

## **Deregulation of the Electric and Gas Utilities, How Could It Affect You!**

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Deregulation of the electric and natural gas utilities has begun in Wisconsin. This is especially true for natural gas service. Currently, the largest natural gas customers can purchase natural gas from suppliers other than their local utility. Efforts are underway to make it easier for smaller natural gas customers to do the same. Also, the Public Service Commission of Wisconsin has been studying how to deregulate the State's electric supply. Currently in the U.S., about 60% of the population has the opportunity to purchase their electric and gas from different suppliers.

### **Background**

In the past, utilities were designated as legal monopolies. The reason was to minimize the installation of multiple overhead electric wires and underground natural gas piping from competing utilities. To avoid this congestion of pipes and wires, a utility was given an exclusive service territory. And the utility was expected to provide several different services to all customers within its territory. An electric utility, for example, would generate the power, send it over their transmission and distribution lines, and then meter the electricity and bill the customer. If they provided natural gas service, the utility contracted with the natural gas suppliers and the pipelines to transport the gas to their service territory where it was then distributed to their customers over their local distribution pipeline system.

Because competition was restricted in utilities' service territories, state agencies such as the Public Service Commission of Wisconsin were set up as a regulating body for utility activity. Their role is to protect the interests of the customers and the shareholders of the utilities, respectively.

### **Why Deregulation**

Telephone, airlines and trucking industries, had already been deregulated. Utilities are the last remaining big monopoly. Utility deregulation has been pushed by the big energy users as a way to help reduce their costs. The main reason being that electric costs can vary across the United States from 3 to 13 cents per kWh. Deregulation is also about choice. Consumers want choice, and a free market place eventually forces prices down resulting in the best price for all consumers.

Because utilities were considered natural monopolies, it was difficult to see how the natural gas and electric supply could be deregulated. In order for deregulation to work, the utility had to be unbundled thus the pieces of its vertically integrated organization had to be split.

## **Unbundling of the Utilities**

To understand how utility services are bundled, let's look at their products and services in more detail.

1. The first part of the bundle is the generation entity. For electricity, utilities generally owned the power plants that produced the electricity. Natural gas was already unbundled since the wells that produce the natural gas are usually owned by independent natural gas producers who would then sell the natural gas to the utility or another entity.
2. The second part is the transmission system. The electric transmission system consists of high voltage lines, typically 69,000-345,000 volts, to transmit power over long distances. The high voltage reduces power losses. It also allows utilities to interconnect with other utilities to purchase power and to provide regional stability to the transmission grid. This arrangement protects utilities in case of unplanned generator outages, and it allows maintenance of each utilities generators on a rotating basis. In Wisconsin, about 15% of energy is purchased from out of state using the transmission system. For natural gas, the transmission service is provided by an independent pipeline that delivers natural gas to the utility's service territory for a fee.
3. The third part is the distribution system. This is the network of transformers and wires that take the high voltage electricity from the transmission system and reduces it to lower voltages for distribution to customers. For natural gas service, the pipeline delivers natural gas to the utility's gate station, where the high pressure gas from the pipeline is reduced in pressure and delivered to utility customers through the utilities distribution system, a network of smaller-sized steel and plastic pipes. The distribution system also includes the metering of energy usage.
4. The last part is generally called energy services. These services include items such as billing, carbon monoxide testing, energy conservation, electric and natural gas safety education, and customer assistance programs such as low income weatherization and assistance.

## **Timeline of Deregulation Milestones**

Politicians set the deregulation bandwagon in motion using unbundling as a tool to deregulate the utilities. In 1978, Congress passed the Public Utility Regulatory Policies Act, which opened the door to non-utility electric generation. In 1992, Congress passed the National Energy Policy Act to open up the electric transmission system to all players and also increased the opportunities for non-utility generators. In 1995, the state of California proposed power plant pooling. That same year, Wisconsin appointed a 22-member committee that developed a 32-step action plan to deregulate and restructure Wisconsin utilities. Since 1996, other States such as Pennsylvania, Massachusetts and Rhode Island have passed regulation and legislation opening up retail electric access.

