

Bill Peacock, guest column: Don't blame deregulation

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AUSTIN — Competition and retail choice are working in the Texas electric market.

Instead of celebrating this success, critics are blaming retail electric providers for problems caused by the increasingly dysfunctional, legislatively mandated “price to beat.”

The price to beat was originally the regulatory price at which existing (default) providers had to sell their electricity. Meanwhile, it was hoped that new providers could earn a profit selling electricity at a lower price.

By the time 2006 rolled around, it was clear there was no longer any need for the price to beat. Competition, not regulations, now keeps prices low. Texas consumers are able to choose from up to 41 different plans offered by as many as 18 providers, with over 60 percent of residential customers having exercised identifiable choice.

Fortunately, the price to beat is set to expire on Jan. 1. But it isn't going down without a fight.

For instance, the price to beat is serving as a psychological price floor, more than likely keeping prices higher than they would be otherwise.

Additionally, since changes in the price to beat are limited to two per year, it has distorted market prices and added uncertainty in the marketplace at a time when natural gas prices have been changing rapidly.

While natural gas prices rose by an average of 49 percent between April and November, 2005, political factors led to no increase in the price to beat during this time. So default providers were not able to recover their increased costs. In other words, for eight months many consumers avoided paying the costs incurred by the increase in natural gas prices.

However, if a default provider had pockets deep enough to ride this out, it could actually use the price to beat to gain a competitive advantage over a new, smaller provider which must raise its prices to cover costs—or go out of business.

So not only is the price to beat poorly designed for today's market, the political intervention in the market it accommodates further harms competition and consumers.

Despite these problems, the market is already beginning to look past the price to beat as industry participants anticipate its demise. Default providers are preparing for an increase of competition against each other as well as against the new providers which have sprung up under the price to beat. A number of new rate plans have been announced designed to attract and retain customers after termination.

Markets are always competitive except when the government interferes with them. Imposing price controls is guaranteed to harm the burgeoning competition in the electric market and dash the expectations of all market participants — retailers, producers, investors and consumers.

Texas is about to become the first state in the country to operate an electric market where the vast majority of prices are deregulated. We also are the national leader when it comes to telecom deregulation and tort reform. This is why Texas was recently rated the second-best business climate in the nation.

If we want to stay on top, more deregulation — not price controls — is the only way to go.

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