ELCON Generation Policy Principles

Electricity Consumers Resource Council

Power generation is not a natural monopoly. Market forces should determine the generation mix.

For decades, ELCON has pursued reforms to shift the role of regulation to facilitate electric competition.

Facilitating competition involves complex market design rules and governance of institutions overseeing markets. Slow implementation and elongated transition policies delayed the rise of mature generation markets, which emerged over the past decade.

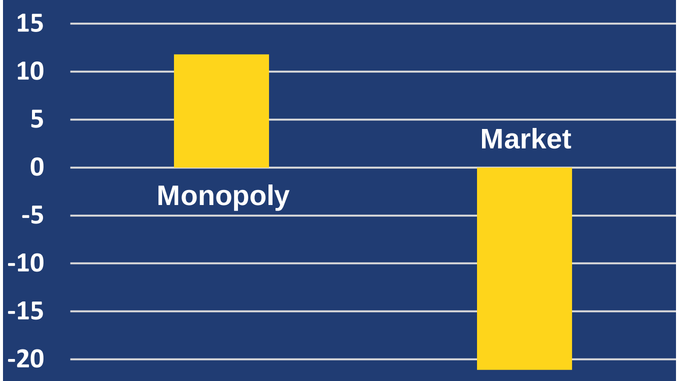
Since then, states that adopted competitive markets have seen superior innovation, investment risk management, consumer autonomy, and downward pressure on consumer rates. Monopoly states have witnessed consumer restrictions, rising rates, and suffered the consequences of risk socialization.

Industrial consumers sometimes disagree with aspects of having regulation *facilitate* competition, but it is superior to regulation *substituting* for competition.

Looking ahead, the economic characteristics of power generation are more conducive to competition.

States must embrace market forces, while federal regulators must improve market design rules and governance, if electricity competition is to achieve its full potential for consumers.

Industrial Power Price Change (%)



Note: State weighted avg. prices (2008–2017)
Source: O'Connor & Khan, 2018

Regulating electric power generation as a "natural monopoly" puts government in the difficult role of substituting for competition.

Cost-of-service regulation discourages capital efficiency, encourages excessively risky investments, and motivates utilities to focus on their regulators instead of their customers.

ELCON's Generation Policy Principles

1. **Generation investment and operations are best left to market forces, where the proper role of government is to facilitate – not substitute – for competition. Public policy should enable free market economic fundamentals to determine electricity prices.**
2. **Facilitating competition requires laws and regulations to support open, non-discriminatory access to competitive electricity markets at the wholesale and retail levels. This necessitates market design consistent with free market economic principles and evidence.**
3. **Protecting consumers from the abuse of market power requires robust independent market monitoring and dynamic mitigation and enforcement practices.**
4. **Balkanization of the transmission system into smaller markets with separate rules should be avoided except where economically justified by specific regional contexts.**
5. **Rate regulation, where necessary, should be consistent with cost of service principles, where charges would be based on prudent costs justified by their benefits, and no class of user should subsidize another class (i.e., rates reflect cost causation).**

ELCON is the national association representing large industrial consumers of electricity.
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