Beacon Hill Byline by Mary Rogeness June 21, 2001

Make Deregulation Work in Massachusetts

California has been in the news lately because of that state's shortage of electricity, a shortage that is sometimes blamed on deregulation of the utility. At the same time, Massachusetts is proceeding smoothly with electricity deregulation. Their state is struggling to avoid blackouts, while ours is producing more power than we need. The contrast between the two states caught my attention, and studying the issue led me to write this week's Byline.

If you remember playing the game of Monopoly, you know that the game's Electric Company was itself a monopoly. And the game was true to life. Electricity was provided to the nation by regulated monopolies. Change came in the 1990s, when states were allowed to restructure utilities. Both California and Massachusetts enacted laws to introduce competition into the traditional electric company.

The laws were similar in many respects. Electric companies continue to maintain the power lines that connect all of our houses to power sources. Companies were required to sell their power generation facilities. Over time, both states would transition to a system that allows competing independent power generators to provide electricity to consumers. In the meantime, the existing monopoly, in our case WMECO, continues to deliver power.

The laws seem similar, but difficulty in fine points' helped lead to crisis in one state.

In California, the old electric monopolies were prohibited from making long-term contracts with power generators. Required to sell their own generating facilities, they now must buy wholesale power on the open market at unstable spot market prices. A separate provision of the law established specific price controls on retail prices, the prices that utilities can charge consumers. The resulting situation reverses the old maxim of "buy low, sell high." In California, utilities must "buy high, sell low," and it should surprise nobody to learn that the companies are in or near bankruptcy. They cannot pay suppliers, and the suppliers refuse to sell more electricity.

Massachusetts allowed electric companies to enter into long-term contracts with suppliers, and our experience has been a stable transition to competition. Mass Electric is moving faster than WMECO, but no utility in the state approaches the West Coast crisis.

A second difference between the two states comes from their divergent approaches to new generating facilities. Nobody in Massachusetts wants a new power generator to be built in the neighborhood (the Not in My Backyard, or NIMBY, syndrome), but the state is building efficient new power plants, increasing our supply of power.

Opposition in California gave rise to a new acronym, BANANA, which stands for Build Absolutely Nothing Anywhere Near Anyone. Power generation capacity has not increased in a decade, further increasing the cost as demand outstrips supply.

When the Massachusetts legislature enacted our deregulation law in 1997, I did not understand the importance of the protections built in for both companies and consumers. Our bipartisan approach produced a model for the nation, a reliable supply of lower-priced electricity for residents and businesses. I hope I have helped you understand why our efforts serve us so well.