

Statement on Electricity Restructuring

By Sanford V. Berg

Distinguished Service Professor—University of Florida

Member, Energy 2020 Study commission

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Although we have not completed our work as a Study Commission, we do not have to delay making a decision regarding competition in generation. However, I would like to see a technical study on the implications of shifting assets at book value to unregulated entities. We do not know whether there are stranded benefits or stranded costs. Without some estimates by the FPSC or the Public Counsel, I am not confident that the transfer serves the public interest.

My hesitation to vote for the proposal as distributed is based on the need to base important policy decisions on the best information available. We have seen no future projections of energy prices under alternative fuel price scenarios or alternative entry patterns. We have seen only rough estimates of stranded benefits or stranded costs—so we do not even have order of magnitude estimates of the numbers involved. The citizens of Florida cannot have it both ways—heads they win, tails the incumbent utilities lose. However, our citizens and legislators deserve to know whether this is a \$100 million or \$1 billion dollar issue.

It pains me to express this concern, because I support movement to market-based competitive rates. However, a prayer underscores the challenges we face together:

Spare us from Cowardice that shrinks from new truths,
Spare us from Laziness that is content with half truth, and
Spare us from Arrogance in thinking that we know all truth.

The new truth is that generation is not a natural monopoly—it is potentially competitive. In addition, we know from experience in numerous industries around the world that competition places stronger incentives for cost containment than are available through regulation. The proposal allows the state to harness competitive pressures in generation, without jeopardizing reliability. Florida is the only state that prevents entry into generation by non-load serving firms. It is time to acknowledge that entry is a plus for Florida citizens.

A half-truth is that “California *proves* nothing should be done in Florida”. This conclusion follows neither logically or factually from the California experience. Everyone has learned from the flawed policies implemented in California. New plants had not been built in the state. Furthermore, the retail price freeze meant that when natural gas prices soared and drought affected hydropower, the distribution utilities were caught in an untenable financial squeeze. The Florida proposal contains safeguards to avoid these problems. Our situation is not the same.

Finally, we need to be skeptical of those who claim to know the future with absolute certainty. Some humility is called for when taking initiatives. Although it is never easy to leave that which is familiar, we should not let our vision be clouded by fear. We cannot know with total certainty what will happen under this proposal. Nor does anyone know what will happen if we maintain “regulation as usual”!

However, a key feature of the proposal does warrant more attention. The transition to a level playing field for all generation assets currently proposes the transfer of generation capacity at book value to affiliated Exempt Wholesale Generators. The space at current generation sites, location relative to the transmission grid, and expected operating lives (and costs) of these assets certainly affect the market value of these facilities. Currently, the stranded costs of high-price PURPA-contracts remain with the distribution utilities—leaving consumers to shoulder these burdens. Some symmetry is called for—if stranded benefits are also present. However, if the values are relatively small, we should certainly move forward with the proposal. Otherwise, some sharing mechanism should be considered—both in terms of stranded costs and benefits. The latter are possible if extremely tight environmental regulations are imposed on old facilities.

It is important that legislation provide the FPSC with continuing jurisdiction to monitor developments so that citizens benefit from the new institutional arrangements for siting and operating energy-related facilities. We know that markets work very well when competition is feasible. Furthermore, regulation will remain over those segments of the vertical chain that are still natural monopolies. The proposal (along with the FERC-mandated creation of the Florida Regional Transmission Organization) gives protections where required and promotes efficiency in the use of scarce energy resources. We are fortunate that experts have helped craft a proposal phasing in the forces of competition, while constraining the exercise of market power. In particular, the Florida Public Service Commission will retain regulatory oversight of distribution and will work with FERC to ensure that producers have fair and open access to the transmission grid. In particular, our final report should have explicit recommendations related to congestion pricing of transmission services—so new plants have incentives to site in appropriate locations.

We need to recognize new lessons, avoid half-truths, and promise only what can be delivered. Based on my review of the proposal, I am convinced that it contains the seeds of a framework that will enable all Floridians to have cleaner energy at lower cost than would the status quo. However, I need some assurance that the potential stranded benefits (and costs) created by the proposed restructuring will be shared equally by shareholders and by consumers.

There is still much to do in the coming months. Balancing the benefits and costs of energy requires environmental impacts to be taken into account by decision-makers. While our laws currently provide protections, it is necessary to revisit the way the energy market has evolved in Florida. There is no simple recipe for Florida, since incumbent suppliers will be competing with new merchant suppliers. Similarly, old (more pollution-intensive) capacity will be competing with new (potentially more expensive) capacity. The policy discussion within the Study Commission needs to be continued within the Legislature—where broad policy objectives (clean environment and low cost energy) must be prioritized. Ultimately, citizens need to understand what they are getting and why. Without a broad social consensus, Florida runs the risk of having citizens become upset when the implications of policy decisions show up on their electricity (and hospital) bills. A cleaner environment is costly so the Study Commission needs to address the energy/environment issue in a systematic manner. The final recommendations must incorporate sound judgements regarding this area.

Similarly, the public benefits area needs to be examined in much more detail. Should Florida undertake a significant research and development effort in “green” technologies? Should customers be taxed so that energy-efficiency investments can be subsidized for some groups? Should low income consumers be targeted for explicit subsidies? Our comprehensive recommendations for next December must have some concrete recommendations in these areas.

We have worked hard and come far—but the journey is far from complete.