



Free markets. Real solutions.

# **Are Changes in Markets Increasing Ethical Challenges?**

## **Competition as the (Partial) Antidote to Bad Behavior**

**Harvard Electricity Policy Group**

October 6, 2020

**Devin Hartman – Director, Energy & Environmental Policy**

# Overview

## I. Institutions and Behaviors

- Regulated monopoly
- Quasi-restructured
- Fully restructured

## II. Outlook

## III. Policy Implications



Free markets. Real solutions.

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September 2020

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**ELECTRIC COMPETITION: THE  
ANTIDOTE FOR BAD BEHAVIOR**

By Devin Hartman and Mike Haugh

**The New York Times**

# When Utility Money Talks

Corruption scandals in Ohio and Illinois reveal an unsavory underside to the politics of energy.

STATE OF INDIANA,  
Appellant-Plaintiff,  
vs.  
DAVID LOTT HARDY,  
Appellee-Defendant.



**The Post and Courier**

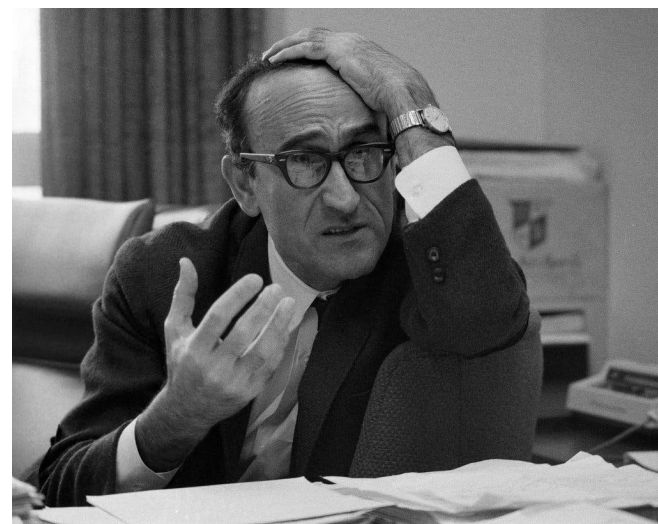
Former SCANA executive pleads guilty to fraud

Background photo:  
<https://www.nytimes.com/2020/08/02/opinion/utility-corruption-energy.html>

# Institutions & Incentives = Behavior

- NOT a few bad actors – flawed institutions
- Reg monopolies' perverse incentive structure
  - Notorious economic & political incentives (e.g., Kahn, 1970)

**Political Economy of  
Regulatory Disingenuousness**  
*“rent-seeking strategies and  
the political maladies”*



# Regulated Monopolies & Rent Seeking

## Legal and Routine

- Within regulatory process
- Regulatory circumvention (e.g., MN, VA)
- “Charitable” contributions
- “Creative” ballot initiatives (e.g., NV, FL)
- “Influencing” consumer advocates (e.g., IN, IL?)

## Illegal and Periodic

- Ex parte to bribery
- Dark money



### **STRINGS ATTACHED**

How utilities use charitable giving to influence politics and increase investor profits  
December 2019

