Statement of Mr. Tony Fitzpatrick
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Wayfield Foods, Inc.
Before the U.S. House Committee on Commerce
Subcommittee on Energy and Power

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Mr. Chairman and Members of the Committee, I am Tony Fitzpatrick, Director of Human Resources for Wayfield Foods, Inc. Wayfield Foods is an independent group of nine grocery stores employing between 375 and 400 associates. Although we have stores in suburban communities such as East Point, GA, we primarily serve urban communities in the city of Atlanta.

In addition, Wayfield Foods is a member of both the Food Marketing Institute (FMI) and the Georgia Food Industries Association. FMI is a nonprofit association representing over 1500 food retailers and wholesalers and their customers. FMI domestic member companies operate approximately 21,000 retail food stores in every state in the nation, with a combined annual sales volume of $220 billion, more than half of all grocery sales in the United States. FMI's membership ranges from independent operators with one to ten stores, to the largest regional and national chains.

The Georgia Food Industries Association (GFIA) is a nonprofit trade association representing more than 400 retailers, wholesalers and suppliers in the state of Georgia. The GFIA conducts programs in education and public affairs, and offers a variety of services to its membership. The GFIA's retail members include national chains, local chains, independent supermarkets and small superettes.

Wayfield Foods is part of a industry that, nation-wide, employs over 3.2 million people, operates 131,000 stores and accounts for more than $412 billion. As a direct result of the large volume of sales and the demand for efficiency and low prices by our customers, the retail food industry is highly competitive. In fact, in 1995 the industry averaged a net profit after taxes of just 1.2 percent. That's about a penny in profit for every dollar that goes in the cash register.

At the same time, the food retailing industry is also very energy intensive. Whether a large chain or a single store, in order to offer its customers a wholesome, high quality, safe selection of food, retailers must operate freezers, refrigerators, chillers, and cold display cases around the clock, seven days a week. And like other retailers, supermarkets utilize

extensive indoor and outdoor lighting systems, electric checkout equipment, computers, maintenance equipment and waste disposal systems to provide for the safety and convenience of the customer, as well as in an effort to improve efficiency. Electricity costs, industry-wide, represent about 1 percent of sales[1] and, after labor and rent, represent our largest cost of operation. In other words, the utilities that serve Wayfield are making as much from each store as the owner is.

Relying on such tight margins requires a food retailer to seek out every reasonable efficiency. This includes energy management, employee training and education, new technology utilization and competitive purchasing from suppliers. As a food retailer, Wayfield has the option of choosing from several wholesale suppliers of the products we sell. In having a choice, we are able to compare prices, services and quality and select the supplier that will best meet our needs. This choice also gives us leverage in the market and allows us to negotiate contracts tailored to our requirements. We are also able to select a single supplier for all of our stores or have different suppliers for different stores. This means greater variety, levels of service and billing procedures.

However, one area where we are unable to shop in a competitive market for the commodity and service we buy is electricity. Wayfield, like virtually every other small business and residential electricity consumer in the state and nation, is locked into electric utility service territories in which a monopoly utility, with the blessing of the state and local governments, is the service provider. Under this system rates are set not by the laws of supply and demand but by regulators trying to balance the interests of consumers and voters against the wishes of the monopoly utility. Utilities are often encouraged to over build their capacity through a rate of return structure designed to generate capital, not to protect utility customers. The only incentive for a utility to provide reliable service is held not by the utility's customers, as is the case in the grocery business, but rather lies in the threat of repercussion from the state public service commission. Furthermore, rates may vary greatly between similarly situated utilities. Prices reflect only the utility's cost of operation and profit, not market conditions.

Wayfield has stores in the service territories of two separate utilities, Georgia Power and the City of East Point which is part of the Municipal Electrical Association of Georgia. And while these utilities serve similar and even adjacent areas, their per kWh costs differ tremendously. In comparing electricity bills from earlier this year from stores served by different utilities, we found a per kWh rate of 5.8 cents for Georgia Power, while the City of East Point charged 9.2 cents per kWh. That represents a difference in price of 59 percent for the same commodity provided by one supplier over another. I know of no supermarket in America that could get away with prices 59 percent higher than their competitors down the street and still stay in business.

