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Don’t Blame Deregulation

By Paul G. Afonso

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A recent survey on energy issues conducted by the New England Energy Alliance found almost 75 percent of Connecticut consumers favor competition in the electricity industry. An overwhelming majority expressed the desire to choose the company that supplies their electricity based on cost, pricing options and product offerings.

This pro-consumer sentiment is in stark contrast to a claim made in a conclusion issued by UConn economist Arthur Wright, based on his own recent study. Wright found that consumers have “buyers’ remorse” 10 years after the introduction of competition in the electricity marketplace.

He asserts that Connecticut’s high electricity rates were caused by deregulation and that states that haven’t deregulated have experienced smaller price increases in comparison to those that have. We believe that Prof. Wright is wrong.

It’s too simplistic to accurately assign price increases to either regulation or competition. Electricity costs are increasing under both of these market structures due to underlying factors specific to each state and region.

The well-documented results of electricity industry deregulation in New England — and by extension Connecticut — include improved generating plant performance, lower emission rates and economic savings based on projections of where electricity rates would have trended in the absence of deregulation.

Pricey Natural Gas

Electricity rates are primarily driven by the cost of fuel, comprising up to 95 percent of generation costs (transmission and distribution costs remain regulated). No region of the country is escaping the impact of high fuel costs. Indeed, New England’s dependence on fossil fuels to generate electricity has proven to be costly.

When New England dramatically reduced its consumption of oil to generate electricity, the region substantially increased its use of natural gas. Today, more than 40 percent of the region’s electricity comes from natural gas plants. Many of these plants were built soon after the industry was deregulated to take advantage of low capital costs, high efficiencies and low-carbon emissions. Since then, however, the price of natural gas — has beyond all reasonable projections — nearly tripled.

Other deregulated states such as Pennsylvania, Ohio and Illinois that rely on less expensive coal have electricity rates well below the national average. But even the cost of coal has increased 40 percent since 2000 — leaving few, if any, states immune to rate hikes.

In addition to escalating fuel costs, Connecticut's failure to develop its energy infrastructure has contributed to higher electricity rates. The state's aging and undersized transmission system, for example, has prevented the importation of economically priced electricity when and where it is needed.

This "congestion" has led to several federally-imposed costs and increased the need to keep uneconomic plants operating to maintain reliability in some areas. These extraordinary circumstances have cost Connecticut consumers an estimated $350 million per year.

Prior to 2003, this extra cost was shared by all the region's consumers. Today, it's paid for locally as a result of a new pricing approach intended to send market signals for developing new generation and transmission resources.

Improving Transmission

Utility and energy companies, in response to these price signals, have proposed building new infrastructure in Connecticut. But state moratoriums and local opposition have often stymied development or caused significant delays that have increased project costs.

Nevertheless, progress is being made. The recently completed Southwest Connecticut Phase 1 Transmission project, for example, is expected to save consumers more than $100 million annually in congestion costs, improve reliability, and reduce the operation of older, inefficient generating plants. Other transmission upgrades now underway will open up the system to greater competition, providing easier access to more efficient and cheaper generation resources.

For the time being, deregulation in Connecticut remains a work in progress, as the state's energy infrastructure catches up to increasing electric demand.

Political leaders need to encourage infrastructure investment and make siting and permitting of energy facilities more predictable.

All things considered, buyers don't feel remorse — they want to stay the course.

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