**Virginia Poverty  
Law Center:**  
*imbalances in  
Virginia's electric  
utility regulation*  
Aug. 19, 2020

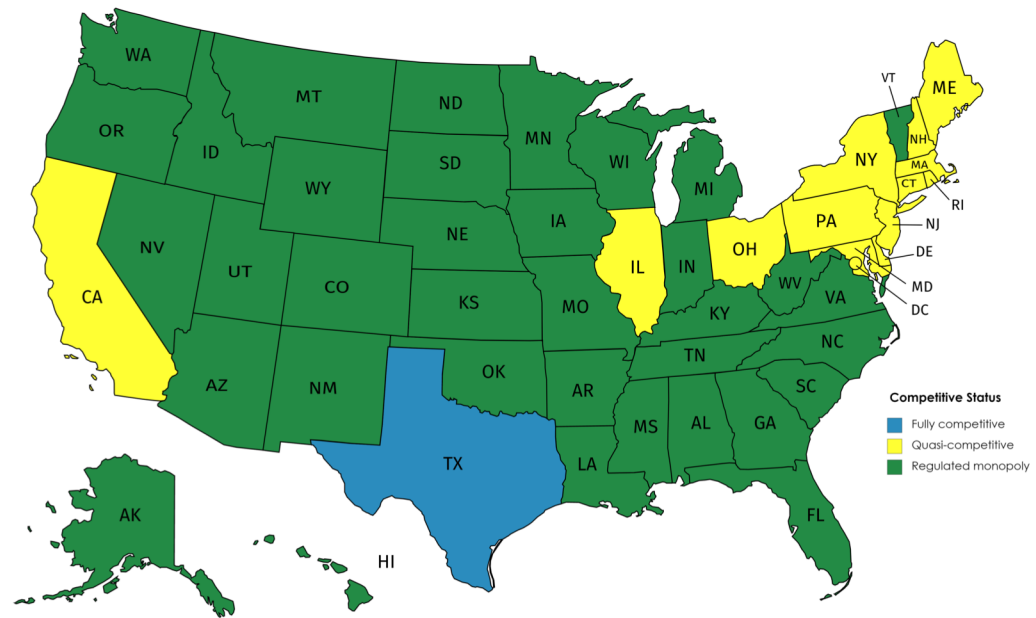


**Florida's  
outrageously  
deceptive solar ballot  
initiative, explained**  
*Amendment 1 is a  
utility scam.*  
Nov. 8 2016

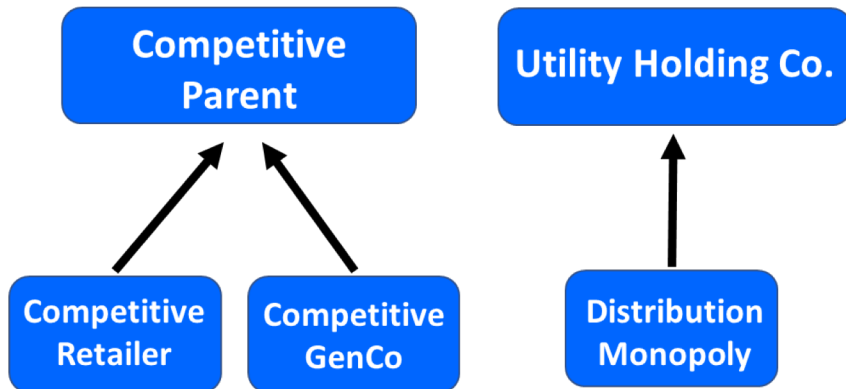
# (Quasi?) Competition to the Rescue!

- Textbook restructuring:
  - Separate non/competitive functions
- “Quarantine” the distribution monopoly
  1. Independent of retail supply role
  2. Untethered GenCo interest
- Monopoly tethers from transition policy

