



Consumer Federation of America

**Consumers  
Union**

Publisher of Consumer Reports

FOR IMMEDIATE RELEASE  
Tuesday, March 20, 2001

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**“MYTHOLOGY” OF ELECTRICITY DEREGULATION DRIVING  
IMPORTANT POLICY DECISIONS TO DETRIMENT OF  
CONSUMERS**

***Serious Doubts Raised About Viability Of Nationwide Restructuring Efforts***

WASHINGTON – The Consumer Federation of America (CFA) today released a detailed analysis of electricity restructuring that calls on policymakers to completely rethink the rush to deregulate the electricity industry. The report, *Behind The Headlines Of Electricity Restructuring: A Story of Greed, Irresponsibility and Mismanagement of a Vital Service in a Vulnerable Market*, analyzes the failures of electricity deregulation based on the record of actual market behavior and outcomes across the country.

“Legislatures and regulators around the country jumped on the deregulation bandwagon, without having done adequate homework on the consequences,” said Dr. Mark N. Cooper, Director of Research at CFA and the author of the report. “Unfortunately, we’re finding that the sirens’ call for deregulation is drowning out the voice of reason, with disastrous consequences for consumers.”

“Deregulation was sold to the public with bogus promises of 40 percent reductions in electricity bills, now all we hear about is how prices have to rise,” Adam Goldberg, a senior policy analyst at Consumers Union, said. “Utilities from California to Pennsylvania are seeking to bust the price caps that were offered as a bottom-line protection for consumers by deregulation advocates, and federal legislation to override state caps has been introduced. Consumers everywhere may see rate increases thanks to the ravages of deregulation.”

“While California is the worst case,” Cooper added, “markets across the country have been beset by price spikes and brown outs since deregulation. Competition has recently collapsed in the places like Pennsylvania, where restructuring was supposed to be easy because of high prices at the outset, excess generation capacity, and location in the middle of a long standing power pool, well-endowed with transmission assets.”

The report notes that from the start of the deregulation debate consumer advocates warned that the fundamentals of electricity services – “the physics of electrons and the economics of

electricity” – make it virtually impossible to create orderly retail markets that will benefit residential consumers.

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- The inability to store a commodity that has no substitutes and demands perfect, instantaneous balance make it a vital commodity in a volatile market, vulnerable to supply disruptions and demand peaks that trigger wild price spikes.
- Profit maximization tightened electricity markets by reducing supplies, limiting reserve, eliminating back up requirements, undercutting conservation programs, and preventing facilities from being built.
- Irresponsible federal regulators deregulated the wholesale market even though they were warned about the existence of market power and refused for three years to exercise responsible oversight authority. It has taken a twelve billion dollar spot market rip off to get Federal regulators to even start looking at the problem.
- Managing the complex set of real-time transactions necessary to physically and financially clear electricity markets raises transactions costs and is constantly subject to manipulation and gaming. Price spikes produce such huge windfalls that suppliers exhibit an OPEC-like (backward bending) supply curve, in which supplies are reduced, not increased, as prices rise.

The CFA report also includes the “Ten Consumer Commandments Of Electricity Restructuring,” which urges lawmakers not to go forward with deregulation if they haven’t already. If legislators do decide to deregulate, the “Commandments” suggest that careful attention be paid to ensuring that the transmission system is open and adequate; that there be effective competition first; that reserve margins, fuel diversity and conservation be part of the plan; and that electricity generators – and lawmakers themselves – take real responsibility for their actions.

The report was released in conjunction with the “National Energy Summit” sponsored by the U.S. Chamber of Commerce, at which Dr. Cooper was a speaker. Dr. Cooper will also be providing testimony based on the report at a hearing on “Electricity Markets: California” before the House Energy and Commerce Committee’s Subcommittee on Energy and Air Quality, Thursday, March 22, 2001.

The report is available at <http://www.consumerfed.org/calmtkt.pdf>.

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