

# After Electric Restructuring

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*What's A Regulator To Do?*

Harvard Electricity Policy Group  
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Remarks of Ron Binz  
Competition Policy Institute

# A Disclaimer

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What I have to say here today is neither difficult nor contentious; the only merit I should like to claim for it is that it is true — at least in part.

- J. L. Austin, *How To Do Things With Words*

# The Easy Part

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“Regulation should be reduced as market forces act to set the price of electric service in a market.”

# The Hard Part

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The simple proposition raises these difficult questions...

What are reasonable expectations of this transition?

What are the goals? How do we know if we succeed?

Which paths are foreclosed by decisions we make?

Is imperfect competition preferable to imperfect regulation?

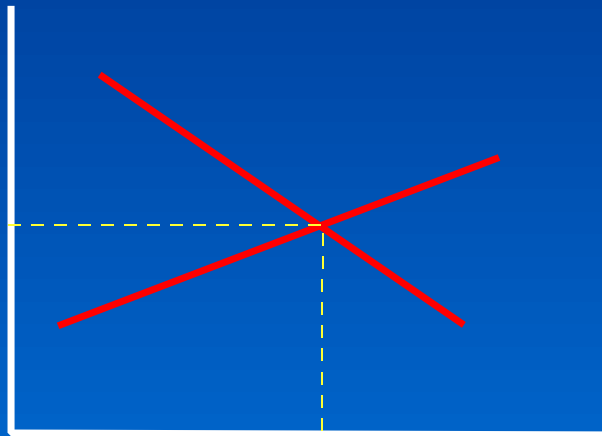
# Relying on Markets

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*What is the “Deregulatory Bargain”?*

The restructuring of the U.S. electricity industry must result in several benefits for consumers.

These include a more efficient transmission system, a fully competitive generation market, efficient regulation and a rational retail market.



# How might we fail consumers?

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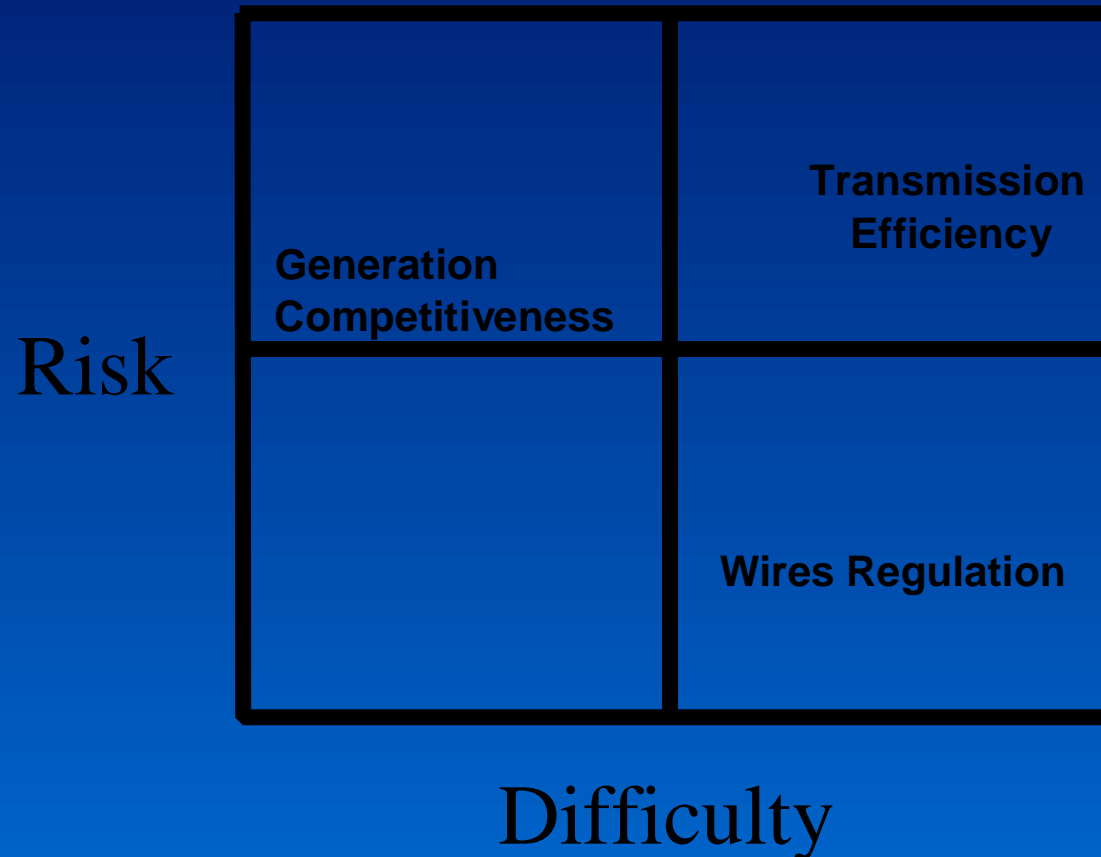
Setting our sights too low...

- Compromising the goal of transmission efficiency
- Neglecting horizontal market power in generation
- Failing to take the opportunity to make residual regulation more effective
- Striking the wrong balance between consumer protection and the development of markets

# What's At Risk?

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Risk of Error vs. Difficulty of Detecting Error



# Issues in Measuring Success

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## Transmission Efficiency

- Complex problem dependent on dynamic regional conditions
- High data needs
- Limited relevant history
- Apparent divergent trends in regional pricing
- Possible divergence in ISO structures

# Issues in Measuring Success

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## Generation Competitiveness

- Market structure likely to continue its evolution
- High data needs
- Regional comparisons may be possible
- Simulations and production cost modelling have a relevant history

# Issues in Measuring Success

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## Price Cap Regulation of Wires

- Price cap lessons learned elsewhere
- Design is controlled by regulators
- Importance of quality of service measures
- (Real) rate reductions should be possible

# Issues in Measuring Success

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## Consumer Attitudes and the Retail Marketplace

- Relevance of consumer attitudes
- Role of political acceptance
- Consumer protection *vs.* market development
- Lessons from telecommunications

# Elements of the Evaluation

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- Data requirements from ISOs
- Regional cooperation among state regulators
- R&D on production cost modelling
- Consumer complaints and attitude surveys

# Post-Restructuring Regulatory Activity

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- Price regulation of wires
- Regional monitoring of generation market
- Enhanced consumer information and complaint handling
- Anti-trust scrutiny
- Regulators able to revisit decisions and adjust structures

# Adjusting Regulation

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Will regulators let go of the right functions?

- Lessons from Telecommunications
- Consumer Expectations
- New Roles for Regulators
- Staff Adjustments

# What Replaces Economic Regulation?

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Is Imperfect Competition Preferable to Imperfect Regulation?

- The role of antitrust
- Enhanced consumer protection
- Interventions to defeat market power
- Willingness to adjust institutions
- Data needed
- Regional cooperation



# Some Conclusions

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- Consumers deserve that restructuring of the electric industry is accompanied by reasonably high goals for improving upon the *status quo*...
- If we don't "get it right" the first time, provisions must be made to improve the results over time...
- *Post facto* evaluations will require data...
- Some measures of success may necessarily be relative judgments...