

# Plugging in the International Northeast

## DISCIPLINE OF THE MARKETPLACE

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--check against delivery--

What's wrong with the American retail energy market?

Lovely lady from Moncton

Who ever heard of letting the customers lead the way in designing the new marketplace? Terminator 3?

Al Glancy at lunch - ran MichCon, Michigan Consolidated - late 1980s. What do you sell gas for? \$6.25/mcf but producers get \$1.50

What does it cost to get the gas from Texas to Michigan? About 70. Where does the other \$4 go? "Well, we have a giant fleet of trucks and crew of service people and we have call centers manned around the clock, he replied. I wrote at the time that if they would allow Exxon and Shell to sell their gas for \$3.50, they'd be happy, the customer would be happy and Al would have plenty of money left over to pay for his big overhead.

Today America has retail gas competition in...states.

The producers are getting \$4.65 at Henry Hub and the residential consumer pays...on average.

You can tell from these numbers that the consumer has a long way to go.

Who will benefit from the discipline of the marketplace first New Brunswick or California?

Very soon those who start out by saying: "... in light of Enron and California" ... will be considered poorly informed.

We thought of using stronger language. Even today anyone who starts out like that is up to no good.

The meaning of the word California is about to change dramatically in the world of energy.

Sean Randolph is president of the Bay Area Economic Forum, a business advocacy group that you may remember put out very respected, unheeded advice for solving California's problems (RT, 5/23). He'll likely play a key role in those major changes.

To get an idea of Gov-elect Arnold Schwarzenegger's goals for California you can go to his website.

We reported those views (RT, Oct 6) but if you check out [www.bayeconfor.org](http://www.bayeconfor.org) you get lots more detail about the forum's view of the causes of California's energy ills.

Who ever heard of letting the customers lead the way in designing the new marketplace? That's our Arnold.

Not a Canadian expert: I write about the movement to competition in the US and am not a specialist in New Brunswick so I have an outsider's view. But I can sure advise you on what doesn't work in the US.

Since 1997 I've been writing daily about the transition to competition in the US but also in the UK and Canada.

To understand where leaders are coming from we ask ourselves how would change impact you?

Arkansas leaders voted to reverse the planned opening of retail power markets "because of California." The reasoning is that if they opened up they would make the same stupid mistakes California made. But that wasn't the real reason. The fact

is that incumbent utilities have persuaded lawmakers by conventional methods to give the cover story because the incumbent fears losing customers and their revenues.

My advice to New Brunswick -- don't make all the mistakes we've made south of the border. How can you tell which are mistakes?

Expect those schooled in one form of behavior to want to continue that way. Regulators feel comfortable fixing prices although it's otherwise illegal.

Monopolies want to continue to be monopolies. Who would want to face the discipline of the marketplace if you can get out of it?

Detroit Edison -- read RT story

California -- how to open a retail competitive market without the monopoly's losing any customers. They found a way but it bankrupted two of the big three IOUs and led to ugly price spikes and long term big debt -- \$40 billion plus CTC.

The UK model versus the US's National versus state by state. State by state allows state regulators to fight ferociously to preserve powers and prevent progress.

Where has US model failed? In all states, regulators can still fix prices of the incumbent utility and thus ruin competition - - thus destroying marketers and competition.

NARUC (state regulators) fought competition openly originally. Now do it behind the door by setting utility prices so low, competitors can't compete. Regulators gloat "look how low we set the prices as if they'd done something good for the public. If ruining disciplining of the incumbent, how is that good for the public?"

AIMS President Brian Crowley wrote in The Moncton Times & Transcript that "electric power is too important to be left in the hands of politicians."

I can assure you that with a few exceptions in the USA where politicians have made the economic decisions instead of investors, the results have been ugly.

Why?

"Pandering to voters' desire for artificially cheap electricity and unjustified massive construction projects today," as Crowley wrote is "storing up far worse electricity prices and massive debt for tomorrow."

What's the best role for provincial regulators in a competitive market?

Not being there. No regulator has ever gotten the correct price. The only clean price is the one set by consenting adult buyers and sellers without a third party to screw is up by doing what's politically good for the regulator.

It's impossible for a regulator to set the price at the same level that buyers and sellers would chose. If they get the price too high it hurts one market participant. If they get it too low, the other trading partner gets hurt.

Worst American mistake:

Most of new England and Pennsylvania. Let the market set the prices but allow state regulators to set the price for those who don't shop so low that marketers can't make any money so they fold up and go somewhere else.

Have the Yanks got anything right?

Texas, Georgia, New York (no caps) and keep an eye on California.