Written Testimony

of

WAL-MART STORES, INC.

before the

PENNSYLVANIA PUBLIC UTILITY COMMISSION’S

En Banc Third Public Hearing on

“Current and Future Wholesale Electricity Markets”

December 15, 2008

Harrisburg, Pennsylvania
Wal-Mart Stores, Inc. ("Wal-Mart") is pleased to have the opportunity to submit written testimony to the Pennsylvania Public Utility Commission ("Commission" or "PAPUC") in this docket on “Current and Future Wholesale Electricity Markets” and for the honor of appearing before the Commission at its hearing on December 18.

Wal-Mart commends the Commission for holding hearings on this important topic. The availability, reliability, price and environmental profile of the nation’s electric power have significant implications for our customers, for the country’s recovery and long-term competitiveness, and for reducing greenhouse gas emissions. As Wal-Mart has testified, before this Commission and before numerous other regulatory and legislative bodies throughout the nation, these complex and interlocking objectives are best met by competitive markets rather than by traditional, command and control regulatory regimes. Indeed, competition and customer choice provide numerous benefits, one of the most notable of which is their positive effect on renewable energy, clean technology and operational efficiency in the marketplace.

Wal-Mart has over 4,100 retail stores and facilities in nearly every jurisdiction in the United States; in Pennsylvania alone, Wal-Mart operates 83 supercenters, 41 discount stores, 23 Sam’s Clubs and 4 distribution centers. Wal-Mart, as a global retailer with approximately $2 billion in U.S. electricity costs per year, has a unique perspective on this issue, for at least the following reasons.

First, Wal-Mart has decades of experience in negotiating everyday low prices for our customers. In this regard, our active involvement in the wholesale and retail electric markets throughout the country is no different from our efforts to maintain low prices on orange juice or dishwasher detergent: every dollar of Wal-Mart’s $2 billion annual electric bill that we avoid helps us help our customers to save money and live better. Even small changes in Wal-Mart’s electricity usage can provide vast savings in the range of tens of millions of dollars. As such,
Wal-Mart is constantly seeking new ways to reduce energy costs and to sustain our environment, including installation of our own advanced meters for demand response initiatives to investing in renewables. These energy savings are subsequently passed on to our customers in the form of maintenance of lower prices. Wal-Mart has three goals that we have adopted as a company. They are: (1) to be supplied by 100% renewable energy; (2) to create zero waste; and (3) to sell products that sustain our resources and the environment.

Second, our experience gives Wal-Mart a unique ability to compare regulatory regimes, and to systematically and empirically determine what works and what doesn’t. Wal-Mart has realized substantial benefits through energy efficiency, demand response and renewables in markets that allow for maximum customer choice and maximum competition. Our conclusions are based not on theoretical econometric curves or ideological debates about regulatory structures, but on the undeniable, bottom line truths of our experience. Our nationwide operations allow us to compare empirically the pros and cons of both regulated states and choice states. In this regard, Wal-Mart’s experience with competitive markets has been particularly positive. Specifically, we have found that a competitive system encourages plant-level operational and market-based efficiencies, which allows all customers to realize not only lower costs, but great customer service and the benefits associated with the myriad of pricing structures tailored to fit facilities with varying load characteristics.

Finally, in addition to its continuing commitment to maintaining everyday low prices to help our customers save money and live better, Wal-Mart is also committed to reducing greenhouse gas emissions through its aspirational goal of obtaining 100% of its electricity from renewable resources. In that regard, Wal-Mart last month announced its first substantial direct purchase of wind energy in the United States, under which a new wind project in Texas will supply up to 15% of our total energy load in approximately 360 Texas stores and facilities. We
have attached as Exhibit 1 to this testimony a press release with details of that transaction.

Significantly, the Texas wind project will deliver electricity to Wal-Mart’s Texas stores at competitive rates, with no premium or add-on for the zero emission electricity we will be buying. Wal-Mart also has 19 solar projects – 17 in California (a competitive state)\(^1\) and 2 in Hawaii. All but two of these solar projects are currently in commercial operation. Innovative and cost-saving projects like these are enhanced in competitive markets – yet another reason why Wal-Mart urges this Commission to “stay the course.” Giving customers the freedom to choose environmentally innovative alternatives to “business as usual” power will ultimately trickle down to help utilities reduce their greenhouse gas emissions, thereby further mitigating environmental compliance costs, which benefits all customers on their utility bills.

