Electricity Competition:
What Lies Ahead?

A Presentation to the Harvard Electricity Policy Group
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It hasn’t worked so far...

- Few shoppers
Few New York Shoppers

NY Electricity Shoppers May 2002

Central Hudson
Consolidated Edison
L.I. Power Authority
NYS Electric & Gas
Niagara Mohawk
Orange & Rockland
Rochester Gas & Electric
Total State*

Shoppers by Utility/All State
Total/Business/Residential
Few Pennsylvania Shoppers
It hasn’t worked so far...

- Few shoppers
- **Bust of merchant generators**
  - Capital has dried up
  - Capped wholesale rates don’t support peakers
  - Promise of LMP not doing the trick
    - e.g. SWCT - uplift demanded
  - 43% of generators say outlook worse
    - Only 23% say outlook is now positive
    - Down from 2/3 a year ago
    - Generators cite regulator/gov’t intervention
    - Per CapGemini Ernst/Young survey of 130 worldwide
It hasn’t worked so far...

- Few shoppers
- Bust of merchant generators
- Few competitive suppliers
  - Consolidation
    - Constellation/NewEnergy, e.g.
  - Withdrawal
    - Green Mountain Power last to leave Connecticut
- Complaints about lack of headroom
  - You can’t make it up on volume!
It hasn’t worked so far...

- Few shoppers
- Bust of merchant generators
- Few competitive suppliers
- “Churn” has been discredited
- “Savings” = transfers, deferrals
  - Except in New Hampshire -> write-offs!
- Price shock in California and West
- Outages in California
- Anomalous price spikes in other areas
- Consumer backlash against LMP
- Major market design issues unresolved
Can it be made to work?

- **Some problems are temporary**
  - Price spikes/troughs won’t persist indefinitely
  - Capacity will eventually be built
  - Merchant generators/traders will eventually recover
  - Metering prices will come down, increasing demand responsiveness
  - Market rules will continue to improve

- **Some could be resolved with political will**
  - A deal between federal and state governments - or -
  - The federal government winning outright
    - (state win = no more competition than today)
BUT IS THAT ENOUGH?

- **T (monopoly) vs. G (merchant?) vs. DR (mix?)**
  - Complementary resources but contradictory approaches

- **Market signals vs. public interests**

- **Booms and busts vs. stable prices**
  - High capital/low running cost industries will boom and bust
  - But who will manage my portfolio???

- **Tolerably stable prices vs. demand response**
  - Public won’t stand for boom/bust or mandatory TOU prices

- **Reliability vs. ebb & flow of demand/supply**
  - Reliability requires interference with market?
  - Again, who will manage my portfolio???

- **Reasonable fall-back service vs. headroom**
  - 1 ¢ to 1.5 ¢ per kWh needed
Timing is all...

- Merchants/Traders got greedy in California
  - Went too far, too fast in extreme situation
  - Killed the impetus to deregulate
- “Competition” has lost its monopoly on ideas
  - “The era of Margaret Thatcher is dead.”
- But if no crisis, choice states will stay course
  - Too much invested
  - Memories of stranded costs still fresh
  - Public still suspicious of itself
  - FERC still pushing hard
PREDICTIONS

- **Further deregulation is dead**
  - Congress will not act on FERC powers.
  - Northeast, Mid-Atlantic, Midwest will continue to SMDish mkts
  - South and West will not.
  - PUHCA will hang on, but not be enforced.
  - Vertical integration will stop eroding.
  - Debate will turn slowly to POLR issues

- **Uneasy stasis will persist for up to 5 years**
  - FERC will keep trying/South and West will keep fighting them off.
  - Alternatives won’t grow (e.g. public power)
  - Skirmishes will break out in dereg states over Standard Offer/POLR.
  - One Transco will get off the ground (will it be Grid or AmerTransCo?).
  - Vertical integration will start creeping back in.
  - But little new construction.

- **Then, crisis of capacity/prices will spur new battles**