

Economics of Energy (Econ 296)
ASSIGNMENT #4 – worth 10% of final grade
DUE – 1:30 PM Monday April 9, 2018
Please submit as hard copy

Feel free to answer the questions posed in part (a) in point form.

Deregulation is the process of reducing or removing state regulations (or in some cases ownership and control) of some industrial sectors. In the 1980s and continuing into the 1990s concerns were expressed that government regulation rather than solving a market failure was contributing to inefficiencies and that there was a risk that regulatory agencies could be “captured” by the regulated industry for its own benefit. This would hurt consumers specifically and the economy in general.

The bottom line is that deregulation was seen as the best way to ensure that prices were kept low (through the market discipline that competition brings) and that consumers had a choice (and we all know that choice is important in economics).

Until this point the North American electricity sector was characterized by regulated, vertically integrated utilities. Today 20 or so American utility markets and two Canadian ones (Alberta and Ontario) have been deregulated. That is ownership of generation and transmission facilities are now owned by different entities and, generally speaking, the utility still looks after distribution, billing and is the provider of last resort. As an interesting aside, the current Alberta Government is musing about re-regulating the electricity sector.

This assignment is in two parts. Part (a) Given about two decades of experience and evidence has deregulation delivered on the promised economic benefits of keeping electricity prices low and providing consumer choice? Where has it worked well and where has it gone a little less well¹? Why?

Take what you learned in part (a) and apply it to part (b). Ever since the 1980s there has been a discussion around the privatizing of SaskPower (see the SOS Crowns campaign). Leaving aside the normative discussion surrounding Saskatchewan Crown Corporations and just looking at the economic evidence do you think that electricity consumers in Saskatchewan would benefit if the electricity market was privatized? Explain (briefly) why or why not.

¹ I don't expect, nor want, an exhaustive list. Representative examples, enough to show you did some research and analysis, will suffice.