

Deregulation ... and a Lesson in "Unlikely" Events



"...the performance of the U.S. banking and payments systems during such extraordinary events bolstered my confidence in our ability to face any challenge, whether anticipated or not."

This issue marks the second time that *Region Focus* has featured a cover story on the movement toward deregulation of the electric utility industry. The first article appeared in the Winter 1998 issue. California had just embarked on its restructuring of the electric utility industry and several Fifth District communities were developing their own initiatives. California's recent crisis, though, has led some observers to question the wisdom of the trend toward deregulation and others to blame the state's woes on a combination of bad luck and flaws in the restructuring plan. This debate, which is addressed in our cover story, has drawn the attention of many commentators.

Recent events and the continuing debate have not changed the basic belief I expressed on this page in our earlier issue: namely, by providing suppliers with an incentive to improve services and reduce costs, price competition among multiple sellers ultimately can benefit a broad spectrum of electricity consumers. The specific features of the California plan's transition period — capped retail prices and a requirement that the utilities buy power from generating companies at spot-market prices — left the state vulnerable to an event that seemed unlikely at the time — a spike in natural gas and wholesale electricity prices. The lesson seems to be that plans to restructure a regulated industry should pay attention to unlikely as well as likely events.

In September, we learned another lesson regarding the impact of unlikely events. We

were preparing this issue of *Region Focus* for production when the terrorist attacks of Sept. 11 interrupted all of our lives. This national tragedy made it difficult for us to go about our daily affairs, at least initially. But the United States is a strong and resilient nation. It is in this tradition that countless individuals and organizations demonstrated incredible resolve during the crisis. I am especially proud of the fact that the U.S. banking system held up remarkably well and continued to operate without serious disruption. Many Federal Reserve employees, in the Fifth District and throughout the System, worked hard to make this happen. Included in this issue is an article on the Federal Reserve's efforts to help keep the banking and financial systems running. (See page 2.) At the same time, bankers and various other participants in our financial system — at a time when crisis easily could have led to panic — remained steady and calm and took steps, some small and some heroic, to maintain their operations. Their commitment and the performance of the U.S. banking and payments systems during such extraordinary events bolstered my confidence in our ability to face any challenge, whether anticipated or not.



Al Broaddus

President,
Federal Reserve Bank of Richmond