



Free markets. Real solutions.

# **Are Changes in Markets Increasing Ethical Challenges?**

## **Competition as the (Partial) Antidote to Bad Behavior**

**Harvard Electricity Policy Group**

October 6, 2020

**Devin Hartman – Director, Energy & Environmental Policy**

# Overview

## I. Institutions and Behaviors

- Regulated monopoly
- Quasi-restructured
- Fully restructured

## II. Outlook

## III. Policy Implications



Free markets. Real solutions.

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R STREET POLICY STUDY NO. 205

September 2020

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**ELECTRIC COMPETITION: THE  
ANTIDOTE FOR BAD BEHAVIOR**

By Devin Hartman and Mike Haugh

STATE OF INDIANA,  
Appellant-Plaintiff,  
vs.  
DAVID LOTT HARDY,  
Appellee-Defendant.

# When Utility Money Talks

Corruption scandals in Ohio and Illinois reveal an unsavory underside to the politics of energy.

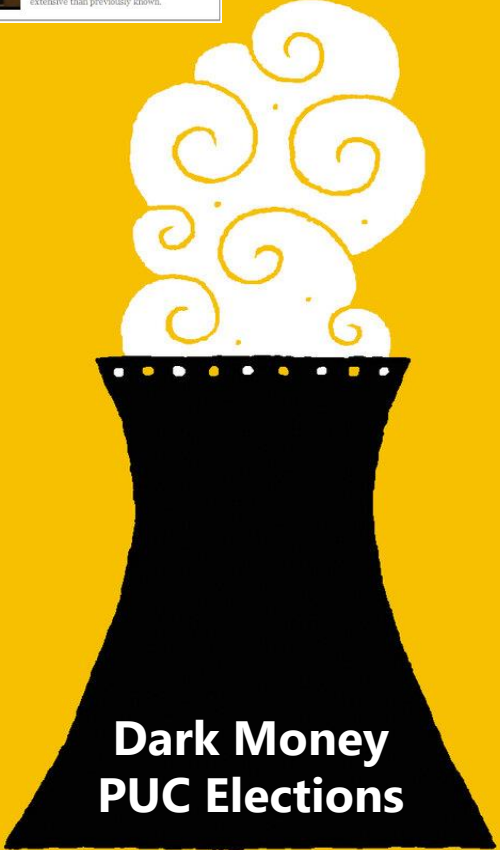
**U-T WATCHDOG**  
San Diego  
**PUC CHIEF'S EMAILS WITH UTILITIES INDICATE IMPROPRIETY**



**Regulator was 'dear friend' of Edison**  
Emails show CPUC chief had meetings at bars, restaurants, across the globe

Newly obtained emails suggest that improper contacts between the former California Public Utilities Commission president and utility executives were more extensive than previously known.

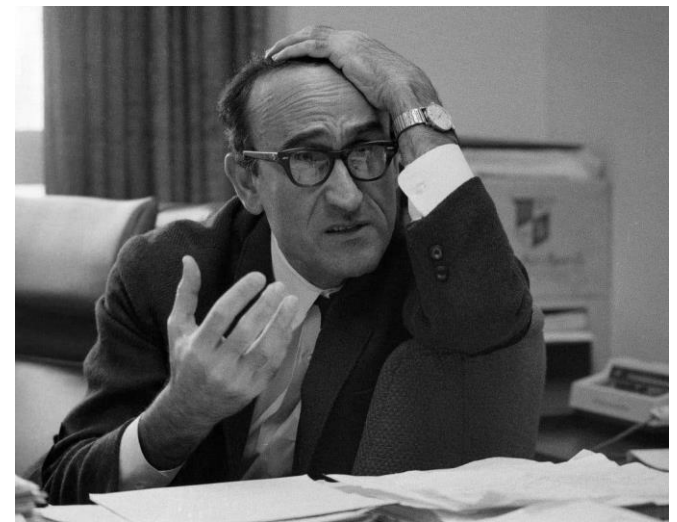
MICHAEL R. PEEVEY



# Institutions & Incentives = Behavior

- NOT a few bad actors – flawed institutions
- Reg monopolies' perverse incentive structure
  - Notorious economic & political incentives (e.g., Kahn, 1970)

**Political Economy of  
Regulatory Disingenuousness**  
*“rent-seeking strategies and  
the political maladies”*



# Regulated Monopolies & Rent Seeking

## Legal and Routine

- Within regulatory process
- Regulatory circumvention (e.g., MN, VA)
- “Charitable” contributions
- “Creative” ballot initiatives (e.g., NV, FL)
- “Influencing” consumer advocates (e.g., IN, IL?)

