

FERC-get About It

Turn out the lights on federal electricity regulators.

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If there's any lesson that policy makers should have learned from the California electricity blackouts of 2002 and the East Coast blackouts of earlier this year, it is that electric power deregulation done the wrong way can cause soaring prices and leave consumers literally in the dark.

In California, homeowners and businesses had to ration their electricity use, dim the lights, and turn off their air conditioners. A basic service that we as Americans take for granted – cheap and uninterrupted access to electric power for light, heat, computers, hair dryers, dishwashers, etc. – was suddenly a scarce commodity.

Given that the electric power network is the central nervous system of the U.S. economy, we better make sure that Congress and regulators get it right as they restructure the laws regulating electric utilities. Disruptions in electricity supply and rising prices could bring our economic expansion to a screeching halt.

Unfortunately, federal regulators seem incapable of deregulating in ways that will benefit consumers and keep the nation's supply of electricity dependable. Last year, the Federal Energy Regulatory Commission (FERC) proposed a plan to restructure the national electricity market that would have required private power-generating companies across the country to come under the authority of newly created mega-regional transmission organizations. This plan would have essentially federalized electricity markets. The plan provoked outrage from governors, state utility commissioners, consumer groups, and free-market conservatives. FERC was forced to retreat.

FERC is now trying to accomplish its power grab through rule-making proposals, court filings, and other means of regulatory fiat. FERC wants to force local power utilities to join regional transmission organizations (RTOs), which would effectively prevent them from providing a first right of service to the very customers who paid for the power plants and transmission lines in the first place.

FERC maintains that this intervention will foster competition in electricity markets, which will in turn lower utility bills. That's certainly a laudable goal. But it's hard to argue that the current system, warts and all, hasn't kept prices low. Adjusted for inflation, electricity prices are lower now than they've been throughout most periods in history. Electricity prices haven't risen at nearly the rate that oil and other energy prices have. So why does FERC insist on ³fixing² a system that seems to be working?

Deregulation is supposed to mean fewer rules and less red tape. When Ronald Reagan lifted price controls on oil and natural gas in the early 1980s, all that was needed was a stroke of his pen on a one-page executive order. FERC needs

603 pages just to explain SMD (standard market design). In some ways, the FERC scheme more closely resembles the multi-layers of bureaucracy in the failed Hillary Clinton healthcare plan than a deregulation manifesto. FERC's plan is hugely expensive. In a recent report, the Public Power Council (PPC) found that the cost of FERC's regional transmission organizations quadrupled from \$250 million to \$1 billion between 1998 and 2004. The number of employees at the Midwest organization jumped more than 500 percent in four years, from 80 in 2000 to 465 in 2004. In Texas, according to the PPC study, the number exploded from 50 bureaucrats in 2000 to 530 in 2004.

It appears that FERC's primary goal is not to serve consumers, but rather to serve as a life raft to the merchant generating industry. This comes at the very time that Wall Street and credit-rating agencies are fully prepared to bury that industry because of poor business decision making. Standard & Poor's energy analyst Peter Rigby notes that ³independent power producers gambled on a business model based on rapid and debt-funded growth.² Now these indebted power-generating companies face a perfect storm of rising interest rates, soaring natural-gas prices, and declining electricity demand < and they want a de facto bail out from Uncle Sam.

Bailouts of bad businesses aren't consistent with the free-market model of survival of the fittest. Airline deregulation forced some inefficient airlines like Pan Am and Eastern Airlines out of business, but others like JetBlue rose out of their ashes. In the telecom deregulatory environment of the crazed late-1990s, we witnessed tens of billions of dollars in overinvestment, shareholder losses, and eventual bankruptcies. Uncle Sam never rushed in to use taxpayer dollars to keep these companies afloat.

Everyone wants to ensure that captive local customers aren't price-gouged by local electric utilities, which in many areas still operate as legal regulated monopolies. The goal is to eventually allow the power markets to evolve so that homeowners and businesses can purchase electricity on the national power grid from any number of competing utilities. The genuine deregulation model in electricity should work very much like the deregulated phone service of today: Consumers can now choose from many phone companies on the basis of reliability and cost. Under that model, long distance prices have plummeted. FERC talks the talk of deregulation, but it intervenes in the marketplace to transform losers into winners. If FERC continues with this model, it may not be long before its phony ³deregulation² scam brings the California crisis to the rest of the nation. Congress should turn out the lights at FERC before these bungling regulators turn the lights out on the rest of us.

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