

## Electric Competition

by **Bill Peacock**  
Director, Center for Economic  
Freedom

**R**egulation came late to Texas, and markets came early. Texas became the last state to regulate retail electric rates when the Texas Legislature created the Public Utility Commission (PUC) in 1975. But it wasn't long before we started heading in the other direction.

Texas successfully deregulated wholesale power in 1997, requiring the Electricity Reliability Council of Texas (ERCOT) transmission owners to offer nondiscriminatory access to their lines. The foundation for retail competition was laid in 1997 when the Legislature said the public interest required that electric services and their prices should be determined by customer choices and the normal forces of competition. In 1999, the Legislature passed Senate Bill 7, which required the start of customer choice by Jan. 1, 2002. Texas is now leading the nation in deregulation of electric markets.

The new markets have been largely successful. Industrial and large commercial customers had no "Price to Beat" (PTB), but hardly needed one—over 65 percent of these customers have switched providers. And 77 percent of residential customers have exercised observable choices—of which they have plenty. For instance, residential customers in Houston today can choose from 53 rate plans offered by 17 suppliers.

While there are plenty of complaints about electric prices today, the facts aren't as bad as the press they get. A PUC study has shown that retail rates are lower today than they would have been without competition. On average, Texans paid 13.21 cents per kilowatt

hour in September, above the 10.94-cent national average. That is only 21 percent above the national average. Considering that Texas is heavily dependant on natural gas for generation, and that the PTB outlived its usefulness and became an artificial price floor, we are doing pretty well.

There has been much concern about what would happen when the PTB, the last vestige of rate regulation, disappeared on Jan. 1. But we are already starting to see the answer: more companies are offering lower rates in response to consumer demand. The 53 rate plans and 17 suppliers in Houston are up from 26 and 14, respectively, since last summer. And in Abilene, consumers can now purchase electricity at essentially the same price in real dollars as the average regulated rate of February 2001.

However, many consumers value factors like reliability, service, and price stability over low prices, and are willing to pay more to get them. Competent retailers will in turn offer products suited for these customers. We shouldn't berate companies for meeting consumer demand.

### THE FACTS

- Residential consumers have access to a growing variety of suppliers and plans, as seen in the following examples compared with suppliers and plans from the summer of 2006:
  - Corpus Christi: 18 suppliers and 52 rate plans, up from 15 and 24

900 Congress Avenue  
Suite 400  
Austin, TX 78701  
(512) 472-2700 Phone  
(512) 472-2728 Fax  
[www.TexasPolicy.com](http://www.TexasPolicy.com)

**QuickFact:**

Despite an almost 200 percent increase in the price of natural gas, some Texas consumers can choose rates that are almost identical in real dollars to the regulated rates of 2001.

- San Angelo: 17 suppliers and 50 rate plans, up from 13 and 22
- Houston: 17 suppliers and 53 rate plans, up from 14 and 26
- Lewisville: 18 suppliers and 55 rate plans, up from 12 and 23
- Fort Worth: 17 suppliers and 55 rate plans, up from 14 and 29
- Consumers are taking advantage of their choices—77 percent of residential customers have exercised observable choice.
- A PUC study found that a residential customer in Houston who switched to a competitive retail electric provider four years ago and then switched each following year to the lowest-cost provider would have saved about \$1,450, compared to the estimated regulated rate; a similar customer in Dallas would have saved about \$800.
- Rates in Texas are decreasing. The latest figures show that the average residential price for electricity in October was 12.89 cents/kWh, down from 13.21 cents/kWh in September.
- Consumers in most areas of the state can now purchase electricity near or below the national average.
- When looking at states with a similar fuel-mix, Texas' rates are in the middle of those nine states with greater than 40 percent gas-fueled generation.
- Despite an almost 200 percent increase in the price of natural gas, some Texas consumers can choose rates that are almost identical in real dollars to the regulated rates of 2001.
- Electric rates in Dallas and Houston are lower than Los Angeles, New York, San Diego, Boston, San Francisco, and Philadelphia.

**RECOMMENDATIONS**

- Maintain full deregulation of the retail electric markets.
- Move forward with current plans to begin day-ahead markets and nodal pricing in wholesale markets
- Ensure that various provisions of electric utility laws and regulations are not used as a back door to re-regulate electric rates.
- Move forward with deregulation of those areas in Texas where retail choice is not yet allowed.

Bill Peacock is the Director for the Center for Economic Freedom and Vice President of Administration at the Texas Public Policy Foundation. He may be contacted at: [bpeacock@texaspolicy.com](mailto:bpeacock@texaspolicy.com).