## **Current Status in Wisconsin**

The 32-step plan to open up Wisconsin to deregulation soon ran into problems. Because of concerns that competition would reduce energy costs for the larger energy users, while potentially increasing energy costs for the smaller users, a modified 7-step plan was adopted instead, as sort of a "go slow" approach. An additional complication was electric reliability problems, not only in the Midwest, but specifically in Wisconsin, during the summers of 1997-99. The 7-step plan was then halted in order to address the State's electric infrastructure needs.

Deregulation activities, however, have continued on other fronts. In May 1998, the State Legislature passed Wisconsin Act 204, making the building of power plants by non-utility vendors legal. Also, these vendors were not required to build that power plant for a specific utility, but could sell the energy to the highest bidder.

Act 204 also encouraged utilities to transfer their transmission assets to an independent system operator. This transmission asset transfer effort was reinforced with Wisconsin Act 9 passed in November 1999. As a result, Eastern Wisconsin utilities are in the process of transferring their transmission assets to the newly formed American Transmission Company, which is expected to be operational in January of 2001. Each utility will be a shareholder of this new transmission company and it will provide open access for others to use.

Act 204 also addressed public benefits issues and billing formats to begin moving Wisconsin utilities towards more uniform methods. At this time, no definite decision by the Commission or Legislature as to when and how deregulation will finally occur in Wisconsin has been made.

## **How Will Deregulation Affect Us**

In reality, natural gas has already been partially deregulated. Commercial and industrial customers can purchase gas from a third party broker via a system called transportation gas service. Their broker has the gas delivered to the utility's gas gate station. At that point, the utility adds odorant and distributes and meters the gas for the customer. That gas customer thus has a choice of gas broker, supplier and type of service he wants. In reality, a gas customer can purchase less costly gas but can incur risks depending on how likely it is that the gas supplier will deliver the gas as contracted especially on cold days when peak demands can occur. For smaller customers, a residential gas pilot has already been completed in West Bend, Wisconsin. It is expected that gas deregulation will start moving down to smaller-sized customers in the near future.

Deregulation of the electric supply is expected to be similar to how transportation gas is handled. Consumers will be able to choose the generator of the electricity and pay the transmission costs to send the electricity to the local utility's substation. The local utility will then distribute the electricity and meter it at the customer's facility. The customer may receive a bill from each entity or have a broker package it. It is expected that future utility bills will have separate charges for each component similar to telephone bills. Customers may even have options to purchase "green" power, such as solar or wind.

## **Summary**

The bottom line is that nobody really knows how Wisconsin will fare in deregulation. Our adjoining states especially Illinois, have considerably higher prices. It is expected energy costs in Wisconsin might then average with them. Although utilities will probably continue to be the supplier of last resort, especially for low income and high credit risk customers, customers who contract with independent suppliers and transmission companies will be dependent on the reliability of those vendors for supply and delivery, instead of the local utility.

Another concern is the lack of transmission capacity in the state. During periods of high energy demand, such as hot weather, the ability to move power in the state may be constrained, which may limit supply and drive up costs. So deregulation brings promises, but also new issues that will require our ingenuity to resolve.

Finally, consumers must understand what they are buying and the risks involved. The lowest cost electricity is great until there is hot weather and your supplier may not be able to provide it when you need it. Thus in deregulation, the wise consumer will need to stay informed about the diverse products and services available in a deregulated utility industry. It will involve more than writing a monthly utility bill check if you want to save money on your energy costs and obtain the type of service desired.

## **Other Information Sources**

The status of deregulation is continually changing. One of the easiest ways to get information is via the Internet. Some Web pages are:

<http://www.psc.state.wi.us> is the Public Service Commission of Wisconsin. Look under electric and gas utilities for restructuring links.

<http://www.eia.doe.gov/> is the Energy Information Association in Washington. Look under electric restructuring. It provides maps and tables of deregulation status for each State.

<http://www.naruc.whatsup.net/customers/naruc/naruc.nsf/> is the National Association of Regulated Utility Commissioners that provides updates by State.

<http://www.wpsr.com/> is the Wisconsin Public Service home page to provide information on its regulated/unregulated entities, rate sheets and other offerings. It also provides contact for your local Public Service representative if you have any questions.