



COSTLY CONCERNS

Electricity Prices Predicted to Increase

By Charlee Beasor

Energy costs are a part of every budget, whether it's a family financial plan or an industrial one.

In the early 2000s, Indiana boasted the fifth lowest electricity prices nationally. Today, Indiana is in the middle of the pack at 27th.

A recent projection from the State Utility Forecasting Group (SUFG) predicts Indiana's electricity price tag will rise 32% over the next 20 years. Additionally, the forecast points to almost stagnant growth in demand – less than 1% in that timeframe.

The SUFG releases long-range forecasts of electricity usage, prices and resource needs every two years for the Indiana Utility Regulatory Commission.

"Each time we do a forecast, at least the last four to six years, each one is a little bit more gloomy," SUFG Director Doug Gotham explains.

The 2011 forecast, for example, showed a 20% increase in prices over time. Go back to the 2003 report, however, and the projection was for prices to remain steady over the rest of the decade and then even fall slightly through the duration of the forecast.

Economic factors play a large part in the predictions.

"The focus isn't on the short term," Gotham notes. "The longer term tends to average out some of the shorter-term economic cycles. The forecast a year from now could be (impacted by) an unusual weather pattern. This year, the winter would affect forecast accuracy in the short term, as with economic upturns or downturns," he relays.

Centers on efficiency, regulations

The SUFG report points to a few reasons for high prices and low demand (primarily increased energy efficiency) in the coming years.

"People are paying more attention to energy efficient options. Any kind of longer term, relatively deep downturn in the economy, there's an effect going forward in electricity demand.

We are coming out of a very severe recession and the baseline for what we expect to see in terms of electricity (demand) is lower than it was in the recession," Gotham acknowledges.

As for increasing prices, the SUFG report identifies three factors: "costs associated with meeting environmental rules, cost associated with recent plant construction and costs associated with extending the life of existing generating facilities."

Gotham highlights the regulations from the U.S. Environmental Protection Agency (EPA) and the impact on coal-heavy Indiana.

"The biggest one of those is the Mercury Air Toxic standards that EPA put out. In order to meet that, it especially hits the coal-fired plants. Most of the plants have to install a significant amount of retrofits of pollution control devices or shut down," he continues.

"The ones that get shut down eventually need some type of (energy) sources to replace those. Buying power off the market, spending more on energy efficiency or constructing additional plants, all of that costs money.

You're either going to pay for it in terms of retrofits in existing plants or replacing the resources that are being retired."

Greg Loving, senior vice president and general manager of Rochester Metal Products Corp., also points to the federal regulations as a major factor behind higher costs. The company is a ductile and grey iron castings foundry with over 340 employees.

"They're going to run us out of business just by regulating not just energy usage, but regulations in general. It comes to the point you can't charge so much for the product you make (to make up for the difference) because

nobody would buy it. You could not afford to operate, not just us, not just foundries, but there are a number of different businesses that are affected."

Economic development impact

Jennifer Terry, director with Lewis & Kappes law firm, points to increasing prices as an economic development issue. Terry handles government relations for Indiana Industrial Energy Consumers, Inc. (INDIEC), an organization that represents some of the state's largest manufacturers.

"Many of these companies have facilities globally and also throughout the United States. When they have an opportunity to expand a production line or to bring a new product, they have to compete with some of their other facilities in the states or globally," Terry contends.

"Indiana has a very strong manufacturing base. It's not going to shutter up overnight, but the more opportunities that are lost is an indication of the overall health of the manufacturing economy, which is very important in Indiana."

Rising prices also keep Hoosier businesses from being able to remain competitive in the global market.

"For our folks, the costs of energy range anywhere from 10% to over 50% of the total production costs. ... The way they price their goods, electricity is part of their input costs, but they don't necessarily have a way of easily passing on the increases in electricity costs in their finished product, particularly if they compete globally," Terry asserts.

What can companies do to work around high energy costs? Two possibilities: Policy reforms at the state level or investing capital

in internal generation.

“Some of the largest manufacturing customers already have some of their own electric generation and as the cost of electricity increases, folks are considering making new investments to generate their own electricity,” she describes.

Not just the big guys

Small, energy-intensive companies also feel the pinch of increasing prices.

“The energy cost: we’ve seen since ’05, it’s gone up 67 cents per kilowatt already,” Loving offers. “When you use as much (energy) as we do, that makes a large impact.”

The state has lost its competitive edge, he adds.

“Back even 10 to 15 years ago, we had an advantage with the power cost, but in that time, we’ve lost that advantage and there are foundries in a number of different states that have much lower energy costs, electric costs, than what Indiana does,” Loving says.

All Hoosiers will see the results of higher prices, he indicates.

“We’re just talking about businesses, but all of our people have to live and turn their lights on as well. This is going to be a larger and larger

percent into people’s budgets at home.”

A small measure

Loving recently testified before the Indiana House of Representatives and a colleague did the same in the Senate on Senate Bill 340, which will eliminate the Energizing Indiana program in December.

