

Tampa Tribune

Power to the people?; Deregulation of Florida's electric utilities will deliver savings for big businesses that can; negotiate sweet deals, but consumers may be the losers.

October 18, 1999, Monday, FINAL EDITION
Business and Finance, 10

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TAMPA TRIBUNE*

Lee Thurner wanted to pull the plug.

It was 1996, and Thurner, vice president of minerals operations for phosphate giant IMC Agrico, was frustrated with the price and reliability of electricity.

Power for IMC's mining operations was so expensive the company volunteered to let its power be shut off occasionally in exchange for a 30 percent discount. But IMC officials saw longer, more frequent and more costly blackouts in the future.

IMC wanted to essentially dump both utilities - Tampa Electric Co. and Florida Power Corp. - and build its own power plant.

"For most people, the cost of electricity is more of an annoyance than anything else. It's just not that big of a deal," said Thurner, whose company's power bill is nearly \$ 6 million every month. "For us, it's become a very big deal. It's getting to be a matter of business survival."

The utilities protested, claiming state law wouldn't allow it. Ultimately, IMC backed off. So for now, IMC officials don't have a choice in who provides them with electricity to mine phosphate.

But they want a choice.

And if IMC gets its wish, everyone in Florida - even homeowners - could select which utility provides them power. IMC Agrico is a vocal supporter of deregulation, which would make buying power similar to buying long-distance telephone service.

Right now in Florida, state government controls how much a utility can charge its customers. Regulators assign exclusive territories for each utility.

But Florida Progress, the St. Petersburg-based parent company of Florida Power, sees change ahead and has made a bold move anticipating it. It recently agreed to be acquired by Carolina Power & Light, saying it needed to grow tenfold in the next five years to survive in a competitive market.

Twenty-four states have passed some sort of legislation that begins the deregulation process, affecting 65 percent of the American population, while 24 others have taken some sort of lesser

step. But Florida is one of two states that haven't made moves toward deregulation. South Dakota is the other.

"It's years late," said Jeff Pollock, principal with Brubaker and Associates, a utilities consultant in St. Louis. "I would definitely say that Florida's behind the curve."

In theory, competition brings lower prices. But in states with deregulated electric markets, prices haven't always dropped. And when they have, the drop has not been drastic.

"It's been, to date, sort of like a big yawn," said Dave Parker, utilities analyst with Robert W. Baird & Co. in Milwaukee.

And it is unclear how deregulation affects the average consumer - a residential family who uses electricity to cool their home and wash their clothes.

"The question has not been answered yet if there are direct benefits to residential customers," said Jim Dean, a technology specialist with the Public Service Commission. "It's too early to tell."

Florida Power CEO and President Joe Richardson says his company supports deregulation if it's implemented fairly. TECO Energy's vice president of regulatory affairs Tom Hernandez says his company does not support it because it isn't fair to the average consumer.

The Florida Legislature may be wise to be cautious, some experts say.

"This may be exactly where Florida needs to be," said Sanford Berg, a University of Florida economist and director of the **Public Utility Research Center**. "The states that took the most drastic actions are the states that, partly because of their own regulatory ineptitude, had very high prices."

Nearly everyone agrees that Florida will see increased competition in the electricity market some day, though it may be years away. Wholesale vs. retail

For years, utilities have bought and sold electricity to each other through Florida's network of power lines, called a grid. Between 15 percent and 20 percent of the electricity produced in Florida changes hands on the wholesale market, said Ken Wiley, executive director of the Florida Reliability Coordinating Council.

This year, Tampa Electric Co. has sold about 12 percent of what it has produced; Florida Power Corp. has sold about 10 percent. Money made by selling power can benefit customers through an annual rate adjustment.

But the wholesale market may change drastically soon. Three out-of-state companies have proposed to build so-called "merchant" power plants in Florida, which means they have few customers, if any, and will sell power on the open market. A fourth company has offered to buy an existing plant.

The merchant plants promise to produce power more efficiently and cheaper than existing power plants.

Some experts say that will drive down prices for consumers because utilities will buy power from

the merchant plants cheaper than they can produce it themselves. Others say that doesn't really happen because the savings are not directly paid to consumers.

Florida's largest utilities oppose the plants, claiming state laws don't allow them. In reality, the utilities fear they will have to compete with those merchant plants some day, if state regulators change the rules for the second branch of the electricity market: retail power, which is selling power directly to homes and businesses.

So utilities have not been pushing for retail deregulation. Instead, large industries are pushing for it because they stand to save the most money.

"Consumers ... buy everything from milk to automobiles in an unregulated market. We have a choice who to buy them from. Why not electricity?" said Andy Bertron, a Tallahassee attorney and lobbyist for the Alliance for Lower Electrical Rates Today, or ALERT, a group of about 15 large power users. "The rest of the nation is forging ahead on this, and we really need to react."

