



Understanding Deregulation

What is Deregulation?

Deregulation is the opening up of a previously regulated good or service to competition. It allows companies to provide goods and services to customers who previously could only purchase them from a regulated body.

The best known example is telephone deregulation, where once upon a time, the Bell Corporation was "the phone company." Then, deregulation caused the break-up of that corporate giant into smaller entities, and allowed other companies to offer telephone service as well.

Deregulation has also affected the airline and other industries, including the one most near and dear to our heart – Energy.

Why Deregulate?

When one company has a monopoly on a good or service, it can potentially control the prices and levels of service for all users (since all users have to be customers of the monopoly). Alternatively, the government might control the pricing with a system of tariffs – but this is inefficient and rarely achieves the results of an open market.

In a deregulated market, more companies can compete for the customer's business. This generally causes lower prices as companies vie for the same customers. For example, long-distance telephone prices are much lower since deregulation began in the telecommunications industry.

Energy Deregulation.

In energy industry deregulation, customers can purchase energy from alternative suppliers called Energy Service Companies ("ESCOs"), instead of from their local utility. ESCOs have to be licensed or approved by the state utility commission as well as the local utility company in whose territory they are marketing energy to customers. Each state has different timelines for implementing deregulation and different requirements for ESCOs to be licensed or approved – that is why many energy markets in the U.S. are not deregulated yet.

Energy deregulation has been mandated by federal and state legislatures as a way of lowering energy costs to consumers. The utilities are encouraging it as well, as they look to streamline operations and concentrate on effective and efficient distribution.

Energy Purchase Costs

Energy costs are usually categorized into 3 components as follows:



1. Commodity, or Supply. This is the actual electricity, or natural gas, consumed by the purchaser/customer.

2. Interstate transportation, or transmission. This is the transportation or transmission of the energy from the source (e.g. a gas well in Pennsylvania) to the utility.

The two components above are subject to deregulation, and thus, competition.

For example, USG&E purchases natural gas (or produce it from our own wells), and transports it to various utilities at a lower cost than they would have been able to. We then pass a portion of this lower cost on to our customers in the form of guaranteed discounts from what the utility would have charged. In essence, all that has changed is that USG&E handles the first two parts of natural gas acquisition instead of each local utility.

3. Local distribution. Delivering the electricity via wires, and gas via pipes, to consumers. This remains the exclusive domain of the utility company because they own the infrastructure of wires and pipes and it would be cost prohibitive for a competitor to duplicate the infrastructure. Utilities also maintain reserve supplies, read meters and respond to emergencies.

There is no risk to the customer at any time. USG&E delivers the natural gas directly to each utility – thus, the transition is invisible to the customer – except, of course, the customer will see a lower gas bill. The utility continues to maintain the infrastructure of gas lines, read the meters, and respond to emergencies so the customer continues to receive the same high-quality energy, with the same reliability, at a lower price.