



## **Regulated Utilities and Moral Hazard**

Moral hazard is the term for a situation where one party takes high risks knowing they are protected from the consequences which will fall upon another party.

Regulated utilities and their partners, state utility regulators, engage in moral hazard actions all the time.

The decision to build a high-risk nuclear plant knowing regulators will shift costly mistakes, poor management, bad judgement, schedule delays and construction overruns to ratepayers is one of the biggest and best known moral hazards currently going on in the electricity industry. But there are others.

Electric utilities and regulators are promoting investment into still uneconomic intermittent renewable generating sources at the expense of sensible traditional generation. These popular, politically-correct phenomena will end badly with power customers paying the bill.

The monopoly-regulatory system is pouring money in very high-overhead rebates for efficiency programs where every dollar given to customers in rebates entitles the utility to collect about \$4 from customers who have no choice in the matter. This, too, will end badly.

Recently it has come to light that utilities have lost billions of ratepayers' money in fuel hedging programs. Under regulation the utility gets to pass-thru the cost of acquiring fuel for customers no matter how bad their procurement practices are. Since they were not responsible for the losses the utilities engaged in risky commodity derivatives to allegedly stabilize their fuel costs. Similar results in the real economy would have resulted in management changes, loss of business and reduction of profits. However, the utilities got away with it; and customers have paid dearly and will continue to pay. By and large the utilities are still playing the commodity market with other peoples' money, and until the fuel market starts moving up the losses are piling up.

Until such time as the whole corrupt system can be abolished utilities must bear the consequences of their bad investments and expensive programs. **No more moral hazard!**

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