

Commonwealth of Pennsylvania

Senate Consumer Protection and Professional Licensure Committee

Public Hearing

Electric Rates

April 13, 2010

Testimony presented by:

Steve Elsea, Director of Energy Services

Leggett & Platt, Inc.

My name is Steve Elsea and I am the Director of Energy Services for Leggett & Platt Incorporated. I want to thank Senator Tomlinson and the Senate Consumer Protection and Professional Licensure Committee for this opportunity to share our company's perspective of competitive electric markets.

I began my career with an investor-owned dual-fuel utility in Illinois in the pre-Three Mile Island era. I spent 22 years working for investor-owned utilities in Illinois, Kentucky and Ohio. The focus of my career was in marketing and customer services and I've personally conducted hundreds of energy efficiency audits for residential, commercial, institutional and industrial customers. Before I left the utility industry in 2000 I managed residential and commercial customer programs for American Electric Power (AEP). Later I owned an energy management company that focused on a demand response solution and consulted for municipal electric utilities in Ohio before I joined Leggett in early 2007.

Leggett & Platt is a diversified Fortune 500 manufacturer that conceives, designs and produces a broad variety of engineered components and products that can be found in virtually every home, office, retail store and automobile. Leggett serves a broad suite of customers that comprises a "Who's Who" of U.S. manufacturers and retailers. Since our founding in 1883, our company has grown into 19 business units employing 19,000 Leggett partners in more than 140 facilities located in 19 countries. About two-thirds of our production facilities are located in the United States and we operate two production plants in Pennsylvania; one in Berwick and the other in Wilkes-Barre.

As you can imagine, our production facilities and their respective hours of operation are very diverse. We have small assembly plants that operate one or two shifts a day five days a week to large 24x7 integrated production facilities where feed stock is turned into finished products and components.

As a large power user, Leggett believes that competitive energy markets are important. Competitive markets produce price transparency that provides end-user consumers with choices unavailable from monopoly-protected suppliers. Competitive markets not only provide consumers the options that can mitigate price volatility but those markets inherently improve supply-side reliability and increase efficiency and technology options on the demand-side. Leggett is an active member of the COMPETE Coalition, a leading voice for pro-competition electricity consumers representing more than 400 customers, suppliers, generators, transmission owners, trade associations, and economic development corporations – all of whom support well-structured, competitive electricity markets for the benefit of consumers.

Leggett and other COMPETE Coalition customer members - that operate 1,387 facilities with over \$125 million in annual electricity costs and employ almost 100,000 Pennsylvanians - have sent letters to Governor Rendell on three separate occasions expressing support for continuing the transition to competitive markets in Pennsylvania.

I want to point out that well-structured competitive markets are not deregulated as the misnomer suggests. Not only are regulators at the Securities Exchange Commission, the Federal Energy Regulatory Commission and the Pennsylvania Public Utility Commission mandated to ensure regulatory compliance by energy suppliers and consumers but policy makers such as members of this committee provide oversight as well. Accordingly, Leggett wants to commend the policy makers in the Commonwealth of

Pennsylvania for the steady leadership and guidance during the seamless transition to open access when the rate caps were removed earlier this year in the PPL service territory. Conversely, our California and Michigan friends continue to ration “choice” in piecemeal fashion.

Restructuring the electricity markets has greatly diminished financial risk for consumers. Monopoly-protected utility companies are guaranteed recovery of their costs from their captive customer rate base. With restructuring, customers can choose among service providers and the risk of poor investment decisions is borne by companies competing for those customers. Competition disciplines investment by shifting the risk of poor business decisions from consumers to investors, where it belongs.

Having worked many years on the investor-owned utility side of the business I understand the opposing positions taken by some of my industrial counterparts. In my days at AEP before the emergence of organized markets, I found it curious that certain customers and customer classes – namely industrial customers – were among the most active participants lobbying for competitive markets. They were experiencing rate increases never before seen, but the fact of the matter was that many high use, high load factor customers were paying only slightly above the cost of fuel plus marginal variable costs. These costs were well below the utility’s cost-to-serve. This meant that other, less sophisticated customer classes were paying higher prices to support the below-cost rates they were enjoying.

As you know, price transparency that results from competition eliminates the subsidization between customers and classes of customers. It is natural that the more subsidized a customer was before competition the more likely that their average costs will increase upon the introduction of competition. This doesn’t make markets dysfunctional as has been suggested by some but it does prove that price unbundling in a competitive, organized market works.

When I began to consult with a 100-megawatt municipal utility in Ohio I reviewed their wholesale contract they had with my former employer, AEP. The muni was paying well below market prices after the phase-in to competition began in Ohio in January 2000. I noticed that there was a cancellation provision that would allow AEP to notify the muni of its intent to cancel before the automatic renewal date of January 1, 2001.

Upon such notification, the contract would expire at the end of the following calendar year. I suggested to the muni that AEP would probably be notifying them before year end to cancel this 20-plus-year-old contract. On cue, AEP faxed its intent to cancel on December 31, 2000 and the muni began paying market prices on January 1, 2002. The same thing happened to Leggett at our steel plant in Illinois where our price following the conversion to market-based rates in 2007 increased over 40%.