**Wal-Mart’s Experience: The Competitive Model Yields More Benefits to Consumers**

In our experience, competition is one of the most effective ways to manage energy costs. Indeed, Wal-Mart currently participates in competitive electricity markets in 14 states – Pennsylvania, California, Connecticut, Delaware, Maine, Maryland, Massachusetts, Michigan, New Hampshire, New Jersey, New York, Oregon, Rhode Island and Texas – and in competitive gas markets in 19 states. We have found that competition resulting from the ability to choose among energy suppliers provides incentives to both utilities and competitive power suppliers to operate more efficiently.

In addition to efficiency, Wal-Mart believes that a successful competitive market design ensures accurate price signals through complete, transparent, unvarnished information to consumers. As Steve Elsea, Director of Energy Services of Leggett & Platt, Inc., a diversified

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\(^1\) Wal-Mart developed most of its California solar facilities on sites that were grandfathered before competition was suspended in 2002.
manufacturing company with over 180 facilities, and one of the panelists on this docket, aptly put it:

[c]ompetitive markets produce price transparency that provides end-use consumers more choices than those from the vertically integrated energy delivery construct. Competitive markets not only provide consumers the options that can mitigate price volatility but those markets also inherently improve reliability through regional transmission organizations on the supply-side and increase efficiency and technology options on the demand-side. Make no mistake about it. Competitive electricity markets are working.2

Regulators and legislators should aspire to full-fledged competitive regimes to the greatest extent possible and resist the allure of rate freezes and other interventions in market prices. These measures do not protect customers in the long run, because they only invite rate shocks once those freezes are lifted as seen most recently in Maryland. Unclear, inconsistent, changing price signals and regulatory regimes will always lead to inefficiencies in the market and resultant chilling effects in the capital markets, making it particularly difficult to develop new generation resources.

Recently, a group of naysayers has argued that competitive markets do not provide savings or benefit customers.3 They point to rising energy prices, high profits of certain generation companies, increased exposure of consumers to wholesale spot prices, and the exercise of market power by some energy providers.4 Without accurate data or on-the-ground

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2 See What People Are Saying About Electricity Consumption, a collection of quotations regarding electricity competition compiled by the COMPETE Coalition, attached hereto as Exhibit 2.


4 See PJM ICC Statement at 1 (Nov. 6, 2008) (arguing that high costs in Maryland when compared to West Virginia are directly due to the PJM’s competitive system). However, Wal-Mart believes that the difference is due to two factors: (1) the low cost of coal and predominance of coal-fired power plants in
experience, some critics of the competitive model advocate returning to the highly inefficient cost of service approach to electricity regulation that has proven to be not as advantageous and as flexible in working with managing energy costs, increasing renewable opportunities, and maximizing our contribution to ancillary services and demand response opportunities.

Wal-Mart agrees with other commenters – such as Pennsylvania’s Electric Power Generation Association (“EPGA”) and the Electric Power Supply Association (“EPSA”), the national trade association of the competitive power industry – that the data relied upon by the critics either conflate facts or fail to take into consideration key evidence of the benefits of competition. Rising electricity prices are, as some have commented, the “new normal;” they are the result of rising fuel prices, a backlog of new, needed and expensive electric infrastructure demand, energy efficiency program costs, demand response program costs and the development of new environmental requirements. These realities are being faced in both the organized markets and the traditional regulated markets across the nation. But ratepayers in the traditional regulated states are subject to increased energy costs that they have no ability to avoid, such as the imposition and pass-through of costs associated with the development of new, costly baseload power plants that are not yet in service, special line-item charges for demand response programs, etc. These sometimes major charges are not imposed automatically in competitive markets. Instead, the customer has the option both to participate, and to what extent to

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West Virginia, and (2) the delayed repercussions of the anti-competitive, artificial price freeze in Maryland.


participate, and thus has the opportunity to choose (and to avoid) costs in a way that is tailored to its particular needs.

