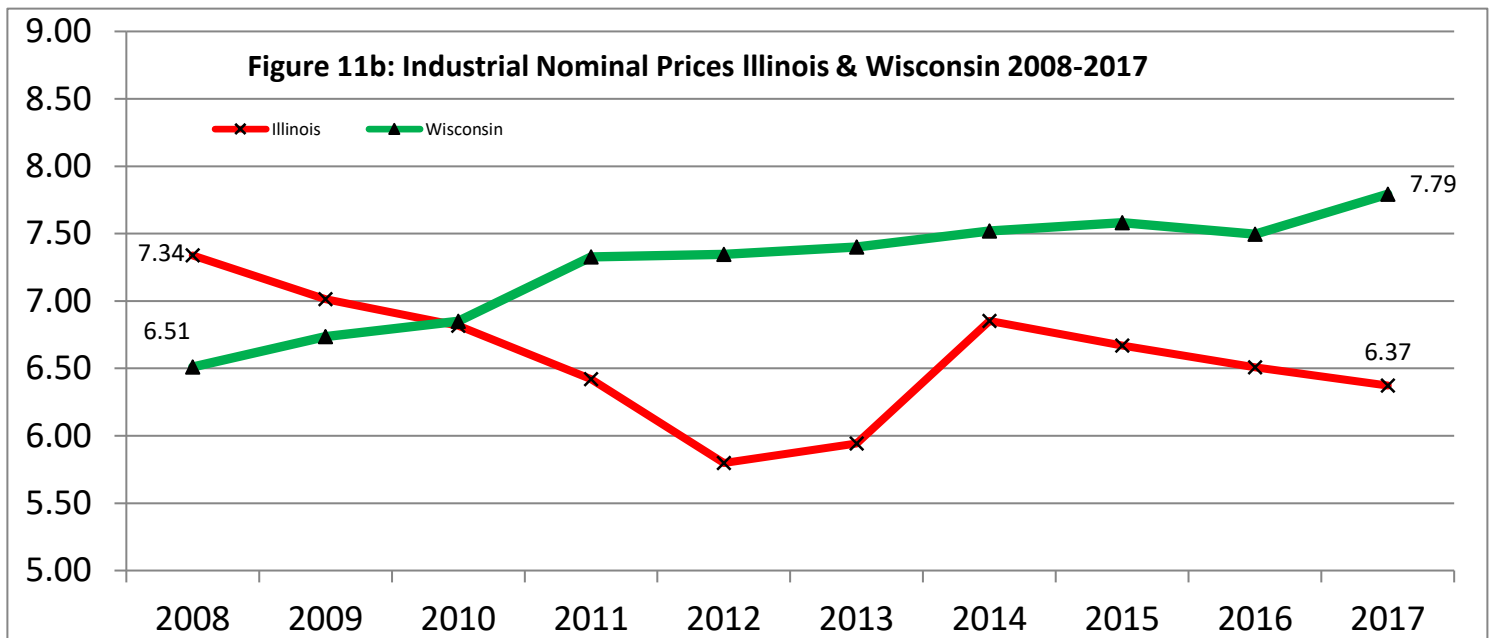
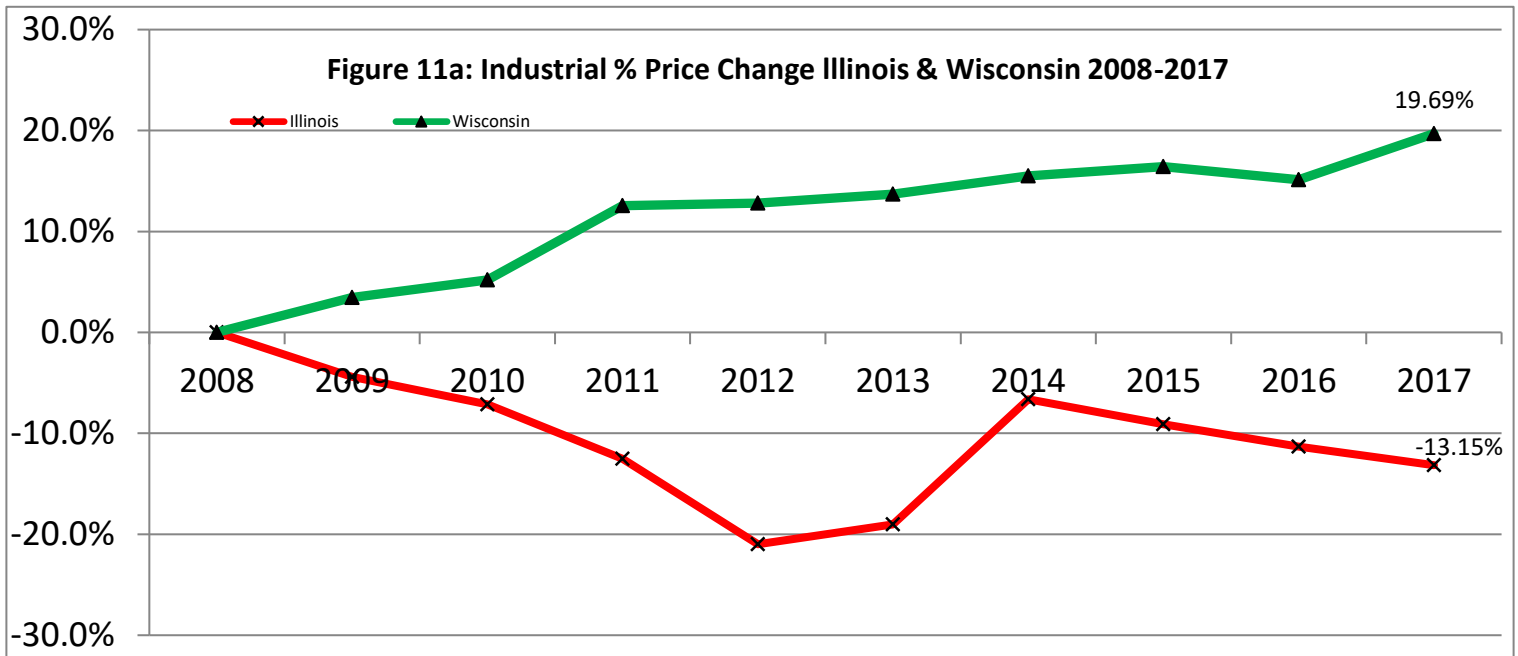












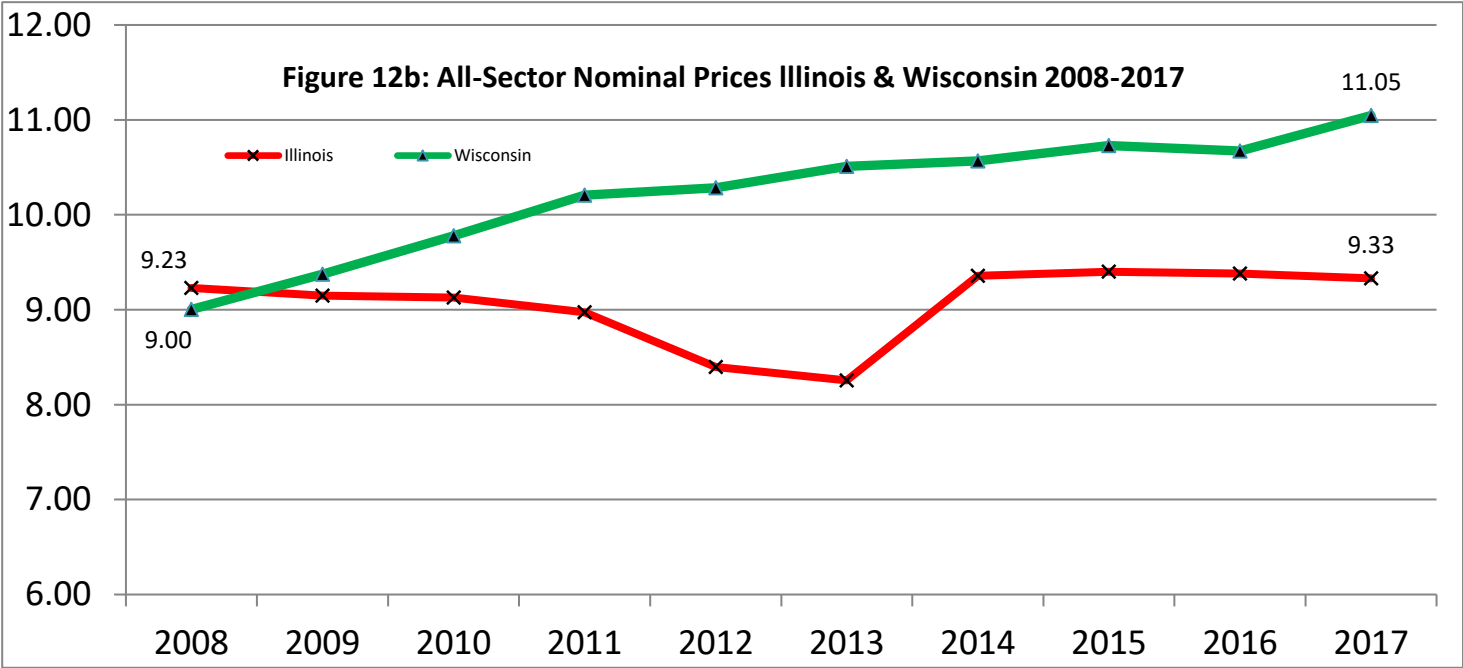
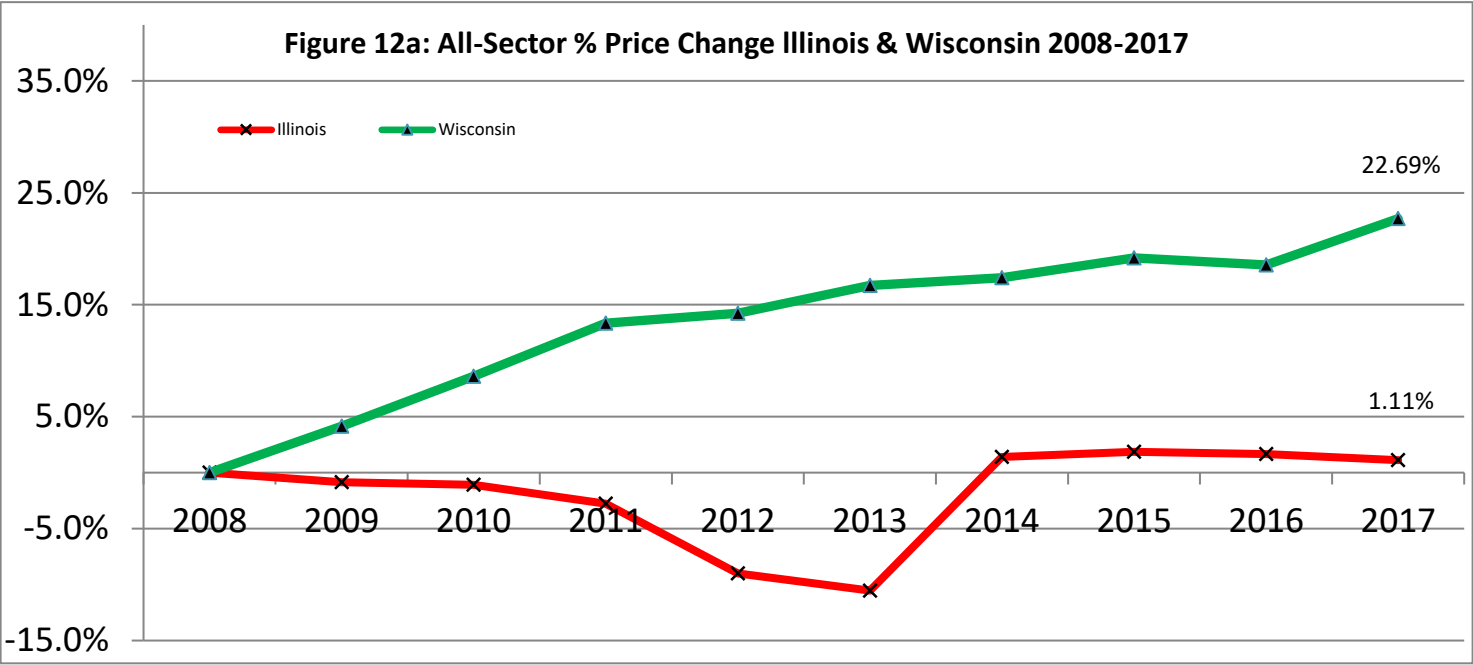


Figure 13: Dollar Value Wisconsin vs. Illinois Average Electricity Price 1997-2008 & 2009-2017

Year	IL Nominal Price (¢/kWh)	WI Nominal Price (¢/kWh)	Difference (¢/kWh)	WI MWH Vol	Premium (\$M)
1997	7.70	5.22	-2.48	60,094,003	-1488.2