Did we like it? Not much.

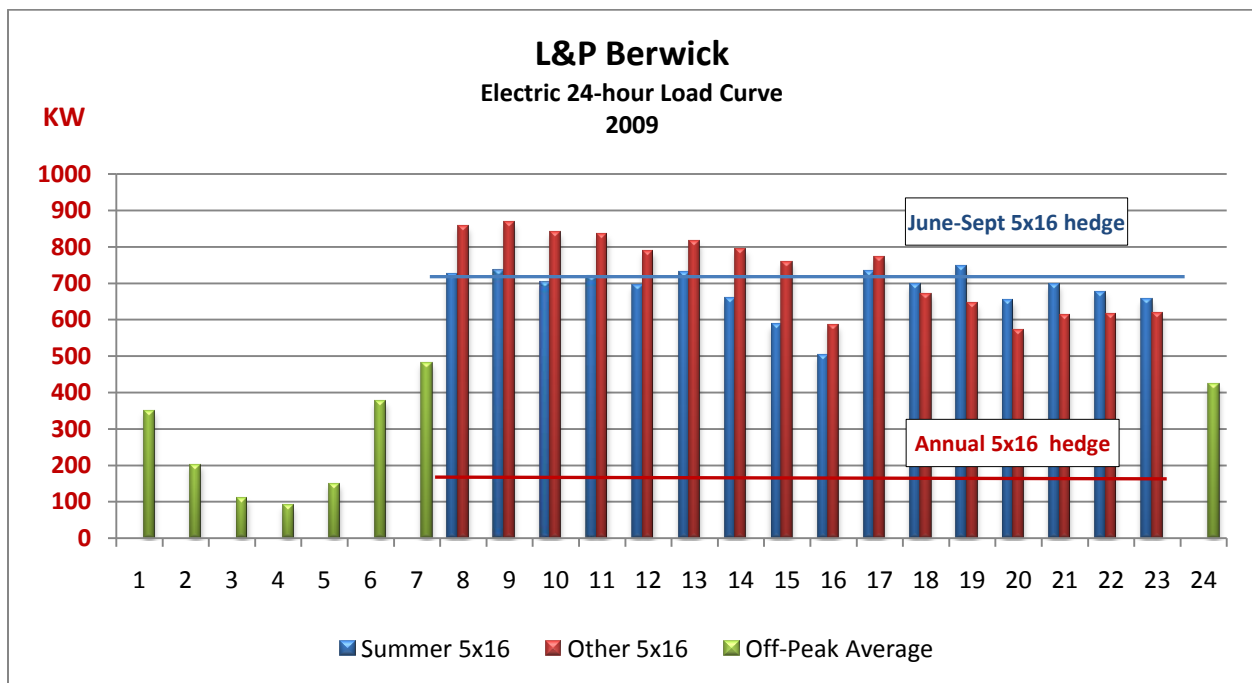
But the good news that came out of this is that we took a much closer look at how we were using electricity and where we could implement new technologies and conservation measures to reduce our costs. We also established risk management strategies to mitigate price volatility and reduce costs while also contributing to improved grid reliability by participating in demand-response.

This has helped us in other competitive markets such as Texas, New Jersey, Ontario, Massachusetts and now Pennsylvania.

Our experience is that in a well-functioning competitive market like Pennsylvania’s, competitive retail suppliers can offer contracts to customers of all sizes. These contracts can be month-to-month, three months, six months, one year, 18 months, two years, three years, and even longer, tailored to meet the individual needs of the customers.

In addition, there are numerous service options available from competitive suppliers to meet customer’s needs, resources, budget requirements, environmental or sustainability initiatives, and price hedging strategies. These products can be individually customized to meet the business goals, risk appetite, and needs for all types of consumers.

At our Berwick plant, for instance, we hedge our risks differently depending on the time of year. The graph below illustrates the levels of risk we are willing to accept. Note that in the months from June through September we have fixed prices for over 90% of our load that occurs during the peak 16 hours per day – Monday through Friday. The remainder of the year, our hedge level drops to around 30% of our load during these periods. The remaining 88 hours in the week we will buy electricity at spot-market prices. These decisions were based on careful analyses of historic hourly prices in the PJM Regional Transmission Organization’s (RTO) market behind PPL. By the way, during the bidding process we received quotes from six different prospective providers.



As our economy emerges from recession and we can add a third-shift at Berwick, the marginal energy we will consume there will be at lower prices. The physical-hedge block and index product we have chosen is one of many products available from third-party suppliers in a well-structured competitive electricity market. This kind of price transparency is not available in monopoly-protected utility service areas.

Is consumer choice working? You better believe it.

Without caps, and with customer choice, today's residential rates in the Commonwealth are largely either unchanged or lower than in 1991 when adjusted for inflation. Accordingly, since the PPL price caps were lifted on January 1 this year almost a third of a million residential customers have already shopped, over a third of all commercial customers have shopped and over half of industrial customers have shopped.

Again, I want to thank the committee for this opportunity to share our company's perspective of competitive electric markets and our experience in Pennsylvania.