



The Failure of Political Monopolies

By Jim Clarkson

There is no such thing as a natural monopoly; government creates all monopolies. There was never any real justification for the regulation of the utility business. The existence of utility regulation is a triumph of political entrepreneurship by the incumbent utility companies to use the power of state government to gain dominance over their customers, to eliminate their more efficient competitors and to obtain recovery on their bad investments.

The system of politicized energy distribution consumes more resources than necessary to provide service. The excess revenues flowing into the system have provided profits above what could be obtained in a competitive market. The money has been further dissipated by inefficient operations, provided recovery on unproductive and inflated investments, been shifted to unregulated affiliates, passed through to satisfy uneconomic fuel contracts and consumed in efforts to preserve monopoly status rather than to satisfy consumer demand.

The monopoly-regulatory regime has created politically focused but ineffective management, weakened the work ethic, created accounting systems that do not report costs properly and obscured market feedback from consumers. Sheltered from market forces, utilities operate to satisfy political whim. The practice of cross-subsidy has distorted management information, and consequently, management behavior. Cost-plus, rate-of-return regulation has corrupted operating practices as well as investment standards. Utility affiliates that prosper do so by shifting costs to regulated sister companies, those affiliates that get into truly competitive situations fail.

Politically fashionable regulatory policies have prevailed over economic reality. Government policy in the 1960s was anti-gas and pro-nuclear, and then reversed in the 1970s, causing mal-investment in its wake each time. Politically directed conservation was a costly disaster that threatens to be repeated. Mandated “green” power is downright foolish and joint resource planning by regulators and utilities is a waste of time. Certification of energy marketers by state regulatory commissions is another example of the political economy of bureaucratic imperialism.

There is absolutely no consumer benefit from recovery of past bad investments; any stranded cost recovery is just arbitrary political redistribution of wealth. The general

economy suffers as capital is shifted from productive enterprises to the managerially challenged utilities. The taxpayer funded consumer advocates have sold out their alleged constituency by supporting regulation for regulation's sake instead of free competitive markets with their lower costs and better service. The profits of the energy utilities are largely dependent on the abilities of their lawyers and lobbyists to manipulate state regulators and legislators. If these utilities just happen to provide decent service at fair prices, well that is just a nice secondary coincidence.

“Deregulation” is a sham, the current state programs designed to engender competition in the energy commodity are largely written by the utilities themselves, just as was the case back when state regulation was created. Letting a monopoly utility write the law for competition is akin to letting the fox design the security system for the hen house. The most successful energy marketers are not entrepreneurs who are adept at meeting consumer demand; rather they are companies who are very comfortable with regulation and meeting political demands. Competitive restructuring is done in a way that guarantees utilities endless profits regardless of performance and gives regulators vast new powers over energy marketing companies. There will be no real competition until the incumbent utilities have the recovery of their overpriced infrastructure at risk. Without regulatory protection, the nation's utilities would have to cut costs, be frugal with investments and reduce prices. Furthermore, they would have to treat their customers like, well, customers.

Under regulation, customers are forced to tolerate inflated energy prices, lack of real choice and arrogant take-it-or-leave-it attitudes from utilities. If the whole economy were run this way, it would collapse just as the economies of Eastern Europe did. The only reason we still have utility regulation in this country is that the rest of the economy is free and productive enough to support this drag on prosperity.

It is time to end this marriage of vested privilege and authoritarian ideology and abolish the monopoly-regulatory system.