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## **Keeping America Competitive**

By: Leon F. (Lee) Hebert, Plant Manager, Monsanto Chemical Company, Pensacola, Florida

In 1993 Monsanto's Pensacola plant "opted out" of the electric grid as a full time customer of the electric utility industry and began producing (cogenerating) our own electricity. Why did a chemical company opt to leave one of the lowest priced electric grids in the United States? What caused a chemical producer to venture into electricity production and sales? How have things changed to allow a small producer of electricity to compete with a large utility producer with economies of scale? Who let the price of electricity far exceed its cost?

The answers to these questions are not simple. Part of the answer is explained by the efficiency of cogeneration and new, less expensive technology and equipment to produce electricity. But much of the answer is explained by a now antiquated rate system -- a regulated rate system that served our society well when we were a young and growing country trying to encourage investment in utilities. Now, however, that system threatens our industrial competitiveness and reduces the consumers discretionary income.

Monsanto's interest in producing electricity was encouraged by our ability to use the fuel's energy more efficiently. As a cogenerator, our natural gas drives an electric generating turbine. The hot turbine gas exhausted from the turbine is then reused to make steam for our process needs. This allows us to use about twice the energy in the fuel while producing much less pollution per kilowatt hour than a utility company.

By our opting out of the electric grid, the need for more generating capacity by the utility was lessened. This saved the electric power consumer an investment of capital while helping delay an expansion by the utility. Our generating unit now allows us to sell excess electricity to our former supplier at about one fifth the cost the residential customer pays for their electricity. This equates to another saving for the rate payer as some of that savings is passed on to him.

Monsanto's real interest in producing electricity was driven though by a regulatory system that allowed little ability to negotiate rates for large power users and an obligation to buy electricity from only one supplier. As a global company, we purchase electricity throughout the United

States and other parts of the world. Utility companies are like manufacturers. Some are more efficient than others. Unlike manufacturers though, the less efficient ones do not exit the market. They are guaranteed a set percent of return on their capital investment by the regulatory agency.

This does not encourage them to purchase the most efficient equipment and services when building new operating units. In fact, it was part of the reason that Congress enacted the Public Utility Regulatory Policies Act of 1978 (PURPA). In retrospect, PURPA can be viewed as an experiment to test the current thinking that generation of electricity is no longer a natural monopoly. In 1992, Congress took an additional step in the direction of competition by enacting the Energy Policy Act of 1992. Because of these two pieces of legislation, approximately ten percent of the generating capacity is now provided by "non utility" resources -- such as Monsanto's Pensacola cogeneration plant. Cost of electricity has remained stable and in some areas has fallen in real dollar terms.

What can be done to change an industry that has served society so well that it continues to do so as we go into the twenty first century? The answer is the same as it was for the trucking, natural gas, telecommunications and airline industries -- introduce competition, allow for free entry of suppliers and choice by customers, and let market forces dictate price and capacity. Several states have begun to allow competition and are breaking the regulated utility industry into generation, transmission and delivery segments. Will this be bad for the utility industry? Most likely not, as many utility companies recognized this potential change in the late 1980s. They have been busy reducing their costs and consolidating power companies to become low cost producers.

What principles should guide us as we deregulate such a key service as electricity? The following are some ideas but they will not be the final answer. Deregulation will take an ongoing dialogue among the stakeholders to achieve the best results.

- ✓ Assure that the customer is provided the broadest possible choice of services, providers, pricing options and payment terms.
- ✓ All customers must be able to share fairly in the benefits of competition.
- ✓ Ensure that full and fair competition exists in the power generation markets.
- ✓ Generation, transmission, and distribution services must be separated or unbundled.
- ✓ The transmission and distribution services must continue to be regulated since they most likely will continue to comprise a monopoly.

- ✓ Electric service must be available to everyone through the distribution utilities that will remain.
- ✓ The electric system must remain reliable either by competitive forces or through a regulated agency.
- ✓ A transition mechanism must be established which fosters a competitive environment and allows utilities to compete in that environment.
- ✓ Cost effective conservation programs should continue to be encouraged and supported.

The opportunity exists now to ensure that adequate electricity at the most cost effective price becomes available to all energy users. As with deregulation of any regulated industry, there is hesitation. Status quo has its comfort. However, invention and innovation that has moved our country forward has always occurred because of our willingness to take risks.

#### **About the Author**

Leon F. (Lee) Hebert is a native of Springfield, Massachusetts and graduated from the University of Massachusetts with a Master of Chemical Engineering degree. Mr. Hebert joined Monsanto in 1960 at the Springfield, Massachusetts plant. After serving in a number of supervisory positions at that facility, he transferred to the Kenilworth, New Jersey plant as Plant Manager in 1978. In 1986, he transferred to the Nitro, West Virginia plant as Plant Manager. He was appointed to his present position on August 1, 1989.

Mr. Hebert currently serves on the following boards: Florida Chemical Industry Council; Florida Sterling Council; Pensacola Area Chamber of Commerce; Pensacola-Escambia Development Commission; WSRE-TV Foundation, Inc., and United Way of Escambia County.

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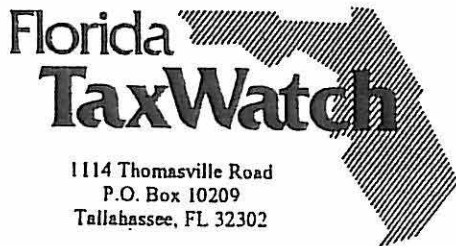
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Florida TaxWatch is the only statewide organization entirely devoted to protecting and promoting the political and economic freedoms of Floridians as well as the economic prosperity of our state. Since its inception in 1979, Florida TaxWatch has become widely recognized as the watchdog of citizens' hard-earned tax dollars. In recent years, news stories about Florida TaxWatch have run in all Florida newspapers, *The Wall Street Journal*, *The New York Times* and *The Washington Post*. In addition, Florida TaxWatch has been featured on the prestigious *MacNeil/Lehrer Newshour* and several times in *The Wall Street Journal*.

Florida TaxWatch's empirically sound research products recommend productivity enhancements and explain statewide impact of economic and tax and spend policies and practices. Without lobbying, Florida TaxWatch has worked diligently and effectively to build government efficiency and promote responsible, cost-effective improvements that add value and benefit taxpayers. This diligence has yielded impressive results: through the years, three-fourths of TaxWatch's cost-saving recommendations have been implemented, saving taxpayers over \$5 billion. That translates to approximately \$875 in added value for every Florida family.

With your help, we will continue our diligence to make certain your tax investments are fair and beneficial to you, the taxpaying customer who supports Florida's government. Florida TaxWatch is ever present to ensure that taxes are equitable, not excessive, that their public benefits and costs are weighed, and that government agencies are more responsive and productive in the use of your hard-earned tax dollars.



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