

RESEARCH SUMMARY

United States Small Business Administration
Office of Advocacy
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Electric Utility Restructuring: Issues for Small Business

by J.W. Wilson and Associates

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Purpose

The purpose of this study is to examine the issues associated with electric power deregulation and restructuring for their potential impact on small business. Opportunities for customer cost savings are similar to those in other recently deregulated industries such as airlines and other transportation, long distance telephone, and natural gas production.

Scope and Methodology

The researcher provides an overview of the environment for utility industry restructuring, identifies the potential cost savings for small business, compares the "Poolco" and "Direct Access" models for restructuring, reviews several examples of restructuring policies in effect, and presents arguments against permitting electric utilities to recover all of their "stranded costs" in a deregulated environment.

Highlights

A number of developments have led policymakers to raise questions about potential cost savings that could result from deregulation and restructuring of the electric utility industry, among them:

- The separation of electrical power generation from electrical power transmission and the development of nonutility electrical generating companies as a result of the Public Utilities Regulatory Policy Act (PURPA) of 1978.
- The realization of cost savings in power generation by municipal utility distributors using nonutility generators-and by large industrial companies able to generate their own power or to threaten utility providers with self-generation and thus obtain special rate discounts.
- New, more efficient technologies, particularly in the design of electric power plants. For example, the "combined cycle" gas turbine plants that are now the lowest cost new generation source are usually more efficient and can be installed more quickly in a wider range of sizes than the large coal or nuclear generating units traditionally relied on by utility monopolies.
- With advancing technology, a recognition that, with open access to a utility's transmission system, competitors could enter the monopolized market for power generation. With appropriately defined transmission access rules, power can be efficiently provided by independent suppliers at substantial cost savings to consumers in many instances.
- A growing perception that recovery of utility costs-including "stranded" costs that would not be fully recoverable in a competitive environment-has become disproportionately the responsibility of "captive" customers, such as small businesses, who lack the bargaining clout to demand and obtain special discounts.
- Building on initiatives already taken by the Federal Energy Regulatory Commission (FERC), Congress in 1992 passed the Energy Policy Act, which required transmission-owning utilities to permit access to their transmission systems for bulk-power transactions. Today policymakers are aware of the potential to provide even greater benefits if the integrated utilities allow alternative power producers to gain direct access to retail customers.

The potential for cost savings to an individual small business varies, depending in part on the efficiency of the local utility. For

some high-cost utilities, the gap between their generation cost and that of currently constructed generating units can be as high as 2 to 3 cents per kilowatt hour. A well-functioning competitive system for electric power could therefore reduce a small business' power costs by 20 to 30 percent or more. While utility costs-and these potential savings-may not represent major amounts for individual small businesses, overall small business utility costs and potential savings are immense.

A debate is under way on the best means to effect a restructuring. In a comparison of the Direct Access and Poolco models, the researcher finds the Direct Access model to be more market-oriented and less regulation-dependent. FERC does not regulate access to local distribution systems: state regulatory commissions do. Thus, the small business community faces a number of challenges in participating in this opportunity, among them:

- The battle will have to be joined state by state before state utility commissions.
- The state regulatory process is arcane and long-winded. Intervening takes time, expense and effort.
- Large businesses will be fully represented in any such effort by lawyers, economists and accountants; consumers will be represented by state-supported consumer advocates. Small firms may or may not have such an advocate at the state level.

The process by which this opportunity is developed into a reality for small businesses will require effort and commitment on behalf of the small business community.

Ordering Information

The complete report is available from:

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