1998	7.45	5.44	-2.01	62,061,222	-1250.4
1999	6.97	5.53	-1.44	63,547,451	-914.4
2000	6.94	5.71	-1.23	65,146,487	-802.3
2001	6.90	6.08	-0.83	65,218,293	-539.9
2002	6.94	6.28	-0.66	66,999,297	-439.7
2003	6.86	6.64	-0.22	67,241,496	-148.0
2004	6.80	6.88	0.08	67,975,710	56.3
2005	6.95	7.48	0.54	70,335,684	376.8
2006	7.07	8.13	1.06	69,820,749	739.6
2007	8.46	8.48	0.02	71,301,301	10.9
2008	9.23	9.00	-0.23	70,121,827	-157.9
				Subtotal	-4557.2
2009	9.15	9.38	0.23	66,286,439	150.6
2010	9.13	9.78	0.65	68,752,418	447.9
2011	8.97	10.21	1.23	68,611,620	846.3
2012	8.40	10.28	1.89	68,820,090	1299.2
2013	8.26	10.51	2.25	69,124,043	1558.2
2014	9.36	10.57	1.21	69,494,755	841.5
2015	9.40	10.73	1.33	68,698,932	913.7
2016	9.38	10.67	1.29	69,736,338	902.0
2017	9.33	11.05	1.71	69,135,220	1185.6
				Subtotal	8,145.0
				Total	3,587.9