

FOCUS STATEMENT of Commissioner Richard A. Bilas, Ph.D., President

In carrying out the vision of the Commission's five to ten year outlook set forth in this business plan, my Commissioner office will operate with several focal points as guides. California is moving forward in the restructuring of its heretofore regulated industries. To some observers, a significant degree of progress has been made. To others, much still must be accomplished before victory can be declared. I find truth in both views.

Clearly, we have yet to develop any meaningful degree of local competition in the telecommunications industry, especially for residential customers. Thus, much of our work in the telecommunications industry over the next several years must be directed toward accomplishing real competition. While our continuing review of Pacific Bell's 271 application gives us an opportunity to make major strides toward realizing competition in local phone service, we must be ever mindful that the mere beginning of true local competition does not translate into sustained competition. Only through sustained competition will California consumers reap the benefits of greater innovation and lower prices. Therefore, the Commission must be prepared to continue to nurture the competitive offspring it creates. As circumstances change, so must our regulation of the industry. For this reason, the Commission will need to reinvent itself, as necessary, in order to keep pace with the ever-changing telecommunications industry.

My major focus, however, rests on competition in the energy sector. On the wholesale level, in both electricity and gas markets, real progress has been made, though there is need for improvement. Industrial and commercial consumers have enjoyed benefits from opening markets. In the gas industry, this began with the introduction of gas-on-gas competition after the construction of truly interstate pipelines serving this state. We are now struggling with the development of real wholesale competition in the electric industry through the auspices of the Independent System Operator and the Power Exchange. However, as long as wholesale price caps remain in place, the market cannot function properly. Further steps must be taken, on state and federal levels, before the wholesale market is workably competitive.

My biggest concern is that there has been little progress made in retail competition in either gas or electric markets. As Assigned Commissioner for our current Gas Strategy Proceeding, I am working for a result that brings significant progress to retail gas competition. I am troubled, however, by the lack of progress in establishing retail competition for electricity consumers. Until there is retail competition, the benefits that arise from a competitive wholesale market may not be passed on to California's end use customers. Conversely, lack of retail competition may also be negatively impacting the development of workable competition in the wholesale market. Lack of retail demand price responsiveness may be a problem for the wholesale market. Therefore, we must strive to remove impediments to workable competition in both markets.

Small business and residential users of electricity must have the full panoply of benefits competition will bring to their doors. Until progress is made here, I consider our restructuring efforts to be a failure for California consumers. In my opinion, we must achieve widespread retail and wholesale electric competition along with adequate consumer safeguards in order for our vision to be realized. Absent these achievements, our efforts should not be seen as successful by the Commission, by our stakeholders including consumers, and by those nationally and internationally who are studying our progress or lack of it.

It could take a generation for everyday retail competition to occur in electric markets. Even with workable wholesale competition, that timeline will depend on the Commission's focus. I firmly believe that one of the Commission's duties is to educate the public that the purchase of electrons may be little different from the purchase of peas. The Commission should also accelerate the opening of retail electric markets by looking at what other states are doing in the retail arena. These states have had the benefit of observing where we have faltered in electric restructuring before they have acted. I suggest the Commission examine Pennsylvania's "shopping credit" for changing electric providers and Georgia's assignment of customers to new gas competitors and whether these policies could work in California's electric marketplace. Just because we have not pursued the Georgia model in our gas restructuring at this time does not mean it should be overlooked as an option in electric restructuring. In reviewing these Pennsylvania and Georgia policies, the Commission should assess their facilitation of widespread retail electric competition and demand price responsiveness. Being a free market economist, governmental interference goes against my philosophical grain, as I have often said. But the reality is that California does not have effective retail electric competition nor is there workable wholesale competition. Absent them, free markets cannot function properly. Therefore, I have now begun to focus on the need to achieve retail competition more swiftly than current market conditions allow. Retail competition is working in Pennsylvania and Georgia, and it could work here, if we want it to. My focus this year will be to implement the changes necessary to make retail electric competition a reality in California.