ENERGY DIVISION

PUBLIC-POLICY RESPONSIBILITIES
IN A RESTRUCTURED ELECTRICITY INDUSTRY

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SUMMARY

State and federal regulators, private and public utilities, other industry participants, electricity consumers, and other interested parties are considering a variety of ways to restructure the U.S. electricity industry. The treatment of potentially "stranded benefits" is increasingly an important issue in these discussions.

We organized and conducted a workshop on Public-Policy Responsibilities and Electric-Industry Restructuring: Shaping the Research Agenda in April 1995 to examine these issues. This report, based in large part on discussions at the workshop, proposes a three-part framework for considering public-policy functions in a restructured industry. The framework consists of values, objectives, and actions taken to meet the underlying objectives (Table S-1).

We used this framework to examine the ability of an industry with full retail wheeling to meet these objectives. The industry is likely to cut costs and increase customer choices in products, services, and prices. These changes should improve overall economic efficiency and enhance industrial competitiveness. With only modest oversight from the Federal Energy Regulatory Commission, the industry will likely maintain reliable electric service and provide nondiscriminatory access to the monopoly elements of the electric system (i.e., the transmission and distribution systems).

On the other hand, responsibilities for long-term functions, such as energy R&D, resource-portfolio management, energy efficiency, and renewable resources will likely be shared between the industry and governments. We anticipate the use of different actions (mechanisms) to achieve the underlying objectives that these functions have historically met. For example, regulators may impose fewer requirements to acquire energy-efficiency and renewable resources and, instead, impose stricter environmental requirements. As an example, imposing a national cap on annual CO₂ emissions might be a more effective way to slow global warming than the indirect route of requiring DSM programs and renewable setasides. Finally, governments may have to take the lead to ensure that consumers, especially small consumers who lack market power, are treated fairly and given adequate minimum services. In some cases, governments may use taxes to fund programs such as low-income weatherization services. Thus, costs may shift from electricity consumers to citizens in general as some government responsibilities shift from state regulatory commissions to other state agencies.

Our review of the workshop discussions and a wealth of other sources suggests that the electricity industry of the future can achieve economic-efficiency gains and, at the same time, provide the public-policy functions that it now does.
<table>
<thead>
<tr>
<th>Values and objectives</th>
<th>R&amp;D</th>
<th>System reliability</th>
<th>Portfolio/risk management</th>
<th>DSM</th>
<th>Non-discriminatory transmission access</th>
<th>Low-income programs</th>
<th>Minimum service standards</th>
<th>Consumer protection</th>
<th>Fair treatment of stranded commitments</th>
<th>Renewable energy</th>
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May 1995


*Copies of these reports and papers can be obtained from Ethel Schorn, Oak Ridge National Laboratory, PO 2008, Oak Ridge, TN 37831-6206, e-mail Schornem@ornl.gov, or FAX: (615) 576-8745.