

# Energy Deregulation: Curse Or Cure?

*Fereidoon P. Sioshansi, Ph.D.*

*Global Product Manager*

*Henwood Energy Services, Inc. (HESI)*

## ABSTRACT

This question is being asked frequently in many circles in the U.S. these days. And the answer—depending on one’s perspective—may be the former. **CURSE.**

(Remember, Enron was the major proponent of deregulation.)

---

The plain truth is that the haphazard nature of restructuring in the US—where individual states introduce various forms of *competition* in the market—has not been a runaway success. In a few cases (e.g., Pennsylvania and New Jersey), the results have been modestly encouraging; while in others (e.g., California), the restructuring experiment has been “*a colossal and dangerous failure.*” Despite the mixed results, Texas bullishly proceeded to open its market, while a number of other states have postponed or shelved their market liberalization plans.

In September, the **Consumer Federation of America** (CFA) published a highly critical report concluding that deregulation has been “*a costly failure in the US.*” The consumer organization was overly harsh in its assessment, stating that “*those states that have restructured* [their electricity markets thus far] *have seen their power prices rise and service become less reliable.*” CFA’s recommendation? “*Any state that has not restructured should not. States that can slow down or stop should do so.*”

The CFA urges—and one would be hard pressed to disagree—states which have *not* taken the plunge so far to “*curb or drop deregulation plans*

until federal officials overhaul electric industry oversight." The report states that "**because there is not enough competition** (on a national level), **states that have deregulated are susceptible to price gouging.**" Given the inability of the US Congress to make any progress on a national restructuring bill in years, the CFA's recommendation is tantamount to a complete halt to the process.

### Switching To A Competing Supplier

Switch-over rates in states with total or partial retail competition

State	Total Customers	# Using Alternative	% Using Alternative
Pennsylvania	4,600,000	574,661	12.5
Ohio	3,900,000	204,868	5.3
New York	5,503,003	189,352	3.4
Maryland	1,831,372	38,458	2.1
Texas*	5,300,000	90,553	1.7
Virginia*	2,600,000	34,000	1.3
New Jersey	3,110,701	35,094	1.1
California*	10,424,143	64,787	0.6
District of Columbia	198,258	1,056	0.5
Maine	684,656	2,090	0.3
Massachusetts	2,200,000	981	0.04
Rhode Island	460,500	1	0.0002
Delaware	300,000	0	0
Michigan	3,800,000	0	0

\*Residential choice is currently limited to a pilot program or otherwise available only in some areas. In California, retail competition has essentially folded.

SOURCE: *The Wall Street Journal*, 17 Sept. 01.

Perhaps this is too harsh a verdict and too much of a generalization, given that the jury is still out in a number of pending cases. With the single exception of California, restructuring in most other states has either been a non-event, a mild success, or a washout. But discontent

and/or apprehension with restructuring—justified or not—appears to be widespread. Consider the following:

- **Nebraska**—which has an entirely public power system—has decided that *“there is no need to do anything different at the current time,”* according to Terry Bundy, the president of the Nebraska Power Association.
- **Pennsylvania**—often hailed as a success story—has experienced a *sharp drop* in customer participation in the competitive retail market in recent months.
- **New Jersey** also reports a *precipitous decline* in the number of customers who have switched suppliers since the beginning of the year due to higher wholesale prices. The size of the competitive market is estimated at around 1.1% of the customer base.
- **New York**, with 3.4% of its customers switching, has also experienced a decline in participation rates. Referring to restructuring in New York, **Gerald Nolander**, the executive director of the **Public Utility Law Project** says, *“The idea was that new competition would come on the scene and be the salvation. That’s not happening.”*
- **Florida** Governor **Jeb Bush**’s lukewarm support for deregulation in the Sunshine State reads as follows: *“I advocate a cautious but progressive approach to restructuring the industry. I think we should restructure. I think we need to move to a less regulated environment in the wholesale market. But we need to learn from the lessons of other states, most particularly California.”* Does not sound like a strong endorsement.
- **Massachusetts** Governor **Jane Swift** has called for a probe of widespread power outages, allegedly resulting from the deregulation of the industry. The *Boston Globe* reported that there have been over 600,000 customer hours of outages in the Boston area since mid-July, unprecedented in the state’s history.
- **California**’s competitive market—never much to write about—has all but vanished with the collapse of the market. On 20 September, the **California Public Utilities Commission** (CPUC) put the final nail in the coffin of retail access. It voted 3 to 2 to *“suspend customers’ direct access to independent power retailers.”*

- **Texas**, which finally launched a limited pilot program in early August after several delays, has experienced embarrassing glitches. Of the 93,000 customers who had requested to be switched, only 200 were successfully switched initially due to “*communication difficulties*” among participating companies.

Adding to the bad publicity, **Shell Energy**, a subsidiary of **Shell Oil Co.**, announced that it was pulling out of the Texas pilot program and the retail electricity business nationwide. In a press statement, CEO **Alan Raymond** said, “*Volatile energy prices and an uncertain economic environment over the past few months have caused legislatures, regulators, generators, and marketers to reconsider their deregulation situation and strategy.*” As if this was not bad enough, the statement went on to say, “*It is unlikely that Shell Energy will be able to reach adequate size nationwide to be profitable in electricity in a reasonable length of time.*”

The new chairman of the Lone Star State’s **Public Utilities Commission (PUC)**, **Max Yzaguirre**, was undeterred. He said, “*There are still 26 retail providers in Texas, with more applications [for competitive service providers] pending.*”

#### ABOUT THE AUTHOR

**Fereidoon P. Sioshansi, Ph.D.**, is Global Product Manager, Henwood Energy Services, Inc (HESI).

2710 Gateway Oaks Drive, Suite 300 North, Sacramento, CA 95833; (t) 916-569-0985; (f) 916-569-0999; (e) [fsioshansi@hesinet.com](mailto:fsioshansi@hesinet.com).

This article was abstracted from Vol. 11, No. 10, *Eenergy Informer*.

ON-LINE JOURNAL ACCESS

**Looking for More Information?**

*Article searches and abstracts... Full journal access...*

*Advance issue e-mail alerts*

Register to access this and other journals at

**[www.aeecenter.org/journalonline](http://www.aeecenter.org/journalonline)**