## Illegal and Periodic

- Ex parte to bribery
- Dark money



### STRINGS ATTACHED

How utilities use charitable giving to influence politics and increase investor profits

December 2019

### Virginia Poverty

Law Center:

*imbalances in Virginia's electric utility regulation*

Aug. 19, 2020



Florida's outrageously deceptive solar ballot initiative, explained

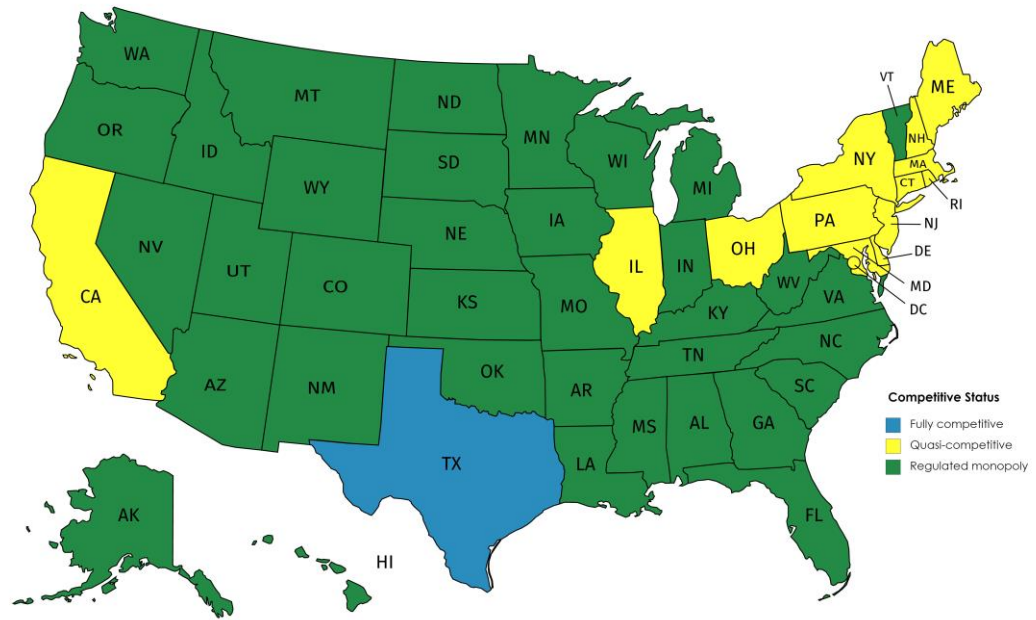
*Amendment 1 is a utility scam.*

Nov. 8 2016

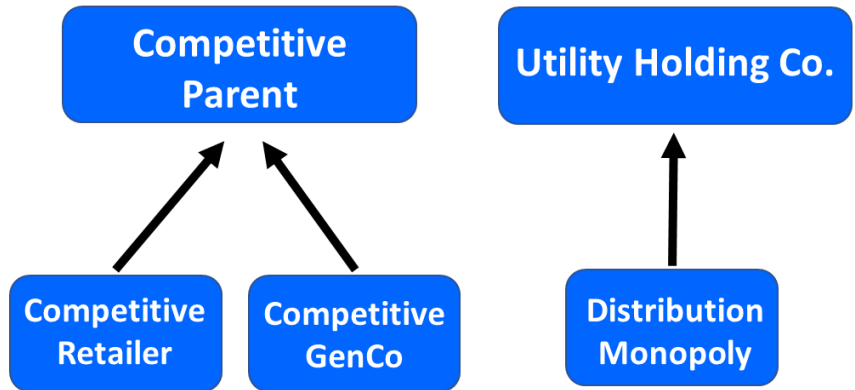
# (Quasi?) Competition to the Rescue!

- Textbook restructuring:
  - Separate non/competitive functions
- “Quarantine” the distribution monopoly
  1. Independent of retail supply role
  2. Untethered GenCo interest
- Monopoly tethers from transition policy