Artificially high prices hurt competition at the retail level, but they also hurt the consumers who shop in our stores. The prices of the products on our shelves become artificially higher than they otherwise would be. These higher prices are also reflected in the costs of

[1] FMI's *Operations Review, First Quarter 1996*

the goods that we buy. Virtually every grocery item is touched by the cost of electricity. If, through electric utility competition, grocery manufacturers pay less for their electricity, then their cost of producing goods will be less. These savings should, in turn, be passed down the distribution chain to the retailer and then to the consumer because of the intense competition in the retail food industry.

To this point I have referred several times to electricity as a commodity. I understand that most people don't normally think of electricity as a commodity, but to those of us who operate small businesses dependent on a reliable electricity supply, there is really no better term for it. Like every other commodity we buy, electricity service is simply a matter of production, transportation and billing. When Wayfield contracts with a wholesaler for produce or other grocery items, we understand that these items may come from within Georgia, from another state, or from abroad. We recognize that these are commodities that are purchased through interstate commerce. We recognize the same fact about electricity.

The Southern Company, whom you will hear from today, is the holding company for several large utilities here in the Southeast, including one of our suppliers, Georgia Power. Everyday, the Southern Company moves electricity throughout the south to meet the needs of its subsidiary utilities. Yet consumers are restricted from accessing this segment of interstate commerce. This brings me to why we need federal legislation.

As electricity is truly a commodity in interstate commerce, it is the federal government's role to ensure fair access to the market. While states certainly have a role in oversight of local distribution and the construction of new generation facilities, just as with long-distance phone service, only the federal government has the authority to ensure consumer access.

In addition, just as limiting access to other goods and services harms smaller consumers, limiting access to the electricity market disadvantages smaller electricity consumers. As states move at dissimilar paces to open the electricity market to customer choice, they do so at the expense of small consumers such as home owners and small business. Therefore, Wayfield Foods asks that federal legislation include the following principles:

1. Customer choice for all consumers by a date no later than December 15, 2000.

2. The ability to purchase electricity like any other product or service, including through aggregate groups.

3. Functional separation of the various segments of service, generation, transmission, distribution and billing services.

4. Customers should not be responsible for revenues lost in the move to a competitive market.

5. Independent parties should be allowed entry into the market, including aggregators, marketers, brokers and agents for the purpose of acting on behalf of customers.

6. Neither electricity consumers nor taxpayers should be solely responsible for the costs of contracts or facilities entered into or constructed under mandates of the federal government. While we recognize that some of these costs are legitimate, we also recognize that the length of contract or size and type of facility may not have been mandated and for that reason we believe that every effort should be made to mitigate these costs.

It is very important that legislators allow customers from all customer classes to join together in aggregate groups to purchase electricity. This will enable small residential customers and small businesses like Wayfield appear to the market no differently than a large industrial facility. Furthermore, if Wayfield is allowed to join with other consumers, we will explore the possibility of joining not only with other supermarkets in the region, but also with our employees and customers to buy electricity in bulk. This equal treatment means protection for small consumers in a competitive market place. However, by limiting access by state or region, small consumers in different states would be restricted from joining together, thus harming their purchasing advantage. States must not and should not be barriers to consumers access to interstate commerce.

On the point of consumer and taxpayer responsibility for utility investments, we believe that it is important to keep in mind that as the telecommunications industry has moved from a monopoly to a competitive market over the last twenty years, investors in those entities have been not reimbursed for unwise investments. Yet the quality of service and the choices available to consumers today has greatly increased. The same can be said of the deregulation of the airline and trucking industries.

Finally, some contend that electricity is far too important to trust to the free market. We disagree. Electricity is too important to be left to regulators and monopolists. Wayfield Foods is part of an industry that provides for the most basic needs of human existence. As I have said earlier, our industry is highly competitive and **because** of that competition we provide food reliably, efficiently and affordably to our customers. Our customers have choice, so should utility customers.

Thank you Mr. Chairman and members of the committee for the opportunity to address you today.