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Connecticut Lawmakers Warned of Power Missteps

As they grapple with consumer unrest over high electricity rates, Connecticut lawmakers were urged by a consultant to create a state power authority to bring down costs and stabilize the electricity sector.

Portland, OR-based consultant Robert McCullough warned against repeating mistakes made in California as well as in the Northeast. A blizzard of bills has been proposed and some winnowing out is supposed to take place by mid-April. The proposed laws are aimed at getting control of seemingly runaway electricity rates and restructuring the energy industry and its regulation.

McCullough, the founder and principal of an economic research firm in Portland and former executive in the power industry in the Pacific Northwest, has been busy unearthing flawed markets and market mechanisms in the power industry since the California and Enron Corp. crises arose in 2000-2001. He has been an unsparing critic of California's failed restructuring and continues to chastise the California Independent System Operator and regional transmission organizations (RTO) generally.

To support his recommendation that Connecticut establish a state power authority to create a "more transparent process" for the generation and sale of wholesale electricity, McCullough raised 10 points in his testimony to the state General Assembly's lower House Energy and Technology Committee. The questions he raised ranged from how well "administered markets" were working in Connecticut and other parts of the United States and how the industry got to its present state.

McCullough's short answers are that the markets are "working very poorly," and this is because "California's faulty market structure" was adopted. In 1996 with the passage of new state legislation, "California rejected open markets in favor of a Rube Goldberg apparatus of markets, system operators, oversight agencies and rules [tens of thousands of pages]."

The chair and vice-chair of the Connecticut House energy committee told news media they are concerned that the state's power prices are "artificially high," and that a power authority might be one way to bring down those prices. Another way, they speculated, would be to allow the state's two major private-sector electric utilities, United Illuminating Co. and Connecticut Light & Power Co., to enter longer-term power purchase agreements of 10 to 20 years.

While systematically ruling out administered markets and RTOs for not providing any clarity or control in terms of prices and for helping only independent generators that purchased old generation plants at below-market prices and are selling them back to the utility sector at higher-than-market prices, McCullough said the state power authority is "the best of a series of bad choices that we have available."

For McCullough "the mistakes of California" continue through the Federal Energy Regulatory Commission pushing RTOs and states finding the mistakes trying to regulate markets "so seductive" that they repeat them, too.

"High costs, market manipulation, and inefficiency have followed in California's wake from Texas to New England," McCullough told the state legislative committee. "All indications are that the situation will get worse before enough outrage has been generated to enact basic reforms."

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