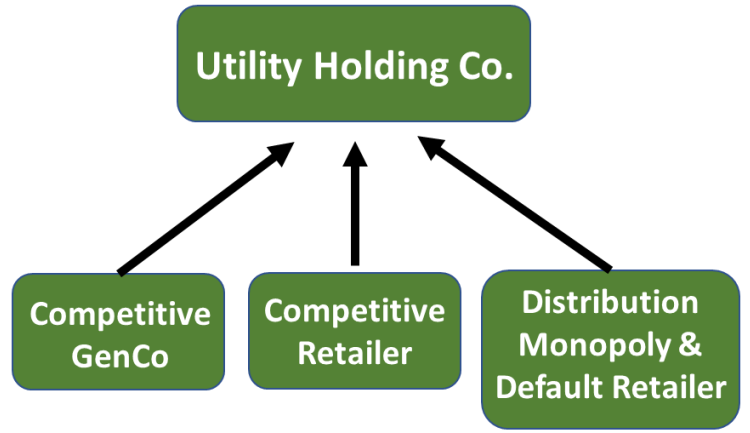
ONLY Texas Fully Restructured



### Fully Restructured



### Quasi-Restructured



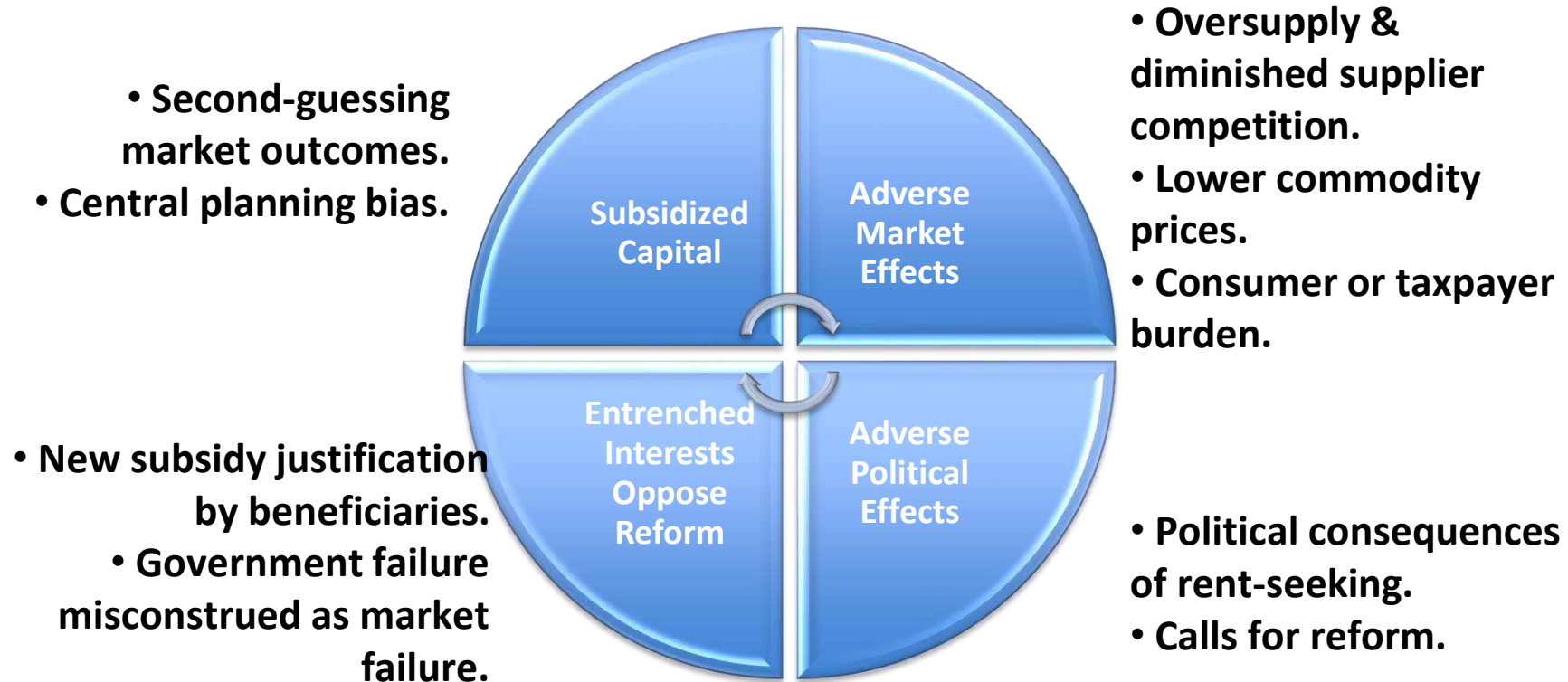
# Entangled Monopolies: Ohio & Illinois

- Retain monopoly rent seeking conduits
  - Cross subsidy vehicles
    - Default supply
    - Riders (e.g., rate stabilization)
- Amplified motive
  - Instrumental corporate interest
    - Monopoly lobbies for affiliates
- Ohio: Duke Energy (divested) vs. entangled utilities
- Policy implementation, not competition, at fault!



# Competition as *Partial* Antidote

Institutional Decay + Misinformation = Subsidy Culture



# Outlook: stressed rent seeking conduits

- Information asymmetry increasing
- Stock turnover → incumbent displacement
- Synergy with climate & green industrial policy

*How Utilities Team Up With Greens Against Consumers*      WSJ | OPINION

Oregonians are learning that electric companies like renewables because costlier systems increase profits.

Vs.

**Putting Consumers & Climate First**

**Governor Pritzker's Eight Principles for a Clean & Renewable Illinois Economy**

- Competition-choice incrementalism
  - E.g., direct access vs. “do it right!”

# Policy Implications

1. Restructure properly.
  - A. Thorough generation divestiture.
  - B. Remove monopoly default service.
  - C. PUCs rectify cross-subsidies and vestigial relations.
2. Regulate distribution monopolies properly.
3. Improve information.
4. Remain disciplined.

# Thank you!

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Paper link:

<https://www.rstreet.org/wp-content/uploads/2020/09/Final-No-205-electric-competition-updated.pdf>