Chapter 6
What Comes Next?

Electricity deregulation has suddenly become a political hot potato. The hot summer of 2000 brought unexpectedly higher demand for power in California, with blackouts in the Bay Area, sharp spikes in the wholesale price of electricity, and a doubling of retail prices for customers of San Diego Gas & Electric, the first investor-owned utility to be fully deregulated. Retail prices for customers of other IOUs also may rise as the transitional rate ceilings under the state deregulation plan phase out by December 31, 2001. As a consequence, customers and government officials fought successfully this summer to cap wholesale spot prices, and some are demanding that deregulation be rescinded or at least substantially revised (Brooks, 2000; Smith, 2000; Vogel, 2000).

Throughout the crisis, DWP not only kept rates stable and continued to reduce debt, but it has earned substantial profits by selling electricity it generates to the California Independent System Operator. Whereas the IOUs sold off their generating facilities under the state deregulation plan, DWP still maintains substantial reserves. In August 2000, DWP persuaded the council to authorize selling its share in the Mohave coal-fired power plant in favor of a plan to upgrade cleaner generating plants within the L.A. basin. A recent opinion piece in the Los Angeles Times called DWP “The Unexpected Hero in a Deregulated Electricity Market” and recommended that the city “say ‘no’ to deregulation” (Erie and Phillips, 2000).

Is it necessary or desirable to deregulate electricity prices and permit direct access competition in Los Angeles? In the short run, the answer is clearly no. But in the longer run, if and when the wild price fluctuations observed this summer settle down and orderly electricity markets again become the norm, the question will arise again. We believe this is likely to occur in the 2002–2004 time frame as new generation capacity comes into service in California, and the IOUs and the California ISO gain more experience in stabilizing electricity mar-
kets. While city, state, and federal governments stand ready to act to protect consumers from large, short-term price increases, we do not expect them to reverse the underlying trend toward encouraging more competition among electricity suppliers.

Whether or not the Los Angeles electricity market is opened to competition, DWP’s governance needs simplification and streamlining. We believe that the restructuring options of corporatization or governance by a strong commission deserve serious attention. Under its current governance structure—even with the modifications recommended in Option 3—DWP would find itself severely constrained in meeting the competition from more agile private firms that we expect to emerge around 2002–2003. In principle, a city-owned corporation (Option 1) could have more operational flexibility than an independent city agency (Option 2), but either form would support faster decision-making and greater responsiveness than does the present structure. Establishing a single governing board, with clear authority and considerable independence from day-to-day political influences, seems a prerequisite for success in a more competitive marketplace.

The issues of DWP governance and possible restructuring are necessarily linked to the council’s consideration of whether or when to open the Los Angeles electricity market. Even if the council’s decision on direct access is not made until 2002 or later, discussion and debate should begin soon. The public needs to become aware of issues that, while often technical and complex, will directly affect them as taxpayers and ratepayers. The effects of competition on DWP, its employees, its customers, and the city as a whole need to be more fully explored. Possible charter amendments need to be vetted by the council before they can be put before the voters. These issues also are likely to arise in city council races and in the mayoral election of 2001.

Whatever the council’s decision on direct access competition, DWP must improve its decisionmaking pace and processes. It must run faster in the future to stay competitive. Strengthening its governance structure seems essential to ensuring reliable electricity supplies, low rates, and adequate payments to the city, as well as to maintaining Los Angeles’s leadership among the nation’s municipal utilities.