“That’s 2.6% of our (energy) bill that goes toward energy efficiency adjustment that we have no way of getting out as much as we put in. We changed some lighting ... but the rebate we get for it is just a drop in the bucket. Not to mention that to opt out, we could take that money and use it for something worthwhile to make ourselves energy efficient. Lighting fixtures are just a small savings for us,” he explains.

INDIEC supported SB 340 as a short-term relief measure, Terry mentions.

“The cost of the demand-side management programs are about 1-3% of a large manufacturers’ bill; having that come off the bill certainly helps, but it’s not of the scale that’s going to cause Indiana to go from 27th to 15th (in national rankings) all of a sudden. But it’s a helpful first step in trying to control electricity costs,” she explains.

The program wasn’t an effective way for INDIEC members to participate in energy efficiency, as most already had “mature” programs in place, Terry adds.

Another possibility in lowering costs is to drop energy loads during peak times, with a credit from the utility company for companies that participate. Loving mentions the foundry had done that previously.

“We would have a reduction in our rate if we ran in the off-peak hours, the second and third shift. We run three shifts. We would have to offload enough work to run during the times we could and the price of the energy was more reasonable,” he recalls.

Whatever the solution, Terry observes that time is wasting.

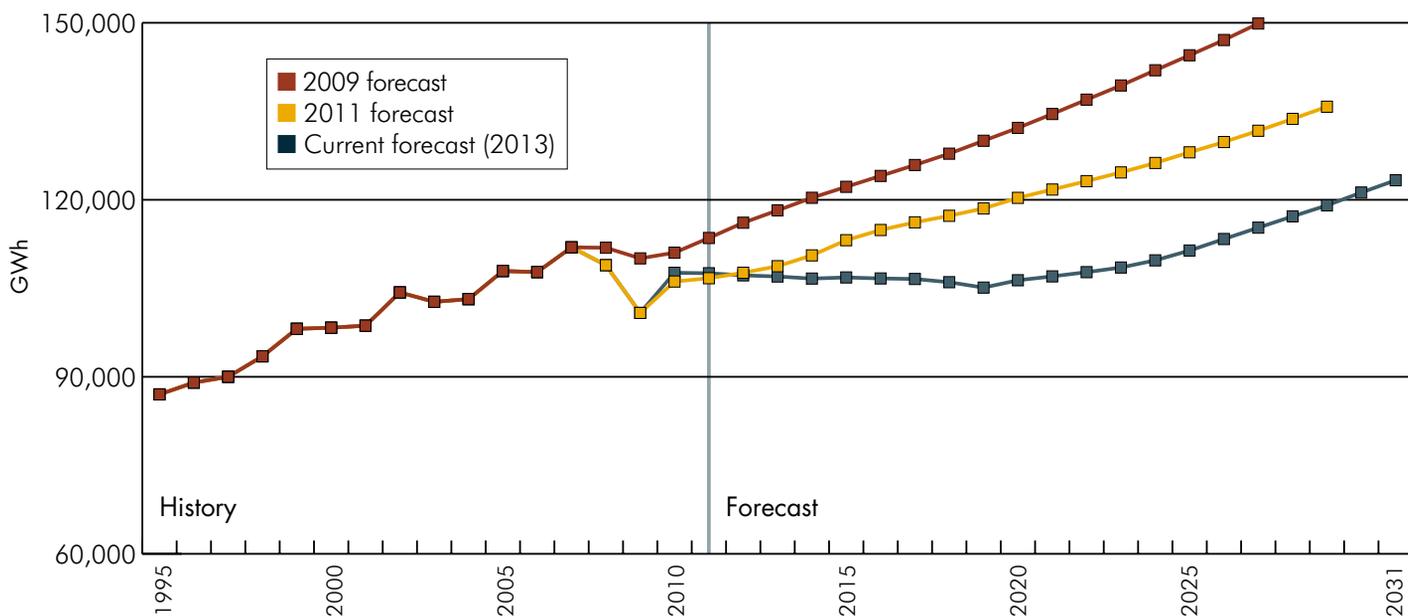
“Prices at the current level are already affecting some of these economic development decisions. I’m concerned (that) unless we try to do something to try to bring costs down now, there will be a pretty big ripple effect in industrial demand,” she concludes.

Indiana Vision 2025: SUPERIOR INFRASTRUCTURE GOALS

- Create and implement a plan to position Indiana as a net exporter of energy.
- Diversify Indiana’s energy mix with an emphasis on clean coal, nuclear power and renewables.
- Identify and implement workable energy conservation strategies.
- Develop and implement a strategic water resource plan that ensures adequate fresh water for citizens and business.
- Develop and implement new fiscal systems to support the array of infrastructure projects critical to economic growth.
- Aggressively build out the state’s advanced telecommunications networks.

Indiana Electricity Requirements in Gigawatt hour (GWh)

Historical, Current and Previous Forecasts



RESOURCES: Doug Gotham, State Utility Forecasting Group, at www.purdue.edu/discoverypark/energy/SUFG | Greg Loving, Rochester Metal Products, at www.rochestermetals.com | Jennifer Terry, Lewis & Kappes, at www.indiec.com