

## U.S. Natural Gas in the 21st Century: Adjusting to the New Reality

### *Key conclusions*

*Dr. Michelle M. Foss, 1995*

Key conclusions at the time were the following.

“My results suggest that structural differences across the states and PUCs appear to be necessary but far from sufficient in explaining PUC decision making, given the preponderance of unexplained variance in my analysis. I concluded that only the inclusion of case-specific information would improve my modeling results. In other words, I established that PUCs may be influenced by many things, but ultimately it is the situation for *each individual utility* that will carry the most weight in PUC decision making. *In short, the policy adaptation process comes about through case-by-case decision making*, which is what theorists and analysts have contended based on knowledge of other utility industries. The effect of case-by-case decision making is to ensure that there will always be a great deal of variation regardless of factors that may work to make some PUCs and cases more alike than others. This is not to say, of course, that some PUCs may be quite consistent in applying decisions or broad principles across LDCs in their states or over time...Electric utilities constitute an important arena of conflict in terms of bypassing LDCs, including bypass of LDCs that are subsidiaries or departments of combination gas and electric utilities. This arena is likely to become more contentious as the electric utility industry faces policy reform and becomes more competitive and cost-conscious with regard to fuel purchases. The courts serve as repositories for the same interest group conflicts as are seen in the administrative process, and court opinions play an important role in the policy adaptation process by either supporting the decisions of regulatory commissions or creating opportunities for new conflict by revoking them.”

Dr. Foss’s study also contained two forward observations about looming battles in telecommunications and electric utilities.

“If the telecommunications industry is viewed to be a good analogy for natural gas distribution, and many think that it is, then the struggle to preserve franchise monopolies and respond to technological change in telecom is illustrative of the politics around gas distribution. The phenomenal growth in wireless, fiber optic and other technologies in the 1990s is beginning to place the regional Bell monopolies at risk. Concurrently, the Bell companies would like to access these new technologies themselves and compete in long distance markets and the myriad of other opportunities envisioned for the “information highway.” At stake is whether the Bell companies should be allowed into the long-distance market before giving up control of their regional franchises. The Bells are adamantly opposed to requirements that they show “actual and demonstrable” local competition before they enter long distance markets. The fight is shaping up to be a tough one. As one competitor complained, the Bells want to package and bundle services like nobody else can: “It’s the same old song from the Bells: ‘All I want is an unfair advantage.’” Several factors underlie the debate. One is the sense that the AT&T breakup, itself driven by technological change, has been rendered obsolete by technological change since the 1984 decision. Another is a re-thinking of exactly what public service means, and in particular what should constitute universal service: Should every citizen from every walk in life have equal access to the full range of expensive telecom services? A third is ongoing debate about whether deregulation truly has worked at all to provide consumers the full range of competitive prices and options that was promised. Finally, and most importantly for my purposes, are the questions pertaining to state regulation. Has the new age of telecom rendered PUCs obsolete, designed as they were to oversee an industry that delivered only telephone service and only over a wire?

What should state PUCs do to respond to the new environment for the Bells? And what are the best policies to ensure that the Bells do not suffer such a defection of their best customers (local bypass) that they can no longer deliver reasonable service at reasonable rates to the residential and rural franchise customers who remain behind? In closing, without technology change the regional Bell monopolies would not be challenged as they are, or at least the challenge would be less compelling. Technology change has created yet another new set of interests seeking accommodation. And it is the sizable monopoly rents afforded to the regional Bells that makes the battle so acute.”

“If the natural gas industry is leading the way for reform of electric utilities, as many think it is, then the agonizing over natural gas industry restructuring since the early 1980s bodes ill for electric power (the conflict over stranded costs in the overbuilt U.S. electric utility industry is already a matter of hot debate). The rise of independent power producers, utilizing new, efficient, gas fired combined cycle turbines, and the increase in cogeneration capacity has given the largest electricity customers many more options and the desire to bypass local utilities, while IPPs and cogenerators both want to sell their power to utilities. Information technology is improving electricity transportation just as it has for gas. An industry for independent power services, akin to independent gas brokers and marketers, is already forming. Looming on the horizon is the possibility of a national market for electricity with retail wheeling, just a small step away from reality with new storage technologies. The emergence of new financial tools for electricity trading would facilitate market based pricing. Over the much longer term, new materials to reduce transmission losses on high voltage lines would free the generation of electricity from local markets and make electricity production and transportation much more efficient. The upheaval is stimulating mergers and triggering utilities with high rate burdens to get out of unprofitable service areas. The FERC has put aside the last few issues for natural gas and turned to electricity, and several states, most notably the California Public Utilities Commission, have laid out proposals for deregulation at the retail end. Doubts about whether electric utility deregulation will work run rampant, and the utilities, for the most part, are reluctant to accept the changes ahead. Interestingly, combined gas and electric utilities will likely be well prepared to weather the storm because of experience on the gas side.”

- Excerpts from *U.S. Natural Gas in the 21<sup>st</sup> Century: Adjusting to the New Reality*