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Bill Peacock, guest column: Electric market boosts state

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AUSTIN — Kohlberg Kravis Roberts & Co.'s proposed buyout of TXU certainly caught the attention of lawmakers at the state Capitol. But long before this, Texas' electric markets had been a hot topic.

Complaints about prices, market power and consumer choice—along with environmental concerns—dominated the discussion. Unfortunately, this discussion focused more on the behavior of a single company than on sound public policy.

But now that TXU will no longer exist as we knew it, what is left? Just the facts, which show a very different picture than what most people are trying to paint.

The Texas Public Policy Foundation recently completed a comprehensive study of Texas electric markets. Dr. Robert J. Michaels, professor of economics at Cal-State Fullerton, found that "Texas is competitive electricity's greatest success story in the United States, if not the world."

#### 'Substantial benefits'

"Furthermore," wrote Michaels, "competition has brought substantial benefits to Texas in only a few years, both in absolute terms and relative to other states. Innovations planned for 2009 will further improve investment choices and power pricing, and institutions put in place by the Texas Public Utility Commission can sustain competitive markets into the future."

How can this be, given the legislative and media furor over high electricity prices and a lack of competition?

The truth is that, despite a more than 200 percent increase in the price of natural gas, the average price of electricity in Texas today is only 27 percent higher than the regulated price of 2001. Some consumers can buy electricity for roughly the same price as 2001.

Average prices in Texas are lower than in New England and the Mid-Atlantic coast. Rates in Houston and Dallas are comparable to almost every other major city.

Competition is also thriving. In less than a year, the number of plans available to consumers has doubled, with at least 17 different providers in every market. It is no surprise that customers on the Price to Beat dropped by 36 percent in the last nine months of 2006.

Yes, there was a price spike. But most of that can be blamed on four things: hurricanes, increases in natural gas prices, a hot summer and the Price to Beat. But now that gas prices have stabilized and the Price to Beat has expired, electricity prices are dropping quickly.

Texas has the most competitive, mature retail electric market in the U.S. So while critics choose to blame retail providers for today's electric rates, retailers can only charge them because consumers willingly pay them.

The stakes in this debate are high. Texas' job growth rate is twice the national average. Much of that can be credited to deregulation in various markets that has created an affordable, reliable supply of electricity and a business climate second to none. If we turn our backs on deregulation in the electric market, Texas jobs are in jeopardy.

Michaels said that Texas got electric deregulation right where other states got it wrong because we set general rules for the market and were willing to let competition work within those rules, without attempting to manipulate prices or other aspects of competition. The details of what would be sold and how it would be priced were left to the ingenuity of buyers and sellers.

Legislation currently under consideration would thoroughly undermine the nation's best electric market by turning away from this approach. It would instead prescribe how, when, and where market participants are to compete with each other, and deny consumers the ability to make choices for themselves.

KKR understands this and has committed to stay in the Texas electric market for the long term only under the "current regulatory system." Other businesses are likely to feel the same way.


Already, we are seeing the effects of the legislative debate. KKR's decision to drop eight coal-fired power plants will likely have a negative impact on prices and reliability.

Texas is at a crossroads. We can opt for markets and affordable, reliable electricity, or for heavy-handed regulation and California-style rolling blackouts. The power to choose is ours.

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