

BOOK REVIEW

MAKING COMPETITION WORK IN ELECTRICITY by Sally Hunt
(Wiley 2002)

Reviewed by
William A. Mogel*

This is a timely book that challenges the reader. It is written in an engaging style by Sally Hunt, formerly head of the energy practice at National Economic Research Associates (NERA).¹ *Making Competition Work in Electricity* is a distillation of Ms. Hunt's thirty years of experience as an energy consultant.

Making Competition Work in Electricity is divided into two parts and composed of twenty chapters. In addition, there are six appendices, a glossary and a solid index. The book also is liberally augmented by tables and highlights key information in boxes sprinkled throughout. *Making Competition Work in Electricity* was written prior to the Enron debacle, the travails of the power trading industry, and FERC's Notice of Proposed Rulemaking on Standard Market Design. On these subjects, Ms. Hunt's commentary would have been especially illuminating.

At the outset, *Making Competition Work in Electricity* has many admirable qualities that represent Ms. Hunt's experience and best thought. It also is written in a style that often relies on "sound bites" intended to capture the reader's attention. For example, Ms. Hunt writes;

Electricity is not carpets – you don't order one and complain if they deliver . . . a different one (p. 288).

What has been done in the United States can be likened to a meal without the main course; the appetizers and dessert have been served without the meat and potatoes (p. 249).

and finally, in referring to the construction of new transmission facilities:

The United States has gone BANANAS – Building Absolutely Nothing Anywhere Near Anybody (p. 206).

Before commenting on the substantive thesis of *Making Competition Work in Electricity*, there are minor, but nagging faults with the publication. The footnotes generally are uninformative, and not supported by citation to published sources. For example, one footnote states:

The full list of independence conditions is contained in FERC's Order No. 2000 (p. 269, n.3).

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1. Ms. Hunt, obviously a believer in full disclosure, writes:

The Edison Electric Institute . . . at the behest of its then chairman . . . requested the book and partially supported the writing of it, but this is not an industry position paper (p. vii).

Obviously, the reader would benefit from a list of those conditions, as well as a citation to Order No. 2000. Second, *Making Competition Work in Electricity* often is repetitive. An example occurs in chapter twenty which repeats Ms. Hunt's central recommendation set out in chapter eleven, as well as, on page eight. Third, only passing attention (ten pages)² out of 450 pages refer to the natural gas industry and its restructuring. Finally, the glossary is too short, and not helpful since the definitions are truncated and are not written for the novice or the legal community.

As to the merits, which are many, Ms. Hunt's underlying thesis is straightforward:

The need in the United States is to *refocus* on introducing competition into the production markets Competition in the retail markets will not produce low prices if the production markets are not competitive (italics in original, p. 3).³

Since this is not a mystery novel, I feel at liberty to disclose the book's five major recommendations:

Demand side: Hourly metering for most of the consumption, and price designs that expose customers to the spot price for some of their consumption.

Trading arrangements: System operations separate from traders and regionally consolidated. Trading arrangements based on an integrated model, with central dispatch and locational energy prices.

Transmission business model: Control of transmission separate from traders; pricing and expansion arrangements; our preference is for regional profit-making regulated Transcos incorporating the system operator.

Supply side: Remove barriers to entry. Buy out of the old regime by valuing assets and dealing with stranded costs. Expand market areas by improving transmission. If necessary for market power control, divest utility generation into smaller parcels.

Retail access: When production markets are working, choice for all customers. This needs an extensive settlement mechanism and customer education, and decisions about default provision.

Undergirding these recommendations, are thirty-six specific requirements (which shall not be reproduced) that, in the words of Ms. Hunt, "need . . . to be done in an ideal world" (p. 239). Finally, *Making Competition Work in Electricity* analyzes three models of trading operations – integrated, wheeling, and decentralized. It concludes that the integrated model is the "clear winner." According to Ms. Hunt:

In the integrated model, the system operator uses a computerized optimization process to convert the information from traders about their willingness to buy and sell into a least-cost feasible plan that everyone will be happy with, issuing dispatch instructions every few seconds (italics in original, p. 130).

2. See also, pp. 263-264 and Appendix D.

3. Central to the author's thesis is that "full retail access is the last step of the process, not the first" (p. 239).

Retail access is complicated. Without a proper market design and careful preparation, it can be a disaster (p. 237).

In conclusion, *Making Competition Work in Electricity* is a stimulating, no punches held treatise on what's wrong and how, in the author's view, competition can be achieved in the U.S. electric industry. The reader certainly will not agree with everything written, but, at the end of the day, will be rewarded by a stimulating read.

