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Electric Deregulation Proven Texas Success

There's good news for Texas energy consumers, the Texas Public Policy Foundation's Bill Peacock says. Electric deregulation has benefited Texas and has proven to be a success.

"Galileo, the 17th century Italian astronomer whom Albert Einstein called the father of modern science, was willing to change his views based on observation," Peacock noted. "For this, he was forced to spend the last years of his life under house arrest by those who refused to believe the sun was at the center of the solar system. Today, there are far too few people willing to follow Galileo when it comes to observing the Texas electric market. Though the facts clearly point to the success of deregulation in this market, the geocentric crowd remains convinced that consumer choice is a bad idea."

The reasons for this are complex, Peacock adds.

"In some cases, it could be that people are misinformed. For instance, a recent article in the *Houston Chronicle* incorrectly identified markets such as Austin, San Antonio, and the Pedernales Cooperative as being regulated," he says. "In fact, markets served by cooperative and municipal electric companies have for years been the most deregulated in the state. If anything, the lower rates charged in these areas are proof positive of the long-term benefits of deregulation."

Another reason is misperception.

"One legislator recently repeated the oft-made claim that while deregulation has worked well in the industrial and commercial markets, it has not done a good job in the residential market," Peacock said. "Again, observations tell a different story."

In 2000, prior to deregulation, residential consumers paid 23.77 percent and 88.18 percent more for electricity, respectively, than commercial and industrial customers, Peacock reports. Today, the ratio between residential and commercial customers is almost identical, while the gap between residential and industrial customers has narrowed to 62.47 percent.

"The complexity of the regulatory system could also limit the ability of some to make accurate observations," he says. "The claim is often made that only deregulation exposes customers to the full impact of increases in natural gas prices. However, regulated systems always pass on fuel costs (and savings) to consumers - they just do so inefficiently."

Deregulated markets are more sensitive to market changes, Peacock adds.

"Electricity prices in the efficient Texas market increased faster than in regulated markets when natural gas prices rose," he says. "In the last year, however, Texas prices have dropped 5.37 percent while the national average has increased 0.82 percent. Our comparatively inefficient neighbors in Oklahoma and Louisiana have seen prices increase by about 5 percent. As Texans enjoy the cost savings of deregulation, consumers in regulated markets will be paying for past higher natural gas prices in the years to come."

As Galileo discovered, old belief systems die hard.

"How else can we explain the persistent but false perception that Texans are significantly worse off than the rest of the country?" Peacock asks. "It is true that the average price in Texas-12.51 cents per kWh-is about 13 percent higher than the national average. But the gap is closing as we recover from the price shocks associated with natural gas. And our prices are far better than in states like Connecticut, Massachusetts, California, and New York, where average rates run from 15 to 18.33 cents per kWh."

Those advocating a return to regulation are ignoring the benefits of a reliable supply of electricity, Peacock says.

"Deregulation brought a construction boom in electric generation plants to Texas, resulting in unsurpassed reliability," he says. "Yes, reliability comes at a cost, but one that Texas consumers have voluntarily paid to avoid California- and New York-style blackouts."

The facts about electricity deregulation are clear, he concludes.

"Let's hope that more people start paying attention to them so that Texas consumers do not lose the nation's most consumer-friendly electric market and get placed back under the lock and key of regulation," Peacock says.
