



BEFORE
THE SENATE ENERGY AND TECHNOLOGY COMMITTEE

Written Testimony of

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I. Introduction

Leggett & Platt is located at P.O. Box 757, No. 1 Leggett Road, Carthage, Missouri 64836. Leggett 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. My responsibilities as Director of Energy Services include maximizing the energy value from supplier to point of use for Leggett & Platt's global manufacturing operations.

Leggett & Platt operates 140 production plants in 18 countries and employs 19,000 workers. We operate one hundred manufacturing plants in 22 states in the U.S. that employ approximately 9,000 American workers. Leggett & Platt operates five production plants in Michigan and employs approximately 350 workers in the Wolverine State.

II. Professional Background

I hold an undergraduate degree in Architecture from Southern Illinois University and a Masters in Business Administration from The Ohio University. I began my career with an investor-owned dual-fuel utility in Illinois and 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 have 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 founded an energy management company that focused on a demand response solution, and consulted for municipal electric utilities in Ohio before I joined Leggett & Platt in early 2007. I have recently been named to the board of directors of the Missouri Energy Initiative and currently serve on the BOD of the COMPETE Coalition.

III. Position on Competitive Markets

Leggett & Platt operates facilities in competitive retail electricity markets in Texas, Illinois, Ohio, Pennsylvania, New Jersey, Maryland, Michigan and California as well as in Ontario, the UK, Switzerland, Belgium, Austria, Italy, Denmark, Germany and Croatia. The plants in Michigan & California are exempt from customer choice due to caps on customer participation in competitive electricity markets in those states. We do participate in demand-response programs in California as the Golden State has not precluded end-use consumers from directly dealing with curtailment service providers (CSPs) per an opt-out provision in FERC Order 719.

Our experience is that competitive electricity markets have allowed the company to lower its energy costs. A prime example is to Michigan's south in Ohio. Leggett & Platt buys electricity at our wire mill in Solon, Ohio from a competitive retail service (CRES) provider. We recently completed an RFP and executed a new contract with our incumbent CRES provider. We were

able to structure the block and index products according to our own risk tolerance and received competitive bids for those products. Leggett & Platt has reduced its total electricity costs by almost 15% in Ohio since we have been buying through the competitive market.

Another example involves a comparison of the electricity costs in two of our plants. Leggett & Platt has two similar carpet underlay plants that use about the same amount of electricity each year. One is located in Texas and the other in Mississippi. The cost per kWh of the plant in the competitive Texas ERCOT market is approximately 28% lower than the Mississippi plant, which is served by a TVA power distributor (e.g. in a non-competitive electricity market).

As a final example, over 55% of our kWh purchases in the U.S. during 2010 were for plants in the competitive PJM market, but the costs of those purchases account for less than 39% of our total electricity costs. Conversely, about 42% of our domestic electricity usage at plants located in non-competitive states like Michigan costs over 58% of our U.S. electricity budget. The all-in cost per kilowatt-hour in competitive U.S. markets versus monopoly service areas tells the story; 4.3¢ and 8.3¢, respectively. Our average cost per kilowatt-hour in Michigan is 10.3¢.

Competitive markets help Leggett & Platt lower costs because they allow us to choose from an array of competitive products and services and give us the flexibility needed to manage our energy portfolio. For example, competitive electricity markets offer supply-side options in renewable energy and demand-side options like advanced electricity storage. We are no longer tethered to a specific electric generation mix, and instead are able to shop for our desired generation mix.

In addition, there are numerous service options and products available from CRES providers 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 of all types of electricity customers.

Transparent market-driven prices and a choice of contracts and innovative services have allowed Leggett & Platt to look closely at how we use electricity and where we can implement new technologies and conservation measures to reduce our costs. For example, we are currently evaluating the costs and benefits of using behind-the-meter flywheel and battery storage technologies to provide regulation service in the competitive electricity markets that allow customers to provide such services. This additional revenue stream is precluded by market barriers in the monopoly service territories.

We also establish risk management strategies to mitigate price volatility and reduce costs while also contributing to improved grid reliability by participating in demand-response programs. This approach has helped us in other competitive markets such as California, Illinois, New Jersey, Ohio, Pennsylvania and Texas. We cut costs by providing over 20 MW of demand resources in the California, Texas and PJM markets. It is not coincidental that Leggett's entire demand-response load portfolio is in competitive electricity markets in which end-use consumers can deal directly with CSPs. As a company that maximizes profits and has a focus on shareholder return, we are interested in minimizing every controllable cost.

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. 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.

These large industrials 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 small business customers were paying higher prices to support the below-cost rates the industrials were enjoying. The emergence of competitive retail markets and the inherent price unbundling and transparency eliminated those subsidies.

It is no wonder that certain large Michigan industrial customers and other influential Michigan Chamber of Commerce and Michigan Manufacturers Association members oppose customer choice: to maintain the status quo of subsidized rates. Investor-owned utilities oppose raising caps to competition to justify cost-based rates and ratepayer obligations to finance utility capital investments whether prudent or not. Interestingly, the Illinois Chamber of Commerce took an opposing position to help defeat anti-competitive legislation that would have undermined the competitive electricity market in Illinois.

IV. Summary

We continually evaluate our cost of doing business in various locations, and have made adjustments ranging from closing operations where competitive choices were not available at one location and consolidating in another location where retail choice was available. We also routinely adjust daily operations during demand-response events in locations that offer that competitive market feature.

Our experience is that in a well-functioning competitive market, CRES providers and CSPs can offer contracts of varying durations to customers. These contracts can be month-to-month up to three years or more, and everything in between, and tailored to meet the individual needs of the customers. The one-size-fits-all approach of monopoly protected services cannot compare with the advantages afforded Leggett & Platt by choice and competitive markets.

To that end, Leggett & Platt supports lifting the current cap on customer electricity choice in Michigan.