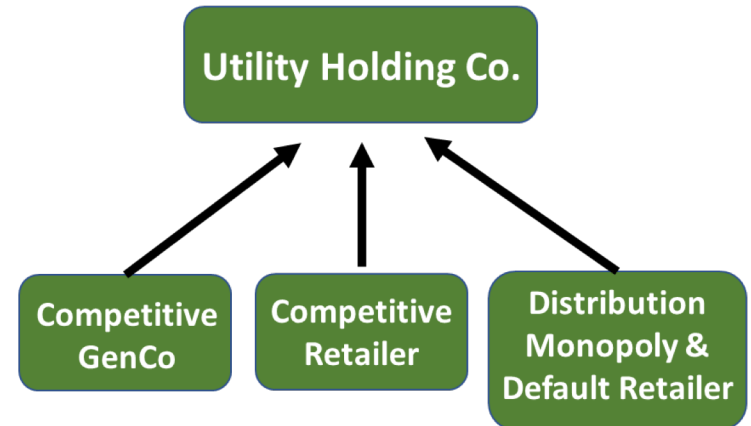
ONLY Texas Fully Restructured



### Fully Restructured



### Quasi-Restructured



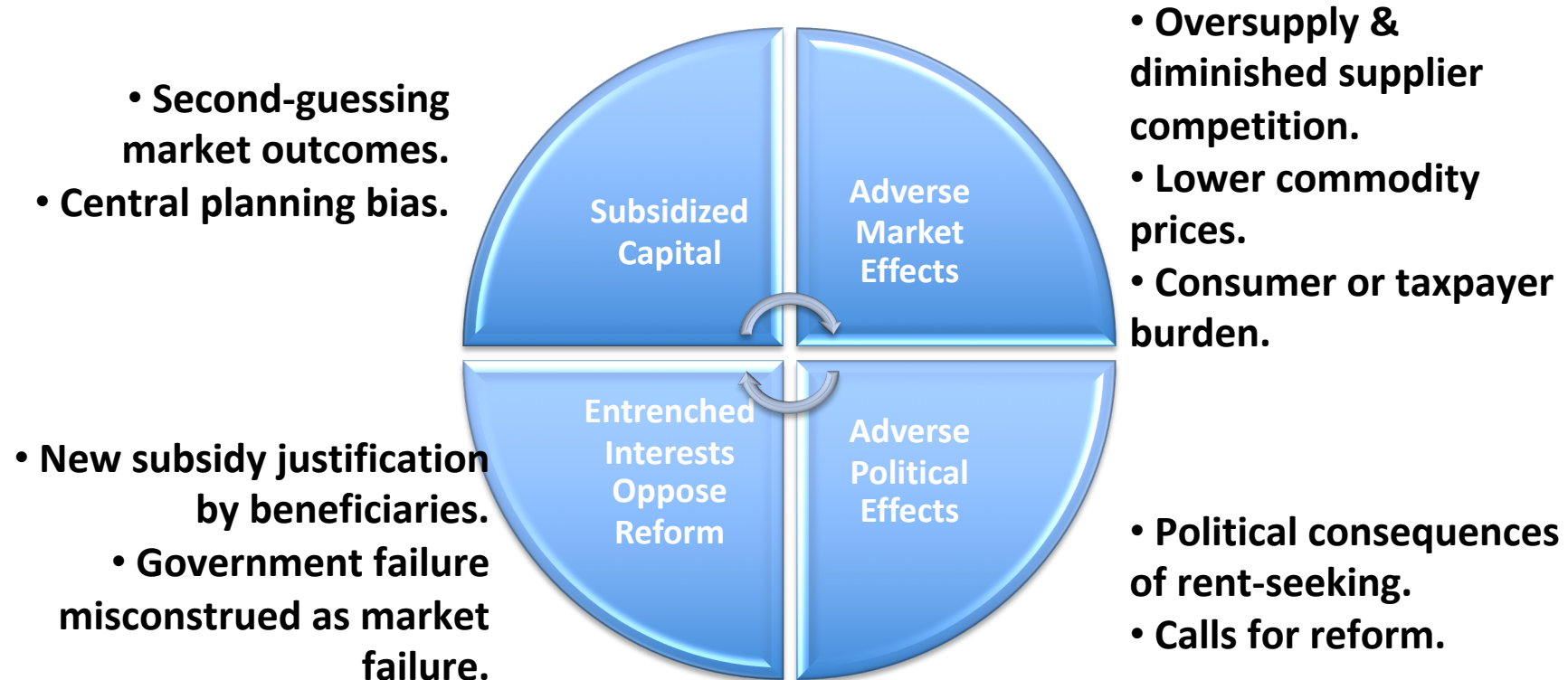
# Entangled Monopolies: Ohio & Illinois

- Retain monopoly rent seeking conduits
  - Cross subsidy vehicles
    - Default supply
    - Riders (e.g., rate stabilization)
- Amplified motive
  - Instrumental corporate interest
    - Monopoly lobbies for affiliates
- Ohio: Duke Energy (divested) vs. entangled utilities
- Policy implementation, not competition, at fault!



# Competition as *Partial* Antidote

Institutional Decay + Misinformation = Subsidy Culture



# Outlook: stressed rent seeking conduits

- Information asymmetry increasing
- Stock turnover → incumbent displacement
- Synergy with climate & green industrial policy

*How Utilities Team Up With Greens Against Consumers*      WSJ | OPINION

Oregonians are learning that electric companies like renewables because costlier systems increase profits.

Vs.

**Putting Consumers & Climate First**

**Governor Pritzker's Eight Principles for a Clean & Renewable Illinois Economy**

- Competition-choice incrementalism
  - E.g., direct access vs. “do it right!”

# Policy Implications

1. Restructure properly.
  - A. Thorough generation divestiture.
  - B. Remove monopoly default service.
  - C. PUCs rectify cross-subsidies and vestigial relations.
2. Regulate distribution monopolies properly.
3. Improve information.
4. Remain disciplined.

# Thank you!

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Paper link:

<https://www.rstreet.org/wp-content/uploads/2020/09/Final-No-205-electric-competition-updated.pdf>