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Market Only Fueled Power Prices

By MARY J. HEALEY

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Although there have been some improvements, Connecticut's electric bills are still too high. There are things we can do to improve the situation, but they are going to take time. As the state's consumer counsel, it's important to me that ratepayers have a realistic understanding of the electricity situation.

First, the positives. The Department of Public Utility Control is in the process of contracting for three new "peaking" power plants — to assure adequate power during high demand periods — in the state. In a welcome break from the recent past, both of our traditional utilities, Connecticut Light & Power and United Illuminating, were permitted to submit proposals, as were private generating companies. Most important and most beneficially, the peaking power plants are by statute required to be paid only their costs and a reasonable rate of return on investment. Thus, the DPUC's peaking docket is leading to a historic, if only partial, return to regulated pricing principles. Bravo!

Unfortunately, this is only one step back from the disaster that electricity restructuring, also known as deregulation, has been for Connecticut ratepayers.

You know about the prices — you pay them each month and have watched them climb rapidly in the decade since deregulation occurred. Part of that rise is related to increased prices of oil and natural gas — but only part. The rest of the price rise has been a massive and needless wealth transfer from the Connecticut public to the owners of power plants, most of whom are headquartered in other states.

The owners of nuclear and coal plants have received robust overpayments because of the flawed market design of ISO New England, which operates the region's electrical grid. ISO New England allows the owners of coal and nuclear plants to be paid as if they were burning more expensive natural gas. What has Connecticut done about this windfall to plant owners? Essentially nothing.

Admittedly, change would be difficult to achieve, but if you want to reduce power prices rapidly, the way to do that is to reduce the overcompensation of nuclear and coal plant owners. People try to kid themselves (and you) by suggesting other approaches, but nothing else will have a significant effect on power prices. If you're paying too much, someone is getting overpaid.

Electricity restructuring was also leading to a power plant shortage until Connecticut engaged in self-help measures. The promise of restructuring was that the nimble fingers of Adam Smith's invisible hand would point to the right locations and designs for new plants. Didn't happen. Power plants require long-term income streams for financing, and the payments in the ISO New England markets are short-term.

Energy market pricing signals turned out to be signals to plant owners to hoard the benefits of existing plants, not signals to build new ones. In some instances, viable sites for new power plants have been left empty for years.

Electricity restructuring will never accomplish all the policy goals and demands that the state has. The most that markets can deal with is supply and demand, and then only when designed and functioning properly. Markets don't care about fuel diversity, renewable energy, reducing pollution and other goals policy-makers are promoting.

The only way to even attempt to meet this multiplicity of goals is through planning by responsible state officials and some regulation. We must stop pretending that 10,000-page ISO New England market rules will make responsible choices for us.

The best news is that the state is again engaging in robust energy planning. We are taking a hard look at electricity resources that are needed, and will have the ability to purchase those resources through competitive procurements, rather than waiting for the resources to "pop up" in response to expensive price signals in the ISO New England markets. In the long run, this will likely lead to better prices, more reliability and a better environment.

Mary J. Healey is the state consumer counsel and the vice chaiwoman of the Connecticut Energy Advisory Board.