

OBSERVATIONS ON PROGRESS OF ELECTRICITY DEREGULATION IN THE U.S.

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It would be an understatement to say that the electric power generation sector of the economy is suffering “convulsions” from the restructuring initiative unleashed by the Energy Policy Act of 1992 (EPACT92). The subsequent patchwork of individual state Public Service Commission (PSC) regulatory actions adopted across the nation have left the country with:

- a stalled deregulation initiative
- a significant financial commitment to new natural gas power generation technology
- a volatile natural gas price regime
- natural gas supply uncertainty
- huge financial write downs of power generation investments on the balance sheets of both regulated and unregulated firms
- power blackouts that affect regions of states, not just community localities
- criminal behavior and market collusion among some power trading and marketing companies; bankruptcies of utilities
- criminal indictments of corporate utility executives
- the near bankruptcy of the State of California
- soaring electric power prices; some states requiring disaggregating of integrated firms
- some states allowing integrated operations
- renewed dialogue about the environmental viability of coal and nuclear power generation in the nation’s future
- a significant downgrading of the credit quality of the nation’s utilities in general
- a disagreement between state PSCs and the Federal Energy Regulatory Commission (FERC) over regulation of transmission of electric power
- who should regulate siting of new transmission facilities
- and on and on.

Cogeneration of electric power by industrial firms, both for internal process plant use and for the sale of excess power into the market, has grown rapidly since EPACT92. But now the volatility of natural gas prices, and the apparent uncertainty of domestic natural gas supply, has driven many plants, particularly those utilizing natural gas in their processes, out of business here in the U.S. and toward relocation overseas where natural gas supply and labor are less costly. With so much electric power generation dependent on natural gas supply to Independent Power Producers (IPPs) and cogeneration facilities, both in Louisiana and nationally, the dependability of electric power generation becomes a legitimate public policy issue for the consuming public. The planning and financing of coal and nuclear fired power generation, to replace natural gas as a source of power generation, requires many years of preparation.

Given the rate of change in the power generation sector, even this data is a work in progress. Publication of actual generation data lags by several months, and is the subject of revision as respondents complete their filing requirements.

Louisiana's investor owned and publicly owned utilities both generate and distribute electric power to the consumer. Prior to its bankruptcy filing, Cajun Generation and Transmission Co-op served its distribution cooperatives. The survivor entity to Cajun now serves as an IPP. The cooperative distribution entities remain as distribution utilities within Louisiana. As in most industrial states, cogeneration of both heat for processes and power generation for internal consumption, as well as for sale to the transmission network, has become more economic with rising natural gas prices. In 2002, nearly 42% of generating capacity in the state came from IPPs and cogeneration. Investor owned utilities continue to dominate the Louisiana market place with nearly 75% of the customers, 85% of power sales, and 55% of the electric power generation facilities.

Natural gas retains its role as the dominant source of fuel for electric power generation in the state. Natural gas provides 40% of the aggregate electric generating capacity, and up to 75% when dual fuel capacity is considered. Most dual fuel capacity power generation combines the ability to interchange distillate or diesel fuel, and natural gas. Natural gas, of course, dominates the IPP and cogeneration applications.

In the aggregate, 50% of Louisiana's electric power generation relies on natural gas as its fuel source. Nearly 23% comes from coal fired generation; and nearly 18% from nuclear power.

There are 22 cities in Louisiana that own their own independent municipal power distribution systems. The Louisiana Energy and Power Authority (LEPA) was created as a political subdivision of the State of Louisiana in 1979 pursuant to Title 33 of the Louisiana Revised Statutes of 1950. LEPA is a non-profit, joint action agency working to provide its member communities with firm, stable sources of electricity at the lowest possible cost (LEPA Mission Statement). Eighteen (18) Louisiana municipalities are currently members of LEPA.

The preceding, as well as a compendium of statistics on Louisiana electric utility generation, independent power producers, and cogeneration facilities is provided in a report recently issued by the Technology Assessment Division of the Department of Natural Resources: "Louisiana Electric Generation and Distribution Utilities."

The full report is available on the Louisiana Department of Natural Resources, Technology Assessment Division website:

http://dnr.louisiana.gov/sec/execdiv/techasmt/data/electricity/electric_2002.pdf

To request a print or electronic copy be sent to you please contact us at our e-mail address: techasmt@la.gov.