BORDEAUX ENERGY COLLOQUIUM

2003 – GOALS OF DEREGULATION, CONCEPTS, & ACTIONS

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DETAILED RESULTS

1. Competition

The results of the survey indicate that the majority of participants have accepted the “sway” towards the new regime of competition and less government involvement even if it meant an uncomfortable transition period. The extremes of reverting to the old regime of regulated monopolies or accepting unfettered market competition met with the most agreement. A few key questions that had strong majority support illustrate this consensus.

Percentage	Agree/Disagree	Statement
67%	Agree	Low prices are achievable through competition for all customer classes.
79%	Agree	Market forces do a better job than government or regulatory agencies in determining prices for commodities such as electricity.
79%	Disagree	Monopolies ensure the lowest prices in the market due to high market entry barriers, ineffective storage, unresponsive demand to price and the limited number of sellers making price collusion ludicrously easy.
76%	Disagree	Due to deregulation, consumers suffer blackouts or other problems, workers lose steady employment, and utility firms that invest in system repair suffer because they must compete with low cost firms which cut back on safety, environmental, and trade union protections.
86%	Agree	It is naïve and dangerous to leave control of such crucial elements (i.e. utilities) of society’s infrastructure in the hands of profit maximizing corporations with public oversight.

Actions related to the transition from the old regime to the new also illustrated some key areas of agreement:

Percentage	Agree/Disagree	Statement
75%	Agree	Retail competition should be phased in first to industrial and commercial customers, since there is no evidence that residential customers receive any significant benefit in the short run.
71%	Disagree	Vertical integration is necessary in the electricity market. Although free markets may do a better job in managing rail, phone, and airline prices, they have yet to match the regulator’s ability to juggle the complexities of electricity.

There was less agreement about competition's ability to improve reliability:

Percentage	Agree/Disagree	Statement
52%	Agree	Competition encourages companies to focus on their core competencies such as adequacy of supply and security of operations.
62%	Disagree	A modern industrial society cannot function if security of supply, that is reliability, is dependent on competition and free markets subject to economic cycles and shortages.

2. Regulation

Again there was indication of a sway toward less government involvement and more allowing market dynamics to work themselves out. There was no overwhelming, strong consensus as to whether regulation and government involvement was the key problem.

There was general agreement that continued investment in the infrastructure is necessary and particularly difficult to achieve in areas such as large generation and transmission projects. They key area seems to be how to get financing in an environment of uncertainty from both the regulatory perspective and the ability to estimate returns with pricing volatility and the threat of artificial price caps.

Percentage	Agree/Disagree	Statement
57%	Agree	Uncertainty about the new regulatory and market rules has slowed grid investment to alarming levels.
65%	Disagree	Government involvement in the market shifts investment focus to an outcome based on longer-term investments that benefit customers.
65%	Disagree	Spot the market prices for energy and operational reserve will provide adequate incentives to build generation capacity and equal to consumers' reliability expectations.
65%	Agree	Regulation misdirects investment signals where competition forces a reassessment of risk/reward allocations.
54%	Disagree	Attempting to let markets price supply for electricity leads to investment inefficiencies in an easily monopolized market, the incentives are towards strangling the market and not supplying it. Generating power shortages becomes far more lucrative than generating more electricity, driving prices artificially high.

Encouraging investments in programs that have more “social good” impact than short-term profit gain yielded a different settlement. In regards to programs such as rural electrification, lifeline programs, economic development programs and environmental protection, most participants agreed that government intervention is necessary. Participants also agreed that consumers and all market participants at the retail level should share the cost of such programs.

Percentage	Agree/Disagree	Statement
57%	Agree	The provision of telephone water and electric service to the rural and poor cannot be trusted to a market notorious for pursuing only the most profitable opportunities.
65%	Agree	There is a “societal compact” that compels regulators to assure the recovery of utilities costs of renewable portfolios, lifeline programs, and economic development rates.
74%	Disagree	Social benefits of retail services should be identified, delivered, and billed to all consumers regardless of retail provider.
65%	Disagree	The percent of required renewable portfolios and the role of energy efficiency programs should be mandated by the state and not remain the responsibility of incumbent utilities.

3. Implementation

Customer involvement in the market mechanisms was identified as a main issue confronting the successful workings of the market. A clear call to give more information and choice was identified as an action regardless of the regime of regulation or competition. Allowing customers to respond to the real volatility in prices in the electricity market allows for more control over demand, particularly in peak times. The need to protect customers from unpredictable and erratic pricing was clear. However, allowing the market to offer various rate plans based on the level of accepted pricing risk appeared to be an effective approach.

Percentage	Agree/Disagree	Statement
50%	Agree	Pricing volatility is a necessary part of an efficient electricity market that will promote the long-term best interest of the consumers.
79%	Agree	Residents and business cannot tolerate unpredictable and incoherent changes in prices.
71%	Disagree	States should shield consumers from market risks and pricing volatility through instituting retail price caps.

Allowing market forces and competition to drive the changes in the industry in theory meets with general agreement. The logistical issues regarding the transition from the old regime to a newly designed regime remains an area of confusion. Issues such as stranded costs and market power have no found clear-cut answers to date.

Percentage	Agree/Disagree	Statement
57%	Agree	Divestiture of generation assets is a business decision and not appropriate for legislative requirements.
48%	Disagree	Forcing utilities to sell their generation assets is a clear way to deal with market power.
54%	Agree	Standard cost recovery is a fair and equitable way to move competition forward.
86%	Agree	The owners/operators of transmission and distribution facilities and providers of coordination and systems control should be required to provide access to any buyer/seller on a non-discriminatory common barrier basis.