Florida Progress, for example, thinks the new marketplace will be dominated by big utilities that can spread costs over large areas.

But that new marketplace has been slow to catch on in Florida for many reasons: The state does not have a large industrial base - most of the utilities' customers are families. Because Florida is a peninsula, it has limited access to utilities in surrounding states, with only two main power lines and three smaller power lines linking Florida's grid to other states. Electric rates in Florida are near the national average, while the more-aggressive deregulating states have had high rates.

So far this year, Florida residents have paid an average of 7.9 cents per kilowatt hour of electricity - that is essentially the same as the national average of 8.02 cents, according to the Energy Information Administration. By comparison, residential customers in California - the first state to deregulate - pay 10.4 cents.

"The movement toward restructuring needs to be done carefully and done right," said Mike Oldak, director of state competitive and regulatory policies for Edison Electric Institute. "A lot of states are waiting to see what's happening."

Florida is one of them. This year, a committee of the Florida House of Representatives asked its staff to report in December on what other states have done toward deregulation. That study implies that Florida leaders may have started thinking about making moves - however small.

"Ten or 15 years ago, when everyone was fighting bank deregulation, Florida said 'We're not going to allow deregulation.' The net result is there are no more (large) Florida banks," said state Rep. Luis Rojas, chairman of the House Utilities and Telecommunications Committee. "If Florida doesn't look at deregulation, it may be that five, 10 years from now, just like Carolina Power just bought Florida Power, there may not be any Florida electric companies. They may all be out of state." Helping big users

Blake Casper, whose Caspers Co. owns 48 McDonald's restaurants in the Tampa Bay area, became a proponent of deregulation a few years ago, when garbage collection became competitive in Hillsborough County. Casper switched trash collectors and saw his bills drop 40 percent. He hopes deregulation will also save him money on his \$ 2.5 million annual electric bill.

"We're not expecting to see 40 percent (savings), but we have friends in other states that have

already gone to deregulation and saw 15 percent," Casper said.

Industrial and commercial customers use the most power - IMC Agrico is Tampa Electric's single largest customer, for example - and in deregulated states, industries have seen savings averaging 5 percent to 10 percent.

But they save money because they're large enough customers to negotiate sweet deals. Not everyone is convinced deregulation is the way to go for residential customers.

For example, in San Diego, where the power market has been deregulated for several months, residential electric bills have actually risen by about 10 percent, said Michael Shames, executive director of the Utility Consumers Action Network in San Diego. Demand for electricity this summer was high, but the supply remained constant, so prices rose.

Other states have seen nominal decreases, or regulators have mandated a discount for residences. That move, however, tends to discourage competition, experts say. Required discounts depress profit margins.

"The large industries get what they want; the utilities get what they want; the environmentalists get what they want; and the consumers pay the bill for all three of them," said Mark Cooper, research director for the Consumer Federation of America.

Deregulation also brings with it some demons.

If electric power is deregulated, the market would be broken into several large pieces. Because utilities would no longer be monopolies, most would likely become companies focused strictly on transmission and distribution of power - keeping their power poles and wires. They would sell their power plants to energy companies that focus on generating power, similar to what merchant plants do now.

Utilities are concerned about "stranded costs," which is when they have spent millions of dollars to build a power plant and then sell the plant at a loss.

Customers would bear the burden for those stranded costs, which would artificially inflate prices for a few years.

And prices of electricity could fluctuate wildly, especially during times of severe weather, such as San Diego's high summer rates.

Another hurdle is confusion as customers stumble through the early years of a new process.

"I don't think my grandmother is going to wake up at 4 in the morning to do her wash because she can get cheaper power," said Joe Garcia, chairman of the Florida Public Service Commission. "I do see industrial customers doing that."

Consultants say consumers could be as baffled about electric deregulation as they were with the breakup of Ma Bell 15 years ago.

When federal regulators ordered AT&T dismantled, consumers became confused. When they picked up the phone, what company controlled it now? Why did they need a separate long-distance carrier? And then the onslaught of advertising began by long-distance companies, each

claiming to have the best rates.

"Instead of being called by telecommunications service providers during their dinner hour, they'll now be called by energy service providers as well," said Jay Lukens, president of Lukens Consulting Group, an energy consulting firm in Houston.

In the long run, consumers could benefit from improved technology and bundled services - such as a company selling phone service, power and cable television as one package.

"Florida has to make some decisions as to whether those things are worth it," San Diego consumer advocate Shames said.

"Learn from our mistakes. You don't need to make your own mistakes," Shames said. "Send us a check for some of the tuition. The ratepayers could use it out here." Cherie Jacobs Lane covers utilities and can be reached at (813) 259-7668 or at cjacobslane@tampatrib.com

Load date: October 19, 1999