Competition is not the cause of the “new normal;” it is, rather, the best hope to reduce the costs associated with the “new normal.” We, like all electric customers, are concerned with the rising energy prices discussed in this proceeding. But as a major consumer of electricity in both regulated and choice states, the competitive markets are providing more and more benefits than cost-based regimes. Indeed, our experience correlates with the testimony of PJM witness Andrew Ott, who stated that,

when we account for the rising price of fuel (such as coal, oil, and natural gas), the fuel-price adjusted LMP has actually gone down more than 23% over the past 10 years. This comparison shows not only the influence of fuel on the price of wholesale electricity, but also the benefits of the increasing efficiencies of PJM’s wholesale electricity markets.7

Wal-Mart and its customers have reaped the benefits of the competitive model in real dollars and cents. We are saving millions of dollars through competitive markets, and other nationwide retailers have similar experiences. For instance, Safeway, a commercial food retailer with 1,775 stores across the U.S. and Canada, praises competitive markets for saving the company “tens of millions of dollars each year.”8 We urge the Commission to listen to the facts and screen out the rhetoric about the extraordinary benefits that competition can bring.

The Role of Competition in Renewable Power, Energy Efficiency, and Demand Response

Given its aspirational goal to ultimately buy 100% of its electric power from renewable resources, Wal-Mart believes that competition and increased customer choice are playing key roles in allowing Wal-Mart, Pennsylvania, and the entire country manage energy

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7 EPGA Comments at 8 (quoting Testimony of Andrew Ott, Senior Vice President, PJM Interconnection, Docket No. M-2008-2066901 at 5 (Oct. 23, 2008)).
8 See Exhibit 1.
costs and reduce greenhouse gas emissions. To achieve this objective, however, market rules must allow customers to obtain easy access to the grid, avoid redundant pancaked transmission charges, negotiate flexible pricing provisions that fit particularized needs, and let the customer retain the full benefits of their efforts to reduce their greenhouse gas reductions, which does not always happen in the regulated markets. These measures will not only optimize the benefits of these purchases for the customers, but also encourage more investments in renewable resources and energy efficiency projects.

Increased choice and competition, which exist in wholesale competitive markets, also lends itself to better experiences with demand response by the end-user. Effective demand response programs are enhanced by the flexibility for customers to install and operate their own advanced meters. It is unfortunate that Wal-Mart has continued to experience situations in which utilities make it difficult or unnecessarily expensive for retail customers to install their own advanced meters or otherwise maintain their own meter data necessary to participate fully in competitive markets or demand response programs. Customers should be able to choose and invest in the meter of their choice. With choice of meters, customers can better monitor and manage their own energy usage and participate more meaningfully in demand response programs. Such programs address problems associated with both supply and demand and provide positive opportunities for regulators, utilities and end-users by increasing grid reliability while keeping energy prices low.

Conclusion

Wal-Mart appreciates the opportunity to offer written testimony on this important topic. While there is always also room for improvement, we believe that Pennsylvania’s competitive markets are effective in providing the benefits for both consumers and suppliers of energy resources. As such, the Commission should resist the suggestion by some of the
witnesses in this proceeding to turn back the clock of progress and reimpose cost-based regulation, a regime that stifled innovation, restricted customer choice and saddled ratepayers with decades of stranded costs. We urge Pennsylvania to stay the course and continue its successful competitive regime.
EXHIBIT 1
WAL-MART MAKES MAJOR COMMITMENT TO RENEWABLE WIND POWER

Power purchase equivalent to annual usage of more than 20,000 average American homes

BENTONVILLE, Ark., Nov. 20, 2008 – Today Wal-Mart Stores, Inc. (NYSE:WMT), announced its first substantial purchase of wind energy in the U.S. The wind power will supply up to 15 percent of the retailer’s total energy load in approximately 360 Texas stores and other facilities.

The renewable energy will come from a Duke Energy wind farm under construction in Notrees, Texas, and is expected to begin producing electricity for Wal-Mart by April of 2009.

