



Highlights of GAO-03-271, a report to the Chairman, Subcommittees on Government Efficiency, Financial Management and Intergovernmental Relations and Energy Policy, Natural Resources and Regulatory Affairs, House Committee on Government Reform

Why GAO Did This Study

The electricity industry in the United States is undergoing major change, the outcomes of which will affect every consumer. The industry is restructuring from one where electricity prices are set by regulation to one in which competitive markets set the price. GAO was asked to report on the extent to which federal and state actions, to date, have achieved the goal of restructuring. GAO discusses lessons learned from efforts to date.

What GAO Recommends

To help Congress ensure that the fullest benefits are achieved from electricity restructuring, and to better understand what progress has been made, GAO recommends that the Federal Energy Regulatory Commission (FERC) (1) determine how restructured markets are performing across the country, and (2) report annually to Congress and the states on the status of these markets, including emerging issues and impediments to reaching its goal.

In commenting on the draft report, FERC agreed with GAO's findings, "lessons learned," and the recommendation for annual reporting. However, FERC said GAO's recommendation to determine how restructured markets are performing across the country is problematic because of the jurisdictional division between states and FERC. GAO revised the recommendation to clarify that it is not asking FERC to step outside of its jurisdictional boundaries.

www.gao.gov/cgi-bin/getrpt?GAO-03-271.

To view the full report, including the scope and methodology, click on the link above. For more information, contact Jim Wells at (202) 512-3841 or wellsj@gao.gov.

LESSONS LEARNED FROM ELECTRICITY RESTRUCTURING

Transition to Competitive Markets Underway, but Full Benefits Will Take Time and Effort to Achieve

What GAO Found

The goal of restructuring the electricity industry is to increase the amount of competition in wholesale and retail electricity markets, which is expected to lead to a range of benefits for electricity consumers. These benefits include lower prices and access to a wider array of retail services than were previously available. Increasing competition, however, requires that structural changes be made to the electricity industry, such as allowing a greater number of sellers and buyers of electricity to enter the market.

The federal government has taken steps to bring about these changes by, among other things, promoting and opening access to regional wholesale markets and proposing to standardize a market design for these markets. In addition, about one-half of the states have taken steps to introduce competition in retail markets, including allowing customers to choose their own electricity supplier.

It is not possible to determine the extent to which the goal of restructuring—the development of competitive markets—has been achieved to date. Our review of studies, our own analysis, and our evaluation of monitoring activities of electricity markets indicate a mixed picture of how much progress the industry has made in developing competitive markets and the extent to which expected benefits have been achieved. While some progress has been made in introducing competition, it has proven difficult to measure the benefits of restructuring, and where measurement has been possible, the extent to which expected benefits of restructuring have been achieved is unclear. Recently, with the formation of its new Office of Market Oversight and Investigations, the Federal Energy Regulatory Commission has taken positive steps to look more broadly at the performance of electricity markets.

On the basis of our review, we identified five key issues and lessons learned that will require careful consideration as part of restructuring. The solutions to these lessons may prove contentious and addressing them will take time and effort. Unless addressed, the following four lessons will limit competition and thereby diminish the ability of electricity restructuring efforts to achieve their full expected benefits:

- Different rules apply to the various regional electricity markets.
- The Federal Energy Regulatory Commission has limited jurisdiction in wholesale markets.
- Wholesale and retail electricity markets have developed separately.
- Generation and transmission siting decisions are subject to federal, state, and local government jurisdiction.

In addition, a fifth lesson points out the need for better monitoring of market performance to determine how well restructured markets are functioning and the extent to which these markets provide consumer benefits.