

# Dealing with Failed Deregulation

What would Price C. Watts Do?

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# Reference

Michael H. Rothkopf, “Dealing with Failed Deregulation: What Would Price C. Watts Do?” *The Electricity Journal* **20**(7), pp.10-16, July-August 2007.

# Why Do I Think Deregulation is Failing?

- Reaction at the state level
- Capacity is not being bid at variable cost
- Recent statements by advocates
  - & lack of agreement on the needed fixes
- Higher natural gas prices are an effect of deregulation
  - not an independent cause of higher price
- Lack of long-term contracts

# A Note on Long-Term Contracts

- Critical to low cost electricity supply
- Without them, capital costs are MUCH higher
- Cheap electricity need high cost capacity
- No electricity market will work well if doesn't match up those committing capital with those needing its product.

# Price C.'s Suggestions

- For regulated states
  - Don't deregulate
  - Learn from deregulated states
- For regulated states
  - Fight *deregulatory capture*
  - DON'T buy back plants at current prices
  - Create new, regulated capacity

# Making Regulation Work Better in regulated states

- Make time of use pricing available
- Make interruptible power available
- Benchmark operating costs

# Making Deregulation Work Better

- Rules should
  - Reflect economic justification for deregulation
    - Complete separation of players
    - Serious limitations on market power
  - Have teeth
    - Deterrence penalties—not just restitution
  - Be clear
    - Public forum for clarification

Bid should be open to the public

after 3 to 6 months



# Ending Deregulation

- Create new, regulated capacity.
- LSEs should become purchasing agents for capacity
  - Competitive procurement
  - Life-of-plant contracts

# What will this require?

- End residential choice
- Make those leaving pay for commitments made on their behalf
- Make those opting back in pay for the privilege
- LSE capacity plan must be approved by its regulator

# How will competitive procurement work?

- Regulator approved specs on requirements
  - Kind, availability date, penalties
- Open competition for all qualified
  - Except those with any relationship to LSE
- If necessary, eminent domain for sites

# Alternatives for Capacity Operation

- 1. Have LSE dispatch
- 2. Have builder dispatch
  - Reimburse for variable costs
  - Possible competitive efficiency incentives

# Dealing with Existing Generators

- Initially, they should not be able to bid existing capacity
  - And may well not want to
- Eventually, they may want to
  1. (Eventually) let them
  2. But still procure additional capacity

# Equity for Existing Capacity

- It is not wise to take advantage of those who invested to supply a basic community need
- But they weren't promised that they wouldn't face competition
- They should be allowed to sell their capacity at the cost of new capacity if they wish to

# The End of Deregulation?

- If all of the capacity has been acquired by the LSE and the LSE is operating the plants, then the ISO and its costs are no longer necessary.
- If the operation remains with the independent plant operators, the ISO will still have a role.

# Conclusions

- Price C. Watts is a pragmatist, not an ideologue
  - Not a socialist ideologue
  - Not a free market ideologue
- We need a reliable, low-cost supply of electricity
- This is how Price C. would get it.