ELECTRIC AMBASSADORS
The Power of Knowledge

The Rising Cost of Electricity

Across the nation, consumers are seeing an increase in electricity rates. While Peninsula Light Company (PenLight) has made a commitment to hold rates steady until 2009, there are several factors pushing up the cost of power for homes and businesses in the Northwest. This article is an effort to make you aware of some of the challenges facing PenLight. Your continued involvement in the Electric Ambassador Program, a grassroots network of non-profit utility members, can help keep electric rates affordable.

Demand – and cost - for power is increasing

The Energy Information Administration estimates that demand for power will increase by 40% in the next 20 years even with aggressive conservation efforts. This fact will demand a significant investment in new generation sources, whether they are for renewable or more traditional methods of power generation.

Costs for infrastructure projects, such as transmission facilities, to accompany new and existing generation sources have skyrocketed. The U.S. Department of Energy estimates that electric utilities will invest $31.5 billion from 2006-2009 - a 60 percent increase from four years before - just to bring the power to market. Electric utilities will invest another $14 billion in distribution facilities to get the electricity to our homes and businesses.

Environmental regulations are an additional cost to comply with federal clean air and water regulations, as well. From 2002-2005, the electric utility industry spent an additional $21 billion, and this amount is expected to rise as new regulations are developed to deal with Climate Change policies. While utilities will make these investments up front, it is ultimately the consumers that will pay for these needed improvements in the electric power industry.

BPA & fish costs

Most non-profit utilities in the Northwest purchase some or all of their electricity from the federal hydropower system through the Bonneville Power Administration (BPA). Stakeholders in the region are in the process of setting new rates with BPA for wholesale power costs from 2010-2011. While public utilities are guaranteed power, important issues – such as specific costs – are yet to be determined. However, it is clear that energy costs are increasing nationwide, and Northwest ratepayers will not be immune. Post 2011, PenLight and other non-profit utilities, will be guaranteed Tier 1 rates for their load based on 2010 demand, but any future load growth will have to be met by the utility by purchasing more-expensive Tier 2 power from BPA, or from a third party on the open market, or develop their own generation to fulfill load growth. PenLight is looking at all these alternatives to determine which will be the most efficient and cost-effective for its members. As always, conservation efforts will continue to play a role in minimizing load growth.

Along with marketing the output of the federal Columbia River power system, comes BPA's responsibility to manage fish and wildlife issues. Recently, BPA said that it predicts fish related costs to climb by 20 percent for the next rate period. BPA estimates it will spend $667 million for 2007-2009, and that amount will increase to $802 million for 2010-2011.

Indeed, under the 2008 Biological Opinion, the plan to manage the federal hydroelectric projects for fish passage, these costs are expected to be $8 billion over the next 10 years. This is an amount that electric utilities will have to collect from consumers through the power rates they set.

Renewable Portfolio Standards

With the passage of voter initiative 937 in 2006, PenLight will be required to purchase 15 percent of its power mix from defined renewable resources by the year 2020. At this time, hydroelectric power is not classified as a renewable resource by Washington State or the federal government. As a result Penlight may be faced to turn down some of its guaranteed Tier 1 power (primarily hydro) from BPA to meet the RPS requirement in Washington and may have to replace it with defined renewable resources, which are far more costly. California has classified hydro as a renewable resource, which makes the Columbia River power system output eligible for Californian utilities to purchase to meet the state's more stringent RPS standard of 25% renewable power by 2025.

Addressing GHGs

With all the known challenges facing PenLight, there are other uncertain, but imminent changes on the way. Another big issue facing utilities is Climate Change. Many policymakers are working to find ways to reduce green house gas emissions (GHGs). This has significant implications for electricity ratepayers as electricity generation from fossil fuel sources (such as coal, natural gas and petroleum) account for 40 percent of all GHGs in the country. Transportation accounts for approximately 30 percent, while farming and certain manufacturing sectors make up the remainder. (http://www.epa.gov/oms/climate/index.htm)

Consumer-owned utilities that purchase power from the BPA see 80 percent of their electricity generated from clean, renewable hydropower, and another 10% from nuclear generation. That benefit is not being factored in many of the 'cap and trade' programs being proposed to reduce emission rates.

Cap and trade proposals seek to establish a baseline of allowable GHGs for certain sectors of the economy, such as electricity generation, manufacturing plants, and transportation. A certain amount of "allowances for emissions" are distributed or auctioned. Those companies that reduce their emissions by improving efficiencies will have permits to sell to others that don't.

The Northwest is unique in that it has only half the emission levels compared to other regions of the country. This is due largely to the hydroelectric projects used to generate power on Northwest Rivers. Because of our already low emission rates, it is harder for the Northwest to reduce GHGs from current levels than other regions of the country. New energy sources brought on line will be more expensive, and have less effect at reducing global warming than other regions of the country that use fossil fuel sources to generate power.

The Northwest has also led the nation in energy efficiency measures. It is estimated that 3,100 average megawatts of power has been saved that might have been obtained from fossil fuel sources in order to meet growing demand. In summary, we need to make sure that our sizable efforts to date to reduce GHGs are taken into account in any legislation that passes.

Holding the line on power costs

What can ratepayers do to hold the line on increasing electric rates? Some of the factors, such as rising costs for materials needed for large-scale construction projects, cannot be helped. However, certain policy decisions – especially those involving climate change and fish costs – can be impacted by your involvement to ensure that important goals regarding the environment are achieved in a sensible, cost -conscious manner.

Over the next several months, PenLight's Electric Ambassador Program will give you an opportunity to contact elected officials about decisions they make and how those decisions may impact your household budget for better or worse. Please take a minute to respond to our calls to action. The time you invest will save you money in the long run.