



Is Liberalization in the US Passé?

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EPRG & CEEPR Joint Annual Conference

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Is Liberalization in the US Passé?
Or Just Plain Dead?

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No, It's Only in a Very Deep Coma

- The short, happy life of liberalization in the US
- California & the attack of the anti-market army
- Feeling for a pulse, hoping for a revival

Before California: The Good Old Days

Electricity Liberalization Gains Credibility

- **Pre-1973** Integrated, investor-owned, regulated monopolies dominate; performance OK, $MC > AC$
- **1975+** Deregulation of airlines, trucking, natural gas seems to work; **regulation increasingly criticized**
- **1978** PURPA: QFs can sell to utilities; **low gas $\rightarrow MC < AC$**
- **1980+** Industrials push Reagan administration to consider electricity deregulation (hence *Markets for Power* in 1983)
- **1990** England+Wales privatize, restructure, and add competition – **and the lights stay on**

Feds Enable, (Some) States Liberalize

- **1992** EPAct lets QFs sell to customers, expands FERC authority, legitimizes market-determined wholesale rates
- **1994+** Some states discuss liberalization, **mainly where regulated rates exceed expected competitive rates**
- **1996** FERC Orders 888, 889: Transmission systems have common carrier obligations
- **1998+** California, other states establish organized wholesale markets, some building on existing power pools
- **2000** Roughly half of US generating capacity is in organized wholesale markets

Then California & Enron Exploded, 2000-01

Since CA/Enron: All Defense, All The Time

- The California/Enron disaster gave high-performance ammunition to opponents of liberalization
- Increases in gas & coal prices + regulatory lag \Rightarrow liberalized prices exceeded regulated prices in many states
- Regulated firms in southeast and west were happy with their relations with state regulators
- State regulators resisted loss of power; distrusted markets
- Public power & industrials feared loss of special deals

Stalemate in the States; No Action in DC

- No major new state/regional liberalization since CA/Enron, despite good performance in organized markets
- Serious state-level attempts to roll back liberalization in VA, MI, CA, MD, AZ, MO ...
 - Arguments are high rates, market power & imperfections
 - Financial crisis has significantly weakened faith in markets
- The FERC under Bush & (so far) Obama has made pro-liberalization noises but has taken no serious action
- National electricity policy is not on the agendas of the Administration or of Congressional leaders

Pulse, What Pulse?

The Reason for Hope: Climate Change

- The US will likely adopt cap-and-trade to cut CO₂ emissions
- Significant cuts will almost certainly entail more use of **renewable technologies**, particularly wind and solar
- Coping with intermittent renewables will require more **demand responsiveness**
- Enhanced **energy efficiency** will be needed to keep costs low
- Concern for oil dependence and CO₂ emissions have created pressure for **electrification of transportation**
- **It will be very hard to make all this happen without organized, competitive, real-time electricity markets**

Liberalized Markets and Climate Change

- Open-access markets should be more receptive to entry via renewables than regulated monopolies
- Wide-area averaging, deep & liquid reserve markets in RTOs can mitigate the impact of interruptible generation
- Competition generally increases operating efficiency
- Smart grid technologies can enhance end-use efficiency and demand responsiveness, but only with *good* price signals – based on real, current costs, not historic costs
- Electrification of transportation will require *good* price signals to focus charging off-peak

The Liberalization/CO₂ is Link Becoming Visible

- Hard to miss that 81% of wind built in 2008 was in states with organized markets (versus 44% of wind potential), 85% by competitive suppliers;
- Studies show competition raises generator efficiency;
- President Obama, talking about climate change: “markets make decisions about technologies better than we do”;
- The Environmental Defense Fund, which brought enviros to accept tradable SO₂ permits:

“Market forces will ensure that investments are made in the right places with cleaner, more efficient and innovative technologies. For that reason, we believe that well-structured competitive electricity markets offer the most benefit to consumers, our economy and the environment.”

There is (Some) Hope!