

Ten Lessons Learned from Electric Restructuring

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1. Don't Promise Too Much

The restructured market cannot guarantee lower prices. It can assure customers that the market, not regulators, sets prices, and that they no longer bear the risk of bad generation investments. That's enough to promise.

2. Phase It In

A phase-in plan might start with a combination of incentive rates and a price cap. Customers who can self-generate could lead the way into the market. The next step would be to open competition to larger customers.

3. Make It Simple

Complexity has had a chilling effect on competition, because potential participants have been reluctant to get tangled in the web of rules, and they are staying away in droves. The result is inadequate choice and domination by a handful of the most well-financed players. Keep the rules simple.

4. Try Bilateral Deals Not the PX

A power exchange, or PX, is not a bad idea; we simply have not figured out yet how to make it work properly. The solution of the day is capping market prices, hardly a competitive notion. Instead, try bilateral deals, with buyers and sellers trading one on one. Power exchanges should not be banned, but they need not have an official status

5. Force the Grid Owners Out of Generation

The purpose of the entire restructuring exercise is to increase customer choice; the purpose of controlling both generation and transmission is to limit customer choice. Not only does control permit dominance; it allows the bundled entity to subsidize generation costs in a way that is not possible for other market players.

6. Protect and Educate Consumers

Thus far, customers have been poorly informed about what is happening. In addition, protection against market abuses such as bait-and-switch and false claims is needed. Both of these failings chill the market.

7. No Social Mandates

Government should resist the temptation to pile the costs of mandated programs onto the cost of power supply. It is discriminatory and undermines the open market.

8. Give Consumers A Fallback Option

As the telecommunications experience teaches, many people are indifferent to potential price savings because they do not want to deal with another choice. They need a default provider.

Furthermore, the default provider can serve as a benchmark for the market

9. Provide Meter Along With Retail Choice

Using load profiling to simulate customer demand and consumption is a poor substitute for the real thing. Of course, it will take time for all customers to be provided with new meters. - By requiring they have such meters before entering the competitive market, phasing is promoted.

10. Create a North American Market

Transmission lines do not stop at borders. The most efficient use of resources, reducing the need for new transmission and generation, would ignore borders.

Despite all the claims about the North American Free Trade Agreement and complaints about the reciprocity requirement in FERC's Order 888, cross-border trade has not increased significantly. Real reliability in North America requires a real North American market.

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