Down a Long and Winding Road – How Far?

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At the Start of the Road

  “If deregulation is to play a role in helping to improve the efficiency with which electricity is produced and used, it must be introduced as part of a long-term process that also encompasses regulatory and structural reform.” (emphasis added)

- Chile had already started down this road; the UK/EU and the US began in the early 1990s

- And in 1993, HEPG, with Bill Hogan’s leadership, began casting a light down the road to help us all find the way

Looking back & looking forward, how far down this road are the US and the EU?
Where Do We (Generally) Want to Go?

- Privatization, particularly of generation
- Competitive wholesale markets for energy & ancillary services
  - With uncapped LMP pricing of energy
- Independent operation of open access transmission systems, wholesale markets, & dispatch
  - Ideally with generation separated from transmission
- Competitive retail markets
  - Ideally with energy suppliers separated from wires companies
- Retail energy prices reflecting time-varying marginal costs

To what extent have the US & EU achieved each of these key objectives?
Privatization of Generation? 
More to do in both the US and EU

Sales of federal electric utilities as a % of retail sales, 2010
(preliminary, approximate)

- none
- between 0 and 5%
- between 5% & 10%
- greater than 15%

Of the 9 red (subsidized) states, all but Oregon & Washington voted for Romney in 2012

Of the 20 white (subsidizing) states & DC, only 3 voted for Romney in 2012
Competitive Wholesale Markets?
Everywhere in the EU, Only 2/3 of US

No signs of forward movement in the US
Uncapped LMP pricing of energy? Farther off the road in the EU?

- With SPP’s planned move, LMP will be universal in US ISOs – but not universal in the US

- The EU is moving toward a strange linkup of national copper-plate systems; *physics still overruled by politics*

- Ceilings (& floors) more common than not in both

- Capacity markets & other ad hoc reactions to missing money in the US – ERCOT may innovate!

- Religious objections to capacity markets in the EU seem to be softening – a good thing?
ISOs with Generation-Transmission Split? EU Clearly Ahead Here

- TSOs that own transmission but no generation are the norm in the EU – government monopolies were split

- US ISOs are not owned by generators but don’t own transmission assets

- FERC can’t force divestiture; encouraging sale via premium RoR begs for state rate-driven pushback
  - See Entergy’s difficulty getting state approval for selling its transmission assets to ITC
Retail Competition with Energy-Wires Split?
Universal in the EU, Rare(?) in US

• US has nominal retail choice in fewer than half the states + DC

Moreover, effectiveness varies, esp. for residential customers; a wires company affiliate is commonly a player (sometimes the default) in the energy business; & no forward momentum

Source: Compete Coalition
Dynamic Pricing at Retail?
Only for a Few Customers Anywhere

• Much enthusiasm (not universal) for smart meters…

• But much less enthusiasm for using their intelligence fully via dynamic pricing – legitimate bill shock fears

• Smart meters + smart appliances + effective retail competition may be the path to dynamic pricing…?

• No visible motion anywhere(?)
Some Concluding Thoughts

• Both the US and the EU have traveled far down the reform road – with plenty of help from HEPG

• Both have a long way to go to achieve all the key reform objectives – but only the EU is moving (forward?)

• Rates & directions of travel have differed substantially, reflecting starting points & institutional differences:
  • Easier to restructure government enterprises than private firms (wires/energy at retail, transmission/generation at wholesale)
  • State sovereignty is difficult, but nation-states are more difficult (EU wholesale price system)

At least 20 more years of hard work for HEPG!