“We’re purchasing renewable power at traditional energy rates,” said Kim Saylors-Laster, vice president of energy for Wal-Mart. “The wind power purchase will result in a significant decrease of greenhouse gas emissions and aligns perfectly with Wal-Mart’s long-term goal of being supplied by 100 percent renewable energy.”

The project will provide roughly 226 million kilowatt-hours (kWh) of renewable power each year or the energy equivalent of washing 108 million loads of laundry -- enough for every household in Austin, Texas to do laundry for a year. By purchasing this amount of clean, renewable energy, Wal-Mart will avoid producing more than 139,000 metric tons of carbon dioxide (CO2) emissions per year. This is equal to taking approximately 25,000 cars off the road or eliminating the CO2 produced by 18,000 homes annually.

“Wal-Mart's action shows that low-carbon technology is increasingly competitive and long-term sustainability is a winning business strategy,” said Andrew Aulisi, director of the markets & enterprise program at the World Resources Institute. “Wal-Mart's smart and innovative approach should be used more widely.”

The wind purchase is another example of Wal-Mart’s ongoing commitment to become a more sustainable company and serves as a complement to its solar project announced last year. In May 2007, Wal-Mart announced it would equip up to 22 locations in Hawaii and California with solar panels. Wal-Mart estimates the solar power systems are helping reduce greenhouse gas emissions by 6,500-10,000 metric tons per year.

By integrating wind power into its electricity load, Wal-Mart is building on its diversified energy portfolio and creating more opportunities for advancements in clean energy through research and innovations. This power purchase in the deregulated market territory in Texas is expected to support the creation of green jobs at the West Texas facility. Wal-Mart will use the results of its wind power purchase to explore additional ways to achieve its goal of being supplied by 100 percent renewable energy.
About Wal-Mart Stores, Inc. (NYSE: WMT)

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What People Are Saying About Electricity Competition

**Competition Benefits Customers**

"With competitive markets, Safeway saves tens of millions of dollars each year, and our savings in competitive markets has allowed us to invest in renewable energy and energy conservation. Our investors, customers, employees and the communities we serve all benefit."

George Waidelich, Vice President, Energy Operations, Safeway (commercial food retailer with 1,775 stores across the U.S. and Canada)

“Competitive markets produce price transparency that provides end-use consumers more choices than those from the vertically integrated energy delivery construct. Competitive markets not only provide consumers the options that can mitigate price volatility but those markets also inherently improve reliability through regional transmission organizations on the supply-side and increase efficiency and technology options on the demand-side. Make no mistake about it. Competitive electricity markets are working.”

Steve Elsea, Director of Energy Services, Leggett & Platt, Inc. (diversified manufacturing company with over 180 facilities in the U.S.)

**Competition Promotes Renewables**

“Competitive electricity markets provide two key advantages to wind energy development; clear prices to value the energy produced with the wind and a diverse grid of resources that can fill in the gaps during periods of little wind. Competitive markets offer the best environments in the US today for the further development of renewable energy resources such as wind."

Jeffrey M. Bladen, Vice President, Market Planning & Strategy, Gamesa Energy USA

**Competition Promotes Demand Response**

“The transparency and pricing mechanisms found in competitive markets uniquely benefit the growth of demand response.”

Dr. Eric C. Woychik, Vice President, Regulatory Affairs, Comverge, Inc.

**Competition Complements Market Approaches to Climate Change**

“Competitive markets and climate change legislation go hand in hand. Competitive markets allow for lower barriers to innovation and the proper investment discipline needed to lead the way towards our energy future.”

John E. Shelk, President and CEO, Electric Power Supply Association

**Competition Alleviates Transmission Congestion**

“When you have Obama and T. Boone Pickens saying the same thing, then you’ve got the right focus. Congestion is the problem, but competitive markets can address and defeat it.”

Larry Bruneel, Vice President - Federal Affairs, ITC Holdings, Inc.

**Competition Empowers Consumers**

“Competitive markets yield transparent price signals that convey critical information to consumers and investors who can then respond to market forces. Research has shown that competitive electricity markets do provide more liquidity and better price signals, as well as better incentives for cost minimization.”

Dr. Catherine D. Wolfram, Associate Professor of Business Administration, Haas School of Business, University of California, Berkeley