Deregulation In The Electric Industry Essay, Research Paper

Electricity is the principal force that powers modern society. It lights

buildings and streets, runs computers and telephones, drives trains and

subways, and operates all variety of motors and machines. Yet most people,

despite their great dependence on electrical power, hardly give it a

thought. They flip a switch, turn a key, or pick up a phone and expect the

power to be there without fail.

The almost-century old structure of the American electric utility industry

is in need of change. Almost all interested parties accept the fact that

technological change and altered views of the nature of government

intervention have made the idea of increased competition attractive (Johnson

35). But just how should the competitive market be structured? Some

participants want complete deregulation so they can derive the fullest

benefits of competition quickly. Others argue that the unfettered free

market, however, will cause hardship and inequities (36).

Stability in electrical power has traditionally depended on a system highly

regulated by federal and state government. In recent years, however, many

leaders in government and industry alike have pushed for deregulating the

system to make it more responsive to changes in business and technology and

more open to the forces of free-market competition (Craven C5).

Deregulation has been successful in reducing costs and promoting innovation

in airlines, natural gas, telecommunications and other industries. The

electric industry is next.

Initial steps to deregulate electrical power are now being taken in the

United States and Canada. Today the subject is being actively debated in

board-rooms and state-houses across the Continent. Everyone is wondering

what deregulation will do to the industry. People do not know how it will

affect businesses and consumers, and they are debating whether to move fast

or slow with deregulation.

The "open access" rule of the Federal Energy Regulatory Commission went into

effect on July 9, 1996. Known as Order 888, it applies only to wholesale

transactions. It requires public utilities that own, operate, or control

transmission lines to charge other firms the same transmission rates they

charge themselves, under comparable terms and conditions of service (Encarta

"Deregulation"). This will open control of the market, and it will prevent

utilities from denying transmission grid access through prohibitively high

rates.

Public utilities, municipal utilities, and rural cooperatives are the only

customers that are able to purchase wholesale power for resale. Office

buildings provide the power to their end users, but the tenants, building

owners, and managers do not meet the "obligation to serve" definition that

would enable BOMA members to purchase wholesale marker power (Craven C5).

FERC has since stated that it has no intention of moving further and

mandating open access for retail sales, as it believes that to be beyond its

jurisdiction (Gendy 48).

FERC is clearly leaving retail deregulation to the states and the United

States Congress. As a sign of its importance, several electricity

competition bills were introduced in both the House and the Senate this

year. Additionally, the House Subcommittee on Energy and Power held over

twenty hearings in Washington, DC, and around the country (50). Although

the 105th Congress adjourned without a federal deregulation mandate, the

debate is well underway and congressional leaders have stated that

electricity deregulation will rate high on their list for action in 1999

(52).

On one hand, restructuring of the electric utility industry in the coming

years means that deregulation may occur in terms of prices and entry of

competitors into the market. On the other hand, government intervention of

some areas of the business is likely to continue to ensure maintenance of

socially desirable functions (Williams 23). Some make the assumption that

restructuring is the same as deregulating, but this is not true.

As much as some utility executives may protest deregulation of prices, many

parties agree that traditional regulation appears flawed. In the prosperous

years, when new construction of power plants reduced the average cost of

electricity, regulation that set rates based on the value of the new

equipment worked fine because rates generally decreased. In the 1970s and

later, utility construction became more and more costly, and the high rates

were a result of those higher costs (Williams 26). Regulatory rules

encouraged utilities to complete long-delayed power plants even if the

demand for power was not likely to warrant such big plants or because poor

management caused costs to escalate.

Even as states and the federal government debate bills for restructuring the

utility industry, technological innovation could change the entire nature of

the electric supply business. For about a hundred years, the structure of

the regulated industry has included large, central power-plants that

generated electricity for distribution to homes and businesses. These

plants had customers linked to utility companies through a network of wires

(Gendy 48). This structure may change as new technologies allow

decentralized and disconnected users to get power just like they used to

(Craven C5).

Fuel cells making electricity and water, micro-turbines using natural gas,

photovoltaic cells and energy storage systems which allow people to obtain

electricity from the sun may allow people to isolate or remove themselves

from the electric power grid. They may also connect with their neighbors

and other businesses to create similar synergies that utilities obtained by

interconnecting their transmission systems (Washington Post H04). With the

flourishing of smart electronic technologies used for communications,

monitoring, and energy efficiency, this scenario becomes more feasible

(Williams 22). We may see this in the near future.

More than any other topic raised during the electricity deregulation debate,

the stranded cost issue has the potential to sink the entire reform effort.

This does not have to be the main issue (Craven C5). Calls for stranded

cost compensation are unjustified. There is no evidence supporting the

thought that a literal "regulatory compact or contract" of any sort exists

to justify a multibillion-dollar bailout of utilities. The world will not

end if stranded cost recovery is limited or denied. New firms will come up

to provide the service in place of the few utilities that might fail.

Entrepreneurism and innovation will be shown in an environment free of the

monopolistic methods of the past. Customers, who for so long have been

forced to pay the high costs associated with inefficient and uncompetitive

markets, finally will be given the choice to shop for electricity as they

would any other commodity in the free market (Kuttner A21).

In the end, however, the federal role in this process by necessity must be

somewhat constrained. They can’t have the power to change the whole system

themselves. Although Congress rightly can exercise its constitutional

authority to protect the public interest in the free, unhampered flow of

interstate commerce, it cannot prevent the states from determining how much,

if any, compensation is appropriate. Federal legislators should encourage

the states to proceed cautiously, with the interests of every American

consumer in mind as they examine the claims made by their in-state utilities

for compensation with the interest. This compensation would be given at the

expense of a competitive future. Congress should not shy away from

exercising its authority under the Commerce Clause to ensure that

state-by-state stranded cost determinations will not prohibit the

development of a competitive national marketplace. By working together,

federal and state regulators can ensure that the stranded cost recovery

process will not become an obstacle to the free market future for

electricity.

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