The prospect of electricity deregulation has already caused several mergers in the utility industry and may bring substantially lower costs to Fourth District consumers. On June 22, 1999, the Ohio Senate passed a bill allowing consumers to choose their power providers beginning in 2001. Distribution and billing would continue to be handled by the current provider, but customers could choose the company supplying their power, much as they choose their long-distance telephone service. The current bill, which was backed by the governor, followed several unsuccessful state deregulation efforts in Ohio. Pennsylvania enacted similar legislation in 1996; by January 2000, all Pennsylvanians will be able to choose their power source.

Deregulation efforts, which focus on bringing down the cost of electricity to consumers, have been led by states where power costs are high. Over the last few years, consumer power costs have fallen substantially. The electricity component of the consumer price index (CPI) has dropped 5% from its 1997 peak (based on cost to the typical urban consumer). The Department of Energy’s estimate of average cost per kilowatt-hour has fallen more than 7% in the last two years for residential consumers.

Part of this decline was caused by recent reductions in oil and other energy prices; however, the price of coal (the fuel source for more than (continued on next page)
Electricity Deregulation (cont.)

half of all electricity generated in the U.S.) has been falling throughout the decade. Competition—and the prospect of future competition—among electricity producers have certainly contributed to this decline and are conservatively forecast by the Department of Energy to yield 1% annual reductions in consumers' real cost of electricity through 2020.

Areas with higher electricity prices benefit most because price differentials result primarily from past investment in unusually expensive generating facilities. In the long run, these plants will be at least partly written off, and the cost of generating electricity will be determined by the current state of technology. These facilities remain the source of the “stranded costs” that have been deregulators' thorniest problem. Nuclear power plants are notable for having capital and operations costs that far exceed the expected wholesale price of electricity. Ohio's deregulation bill has left this issue for the Public Utilities Commission to resolve, but solutions elsewhere typically involve additional consumer payments for a limited number of years to cover part of utility shareholders' capital losses.

Expanded deregulation may benefit many Fourth District utilities whose generating costs are low because the plants are close to major coal-producing regions. Indeed, with the exception of Ohio, Fourth District states are already substantial net exporters of power.