

THE POWER OF ENERGY DEREGULATION

AUTHOR: Frank Cassidy '69 is president and chief operations officer of PSEG Power LLC.

Some of those involved in the public policy debate may have viewed the restructuring and deregulation of the electric industry in purely theoretical terms and as a contest between competing economic models. Those of us in the business, however, never lost sight of the fact that electricity is not just another commodity. It is a product essential to the health of our economy and the very functioning of our society. Changing the fundamental rules of the business had enormous implications for all stakeholders. To paraphrase Winston Churchill, we may be just at the end of the beginning of this process. But there is strong empirical evidence that electric competition has worked and is making our industry more efficient, shifting risk away from customers, reducing costs for customers, and spurring investment in new, cleaner technologies.

Competitive electric markets are still developing. The process is more advanced in the eastern half of the U.S., and most of the progress has come in wholesale markets involving the generation of electricity and bulk power sales. New Jersey restructured electric markets in 1999 when the State Legislature ended the vertical integration of the state's electric utilities and required them to divest or functionally transfer ownership of their electric generating plants. Utilities still deliver electricity to customers, who also have the option to shop for other retail suppliers.

New Jersey now procures virtually all of the 18,000 megawatts of energy and capacity its utilities need to serve customers through a highly competitive, market-driven, Internet-based auction. This is an innovative system that has been highly efficient and effective in translating wholesale competition into benefits for utilities' retail customers and protecting consumers from the full impact of skyrocketing costs of natural gas and other fuels used to generate electricity. Under the old regulatory model, these costs would have been directly passed on to utility ratepayers through fuel adjustment charges.

On a larger scale, competition is also working and producing tangible results in the PJM regional markets of which New Jersey is a member, and in New York, New England and parts of the Midwest where public policy decisions have

advanced market development. PJM is the regional transmission organization (RTO) that manages the bulk power system and wholesale energy markets that serve approximately 51 million people in all or parts of 11 states in the eastern half of the country. The markets administered by PJM represent the most advanced and best-functioning example of wholesale electric competition. There have been various estimates that PJM's market competition has saved retail customers between \$1 billion and \$3 billion in recent years.

On a national scale, a recent study put overall consumer savings attributable to wholesale competition at \$15.1 billion. The savings stem from reducing the impact of fuel cost increases and efficiency improvements at electric generating facilities that include: a 13 percent reduction in nuclear plant refueling time since 1999 and an overall 17 percent improvement in nuclear plant capacity from 1995 to 2004; an 8 percent reduction in overall nuclear plant operating and maintenance costs; a 14 percent reduction in coal plant operating and maintenance costs, and a 16 percent improvement in coal plant capacity.

An absolutely essential public policy corollary to the competitive restructuring of the electric power industry is implementing a national system of more stringent environmental requirements affecting all power plants in all parts of the country. We've invested billions of dollars in new, clean facilities and modern emissions control technology and believe very strongly that regional differences in state and federal emissions standards should not be allowed to become a competitive advantage for facilities that have not been required to make similar investments. We continue to advocate federal multi-pollutant legislation that would require all plants to meet tougher new standards for reductions in pollutants associated with our industry — sulfur dioxide, nitrogen oxide and mercury, and to begin mandatory carbon dioxide controls. ■

Editor's note: See the Icon profile of Frank Cassidy, recipient of a 2003 Alumni Achievement Award, in the Alumni Circuit section of the fall 2003 *NJIT Magazine*, accessible by clicking on Publications Library and then Alumni Magazine at www.njit.edu.

