

Robert R. Nordhaus

*Electric Power Regulation: Making Partially-Deregulated Markets Work*

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Abstract by Carl Tugberk

Robert R. Nordhaus examines the history of electric power regulation from the New Deal to the present. In his analysis, Nordhaus identifies the issues of market-based regulation and the legislative and administrative changes necessary to establish successful, partially-deregulated markets.

In response to the Great Depression, President Franklin D. Roosevelt's New Deal aimed to solve multiple nationwide economic problems, and began an era of market regulation. One of the major problems was the inability of state public utility commissions to regulate electricity and natural gas rates of investor-owned utilities. As part of the new deal, Congress passed the Public Utility Act of 1935, including Parts II and III of the Federal Power Act (FPA) and the Public Utility Holding Company Act (PUHCA) to address this problem and others. As a result of these regulations, the federal government had greater control of interstate commerce relating to electric power and state "public utilities" with substantial market power were created. After years of strict regulation, Congress passed the Energy Policy Act of 1992 which eased some of the federal constraints, imposed by the New Deal, on wholesale competition in the electric industry. Subsequently, California and many other states began enacting restructuring legislation which provided for some degree of retail competition. Although these state deregulation policies were intended to reduce electricity prices, they did just the opposite. California was the greatest example of how deregulation led to a shortage of electric power which, in turn, caused an increase in prices and rolling blackouts. In response to this crisis, California and the federal government began to re-regulate and managed to stabilize prices and avert further problems.

Nordhaus suggests that other states and the nation as a whole can learn a lot from California since it brought new issues with market-based regulation to the forefront and exposed the problems of total deregulation. He believes that totally deregulated electric power markets are unlikely to succeed in the near future, but partially-deregulated markets can. In order for the federal and state governments to overcome the problems of deregulation, their policies need to encourage price responsive consumer demand and the expansion of generation and transmission facilities in order to create workably competitive markets, and they must enforce antitrust laws to create a market with limited monopolistic powers.