



FEDERAL ENERGY REGULATORY COMMISSION

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FERC Examines Causes of, Responses to Rising Electricity Costs

Higher fuel prices, increased capital costs and continued uncertainty about climate policy are helping fuel the rising costs of electricity faced by consumers across the country, the Federal Energy Regulatory Commission (FERC) said today.

The rising cost trends are likely to continue for years, according to a report presented to the Commission by analysts from FERC's Office of Enforcement. The report pegs current futures prices for natural gas at \$2.50 to \$5 above the average 2007 spot price for natural gas, and costs for everything from iron and steel to cement and copper wire rising significantly over the past several years. Those have contributed to increases in the cost of new generation for every type of power plant, from nuclear power to combustion turbine and wind generators.

"FERC regulatory policy must be based on reality, and that sobering reality is that the upward pressure on electricity prices – higher capital costs for new power plants, higher construction costs, and higher fuel costs – should continue for some time," FERC Chairman Joseph T. Kelliher said. "That means electricity prices will be higher than many Americans would like."

"We must confront three realities: FERC is regulating in a high-cost environment; the United States needs massive investments in new electricity generation, transmission and distribution facilities; and we are beginning to confront the climate change challenge, which puts us in a period of uncertainty regarding policy," Kelliher added. "There is tension among these three realities, and they work at cross purposes. The United States cannot simultaneously make the massive investments necessary to assure security of our electricity supply, make additional large investments to confront climate change, and lower electricity prices. Doing so would likely result in failure."

The report says that consumers and the market likely will respond with demand response measures that help reduce energy consumption during times of peak prices, energy efficiency and conservation measures, and technological innovations that could usher in changes that help reduce costs and improve value, as they did in other competitive industries such as telecommunications.

The FERC staff report, "Increasing Costs in Electric Markets," is available on the FERC website, www.ferc.gov.

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