

Highlights of [GAO-06-237](#), report to the Chairman, Subcommittee on Energy and Resources, Committee on Government Reform, House of Representatives

Why GAO Did This Study

The electricity industry is in the midst of many changes, collectively referred to as restructuring, evolving from a highly regulated environment to one that places greater reliance on competition. This restructuring is occurring against a backdrop of constraints and challenges, including a shared responsibility for implementing and enforcing local, state, and federal laws affecting the electricity industry and an expected substantial increase in electricity demanded by consumers by 2025, requiring significant investment in new power plants and transmission lines. Furthermore, several recent incidents, including the largest blackout in U.S. history along the East Coast in 2003 and the energy crisis in California and other parts of the West in 2000 and 2001, have drawn attention to the need to examine the operation and direction of the industry.

At the Committee's request, this report summarizes results of previous GAO work on electricity restructuring, which was conducted in accordance with generally accepted government auditing standards. In particular, this report provides information on (1) what the federal government has done to restructure the electricity industry and the wholesale markets that it oversees, (2) how electricity markets have changed since restructuring began, and (3) GAO's views on key challenges that remain in restructuring the electricity industry.

www.gao.gov/cgi-bin/getrpt?GAO-06-237.

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

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ELECTRICITY RESTRUCTURING

Key Challenges Remain

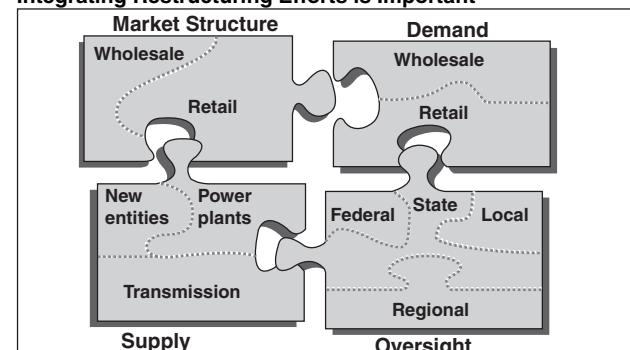
What GAO Found

Over the past 13 years, the federal government has taken a variety of steps to restructure the electricity industry with the goal of increasing competition in wholesale markets and thereby increasing benefits to consumers, including lower electricity prices and access to a wider array of retail services. In particular, the federal government has changed (1) how electricity is priced—shifting from prices set by regulators to prices determined by markets; (2) how electricity is supplied—including the addition of new entities that sell electricity; (3) the role of electricity demand—through programs that allow consumers to participate in markets; and (4) how the electricity industry is overseen—in order to ensure consumer protection.

Federal restructuring efforts, combined with efforts undertaken by states, have created a patchwork of wholesale and retail electricity markets; broadened electricity supplies; disconnected wholesale markets from retail markets, where most demand occurs; and shifted how the electricity industry is overseen. Taken together, these developments have produced some positive outcomes, such as progress in introducing competition in wholesale electricity markets, as well as some negative outcomes, such as periods of higher prices.

We have identified four key challenges to the effective operation of the restructured electricity industry: making wholesale markets work better together so that restructuring can deliver the benefits to consumers that were expected; providing clear and consistent signals to private investors when new plants are needed so that there are adequate supplies to meet regional needs; connecting wholesale markets to retail markets through consumer demand programs to keep prices lower and less volatile; and, resolving divided regulatory authority to ensure that these markets are adequately overseen. The theme cutting across each of these challenges is the need to better integrate the various market structures, factors affecting supply and demand, and various efforts at market oversight. This theme is illustrated below.

Integrating Restructuring Efforts is Important



Source: GAO.