

LEGISLATIVE PRIORITY: ELECTRICITY COSTS

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State Chamber Position

Skyrocketing energy costs are a cause of major concern for Delaware businesses of all sizes. With electricity deregulation scheduled to take effect in May, companies could see their rates rise by 50 percent to more than 100 percent. While large and medium-sized companies have some options, such as aggregation and pooling, smaller companies are left to absorb increased costs on their own. Small businesses need legislative and educational support to help them face this unexpected increase in the cost of doing business.

Recent History

Delaware residents and business have benefited from an artificial price break on the price of electricity since the state froze rates when the General Assembly voted in deregulation in 1999. Rates had already been reduced by 7.5 percent before the price freeze. The legislation called for price caps to remain in place until 2003. But when Pepco bought Conectiv, the Public Service Commission extended the rate freeze until May 2006.

Rate increases were expected. But why did the electricity rates jump so dramatically? There are a number of contributing factors. The primary cost driver in the past few years has been the higher cost of oil, coal and natural gas. Added to this are supply pressures, and the added demands caused by population growth and an aging transmission system on the Delmarva Peninsula.

In addition, industry regulations put pressure on PJM Interconnection, the regional energy wholesaler that supplies Delaware. This in turn increased the amount that Delmarva Power pays for electricity.

What Can Be Done?

Recently, Gov. Ruth Ann Minner received a report from her cabinet explaining reasons for the huge increases and, more importantly, offering means of lowering the high cost of energy.

The Governor's cabinet presented several ideas to combat higher utility prices. The first option for business is aggregation. Simply put, large businesses such as DuPont, AstraZeneca, DaimlerChrysler or Bank of America would bid out the contract for selling energy to all of their facilities on a national or regional basis.

Medium and smaller businesses with similar energy needs and uses, such as supermarkets, warehouses, construction firms, manufacturers or schools, could band



together to purchase energy, generally at the state or regional level.

Small business owners, however, would be left to find a reasonably sized pool of similar businesses, which is difficult, or find other means of reducing energy costs.

The Governor's report includes several interesting programs and suggestions.

Among them:

- Use Chambers of Commerce to teach businesses how to reduce energy costs,
- Help Chambers hire energy consultants to advise members on how to aggregate their electric power purchases, as well as implementing energy-efficient systems,
- Hold a statewide business energy summit to discuss how to implement new technology and energy-efficiency strategies,
- Provide \$8 million in one-time incentives to encourage residential and commercial users to install energy-efficient light bulbs, appliances and equipment,
- Increase by \$3 million annually the Green Energy Fund, which supports industrial conservation and energy-saving initiatives, and
- Allow residential and small business owners the option of paying the expected electric increase in May or choose a deferral plan that gradually increases rates, beginning with 15 percent.

These proposals are only a start. These options will be refined and new strategies will be developed.

The best thing most business can do now is explore aggregating to purchase energy. This opportunity will be available in some form for most large and medium companies. Small business aggregation will be more complicated and problematic, but not impossible.

With the exception of aggregation, small businesses will benefit from most of the strategies listed above. But is it enough?

There are almost 19,000 small firms with fewer than 500 employees in Delaware, according to the U.S. Small Business Administration. These companies employ more than 170,000 people and account for more than 40 percent of non-farm private sector employment. They deserve special attention. The Delaware State Chamber is working with the Governor's office, Delmarva Power, the Delaware Economic Development Office and the General Assembly to ensure that they get much-needed help. ■