

Bring competitive power to people

By Mary Wolfram

On Jan. 26, the Michigan Public Service Commission approved a contract which would allow Wisconsin Electric Power Co. to provide electricity to the Copper Range Co. over the Upper Peninsula Power Co.'s lines. In exchange, UP Power will be permitted to compete for a similar load in Wisconsin's Electric territory. Wisconsin Power will pay UP Power a fee for use of its lines.

This is the first retail wheeling contract to be approved in the state and the beginning of a restructuring in the electricity industry that is sweeping the nation. A recent study found that Michigan's electric rates are as much as 15 percent higher than surrounding states, keeping Michigan from being competitive in attracting new business and industry. In an effort to reduce electricity costs, the Michigan Jobs Commission has released a series of recommendations which the governor has forwarded to the Public Service Commission for action.

The Jobs Commission recommendations would phase in competition and customer choice in the electricity industry over the next five years. Customers would be able to bypass their local power company and shop for electricity in a wider market. While not perfect, this plan, if adopted, would catapult Michigan to the forefront of a revolution in the electricity industry.

While some argue that the distribution of electricity is a natural monopoly, the generation of that power certainly is not. For some years now, our nation has been connected by a vast electrical grid capable of transporting or "wheeling" electricity generated at any given location in the country to any other. Up until now, only the utilities themselves have been allowed to take advantage of this network to purchase wholesale power.

But there is no real reason why we can't have electricity provided in a competitive market for retail customers. Perhaps power generated in Indiana, at an average price of about 5 cents per kilowatt-hour (kwh), would become available to Michigan customers who pay on average 7 cents/kwh. That's only one option. Indeed, there is a veritable army of independent power producers chomping at the bit to get into the Michigan market.

Customer choice and competition in the telecommunications, gas, airline, railroad and trucking industries brought lower prices, expanded output and improved quality for everyone. For example, when the natural gas industry was deregulated, prices fell by 24 percent and service improved. According to some analysts, consumers would save an estimated \$31 billion annually if high-priced electricity suppliers were forced to meet the average prices within their respective regions.

Under the current regulatory system, the Public

Service Commission sets utility rates at the utility's costs plus a "reasonable rate of return" for investors (plus a lot of other interesting things that consumers don't know they are paying for). If costs increase, they are simply passed on to the customer. Utilities have no incentive to be cost efficient, and customers have no chance to shop around for a more economical source of electricity. Until now.

While the Jobs Commission recommendations are a good start, they do not go far enough. The plan would permit customer choice only to new and expanding business and industry. But why not allow choice for all customers, residential and existing business and industry alike?

Reform in this industry will take some tenacity on the part of the governor, the Public Service Commission and the state Legislature, and some vigilance

on the part of the consumer. There is a lot at stake. Total revenue from the sale of electricity in Michigan in 1994 was more than \$6 billion. In moving from a regulated monopoly to a competitive market, there are winners and losers. So everybody wants to be there when the deal is cut.

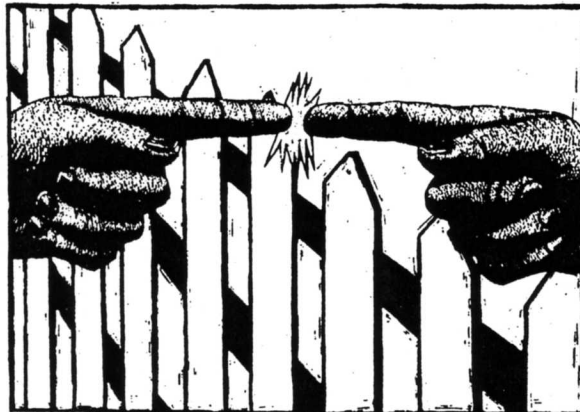
Utilities have a vested interest in maintaining their monopoly status, or if they must sustain competition, they will want to

set up the system to give themselves the best possible advantage. One sticking point will be that of "stranded costs." If independent power producers undercut the local utility, then the utilities will be left with some uneconomic large power plants, their "stranded costs."

The utilities argue that they are entitled to recover these investments on the basis of past regulatory approvals. While there may be some logic to these arguments, one has to ask why it is that utilities are providing electricity at above market rates. If the utilities were well managed and efficient, then they should be competitive now.

Competition in the marketplace is the best way to provide efficient, economical power. When markets opened up in other regulated industries, prices plummeted. The way utilities are regulated now is silly and inefficient, even creating disincentives for efficiency and cost savings. Competition is coming whether one likes it or not. The pressure for lower prices is just too great.

Large industrial customers already shop for cheap electricity by locating in less expensive states. By introducing competition early, Michigan will have a competitive advantage and stands to gain from an influx of new industry and from a reduction in consumer energy costs.



Pen Tip International

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