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# Electric Restructuring Differences Between California and Ohio

## Market Design

### CA

The California electric market is primarily short-term in nature

- Utilities were strongly encouraged to divest a substantial portion of their generation, while being blocked by regulations from entering into stable long-term contracts.
- Direct contracts between buyers and sellers are difficult due to complex institutional requirements.
- Investor owned utilities were required to participate in a power exchange (PX).
  - Power for consumers was purchased in a spot market where prices are set on an hourly basis.
  - When demand was low prices remained low, but when demand is was high prices rose.
  - Wholesale market prices soared, among other things, due to rise in demand, dramatically higher natural gas prices, lower imports from other states.
- Investor-owned utilities were limited by regulations in using price risk management tools to avoid volatile changes created by the spot market.
  - Some California companies chose not to utilize risk management tools.
  - Since retail electric prices were capped, Utilities were precluded to pass-on the increased energy costs to the retail customers.
  - Fixed retail prices blocked conservation efforts by insulating customers from market realities and reduced customer incentives to tun to competitive retailers.

### OH

Ohio's restructuring legislation is significantly different.

- Long-term contracts are permitted.
- Direct contracts are easier to execute because institutional requirements are not as complex.
- Ohio does not have a mandatory PX structure.

## Demand & Supply

### CA

California did not anticipate the high growth in demand experienced by the state or region.

- Growth has been far in excess of what was projected.
  - Peak demand increased 12% from 1996 to 1999.
  - Demand increased by 5% the first 8 months of 2000 relative to the same period in 1999.
- Growth in neighboring states has been high and has reduced the amount of power available for export to California.
- Higher temperatures and generation outages increased demand and reduced supply of electricity that led to a series of blackouts

New Supply in California has been limited

- Price caps in California markets limited the incentive for generators to locate new plants.
- Only 672 Megawatts of new supply has been added since 1996.
- The permitting process for new generation is long and costly and has caused delays in siting new generation facilities.
  - Almost 17,000 Megawatts of new supply is planned but has not been built.

## **OH**

Ohio has better anticipated the growth in demand for the state and region and has been proactive in encouraging new supply to be built.

The Ohio Power Siting Board and its process for siting new generation facilities in the state have proven to be both effective and efficient.

New generation is being built and planned in Ohio.

- 1,230 Megawatts of new generation has already been made available.
- 2,110 Megawatts of generation will be available in the Summer of 2001.
- Overall, a total potential of 13,771 Megawatts of new generation over 1998 levels is planned.
- Neighboring states (i.e. Indiana) are also anticipating significant investment in new generation

## **Transmission Constraints**

### **CA**

California's ability to import power from northern and eastern states is limited.

- Transmission lines throughout the state run primarily north and south.
- Siting and installation of new lines is difficult.

### **OH**

Overall, Ohio and the Midwest do not have significant transmission constraints.

- The transmission grid within the state is highly effective in most places.

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