SVMG Statement
4/20/2004 CPUC En Banc on Core/Non-Core

Good morning, my name is Eric Hoegger, I am the Electricity Supply Manager for Cargill. I work for one of SVMG's member companies, Cargill Salt, which operates the solar salt operation at the southern end of the San Francisco Bay. Cargill is a leading manufacturer of food solutions worldwide, ranging from corn syrup to table salt.

I'd like to thank the Commission for the opportunity to provide customer input on the topic of retail electricity markets and it's implications to end use customers, employers and employees in Silicon Valley.

In my role today, I am pleased to represent the Silicon Valley Manufacturing Group, currently known as SVMG. SVMG has over 190 member companies who are among the most respected companies in Silicon Valley and provide nearly 240,000 jobs in the Bay Area. SVMG's 190 members are a diverse mix of bundled and direct access electricity customers with a few who are served by municipal utilities. Although we are perceived as primarily large and high tech companies, we have many small to medium-sized organizations, with sectors ranging from software to hospitals, from schools to internet movies and even a premium beer brewer. I say this to express that, despite this diversity, SVMG is unified in supporting the values and policies that I will be discussing today because we understand that…

<u>In order for California to *compete*, it must have *competition* in electricity policy.</u>

My role as the Electricity Supply Manager gives me responsibility for procuring retail electricity at Cargill's plant locations throughout the US and Canada. I have experience in retail markets in Texas, New York, New Jersey, Ohio, Michigan, Pennsylvania, Massachusetts, Alberta, Ontario, and California, along with other Midwest markets that remain regulated.

My comments today are on behalf of the Silicon Valley Manufacturing Group. I am glad to be able to entertain questions regarding retail market structures in other states as it relates to the Core/Non-Core issue we are considering today.

When we discuss Core/Non-Core, what we are considering is Customer Choice-- the ability of end use customers to choose their generation provider. SVMG advocates for true Customer Choice. Customers should be able to choose to purchase power in a retail market or purchase power as they continue to do so today from the utility. The key is access to significant options to meet the cost and risk tolerance needs for an organization to compete, grow revenue and jobs.

Example 1: A High Technology Manufacturing Company

Why does SVMG Advocate Choice? A typical SVMG company engages in light manufacturing and R&D operations. Electricity accounts for about one-third of their controllable operating costs and 15 to 20% of their overall manufacturing costs. The high electrical rates, which have increased twofold for many companies since 2001, have contributed significantly to the cost of doing business in California and have had a strong influence on the size of layoffs that these companies have been forced to make to remain competitive and retain a presence in California, a huge market for the products member companies produce.

Example 2: A Commodity Manufacturer – Blue Collar Jobs Lost

The SVMG companies that employ the most blue-collar workers are the commodity manufacturers. It is no exaggeration to suggest that for these companies, electrical rates have become a matter of survival and for their employees a matter of having a decent, well-paying job.

Because there is little that can be done to distinguish a commodity (such as salt, steel and cement) made in California from one that is made in Nevada or in Southeast Asia, commodity manufacturers are "price takers." We've all seen the newspaper ads promoting business friendly Nevada. High energy costs cost businesses and jobs because it negates the small difference, between the cost to make the product and the market price. The increase in California's electricity costs have been so dramatic that many have not been able to sufficiently offset these increases with cost savings in other areas (by improving energy efficiency or reducing transportation costs, for example) except to lay off people and cut back production. Market share and jobs go to competitors in other states and countries.

Example 3: Lost Opportunity for new jobs and business in California

In 2003, a SVMG member company was unsuccessful in its bid to land a highly prized contract from a leading Japanese company to make its product locally. The high cost of electricity was singled out as the reason why the contract went to a company in another state. This scenario is often repeated in similar ways. A high technology company decided to locate a new $2 billion facility in Oregon instead of Silicon Valley citing high energy costs as the final straw.

SVMG's Customer Choice Vision

1. SVMG is supportive of Commissioner Peevey's suggestion to permit customers to aggregate load to meet a minimum kW requirement for core customer status.

2. As of a certain date and with 6 months notice, non-core customers would be eligible to buy electricity from anther supplier.
3. Those non-core customers who do not commit to buy from another supplier should have the ability to commit to bundled service, if they so choose. The commitment should be for a reasonable length of time, for example 1 year.
    a. Most of our member companies have a 1-2 year business outlook and a longer commitment requirement would pose issues.
4. Non-Core customers should have the ability to return to bundled service voluntarily or involuntarily, under provisions set up by the PUC to ensure such switches will not result in cost shifting.
5. Establishment of Capacity Markets using tradable tags to facilitate long-term Resource Adequacy so that California is never again critically short of needed generation. A plan to this effect has been led by Joe Desmond, Co-Chair of the SVMG Energy Committee on behalf of customers in Western states.

The key to this model is customer choice and regulatory certainty in the form of tariffs that delineate between bundled and unbundled customers to prevent cost shifting.

Retail Electricity Markets - What Works and Where does it Work?

There are numerous examples of retail electricity markets in the US today that work.

On the attached Table I, we've listed several aspects from various retail markets that work well from an end use customer's perspective. General commonalities in successful markets are lower electricity pricing with retail choice vs. bundled service and the ability of customers to consider multiple options for electric service.

On the attached Table II, we've listed several aspects from various retail markets that hinder retail market participation by end use customers. Problems include no set target price to beat in the open market and artificially set bundled generation pricing that does not reflect market reality.

Table I: Retail Electricity Markets - What Works for Customers	
Market	**What Works**
Alberta	Very low retail transaction cost, financial market allows end users to financially hedge hourly spot price risk in a liquid market.
California	For current direct access customers, the bundled tariffs send clear price signals as to the price to beat with an ESP
Illinois	Multiple tariff options for end users along with retail choice
Massachusetts	Standard Offer, and default bundled service along with customer choice provide customers multiple options to consider
Michigan	Wires costs less than $0.01/kWh, fixed bundled price to beat
New Jersey	Bundled service became market + $5/MW, most retail markets significantly beat this pricing.
New York	$0.002/kWh customer service credit for customers who do not buy their generation supply from the utility
Texas	T&D and Generation providers were split into separate companies. Retail market is so competitive, it is now possible for small, under 1MW customers, who are high load factor, to obtain cheaper pricing from a Retail Energy Provider and beat the original Price to Beat pricing.

Table II: Retail Electricity Markets - What Doesn't Work for Customers	
Market	**What Doesn't Work**
Alberta, Ontario, New York	Difficult decision when to lock pricing, no fixed price tariff comparison for large industrial users
California	Direct Access suspended
Michigan	Utilities view retail power marketers as competition and are waging a PR war to reverse restructuring law they originally promoted. Customers are caught in the middle.
Ohio	Utility shopping credits are below tariff generation charges and incentivizes low load factor customers
Pennsylvania	Utility pricing is below market pricing

At least 7 other states and one Canadian Province have successful, functioning retail markets offering retail customers a choice. Why can't California?

SVMG believes that a robust wholesale market will have a beneficial effect on retail procurement for bundled customers, provided that it is competitive. The cost of doing business in California, already among the highest in the nation, still has no current alternative to manage risk and cost except to outsource much of the work, generate the power on site, or leave the state entirely. SVMG urges the Commission to help restore confidence in investing in California by re-establishing retail choice in the form of a workable core/non-core power market.