

## Electric deregulation good for consumers, TPPF says

by Mark Lavergne

Electric utilities have been fully deregulated for over a year now, and the sky has not fallen.

That's the message from **Bill Peacock**, director of the Texas Public Policy Foundation's (TPPF) Center for Economic Freedom, who March 26 unveiled the foundation's new project, "The Texas Electric Meter."

It's a collection of graphical presentations showing that letting the market in Texas do its thing has been anything but the disaster for residential ratepayers sometimes portrayed in the media.

Recent stories in the *Houston Chronicle* and the *Fort Worth Star-Telegram* have quoted mostly industry representatives talking about how energy rates are going up, largely because of the rise of natural gas prices. But according to data analysis at TPPF deregulation lets consumers exercise choice to keep their bills at least relatively low.

"The critics of deregulation in 2007 were premature," Peacock said. In fact, Peacock says on the TPPF website, consumers have benefited.

Well and good, Peacock argues. The state of Texas sports the most successful deregulated electric market in the world, and the government does well to keep out of it.

"Much of the debate in 2007," Peacock said, "didn't really focus on the fact, or ignored the fact, that deregulation wasn't completed, fully implemented, until January 2007 and all the data they were using in 2007 in the legislative session was based on a regulated market in 2006."

Among the major points put forth in the Electric Meter.

*Texas is "far and away the most successful example of deregulation of electricity in the entire United States if not the world."* Peacock said the success of electric deregulation can be attributed to the Legislature's not exercising a heavy hand in shaping the electric market. "They didn't tell the companies how they were going to have to compete," Peacock said. "They just said, 'Here are the ground rules, go out and compete against each other.' They let the market shape and form itself."

Peacock also said the price-to-beat had a big hand in helping the state transition from a regulated to a deregulated market. States such as California and New York deregulated whole-

sale prices but kept a cap on retail prices. So as natural gas prices went up the retail prices had nowhere to go. The result: shortage and market collapse—i.e., rolling blackouts.

By contrast, Texas' price-to-beat allowed prices to rise during the transition to deregulation when the pressures from natural gas increases drove prices up.

The only real shortfall of the price-to-beat, a price to which TXU was required to strictly adhere in the years following the passage of electric deregulation to encourage competition, was that it hung around too long.

"By the beginning of 2006 the market was mature enough that it could have handled the price shocks from natural gas price increases by itself," Peacock said. "It didn't need the price to beat." Even though the price functioned only as a cap in 2006, it still functioned as the price marker. Even the new competitive providers shot for it, though it was above equilibrium.

Peacock also noted that the "Summer Surprise of 2007" never happened. Prices were expected to spike following the 80<sup>th</sup> legislative session because of lawmakers' failure to curtail the rising utility costs. Yet prices that summer were five percent lower than the summer before.

*Consumer choice has shot up since deregulation.* Consumer choice went up slowly in the first years of the transition to deregulation. But when full deregulation hit, the number of providers rose considerably, from four in 2002 to the average 28 that do business in each region. The number of rate plans went up even more steeply, from 17 in 2002 to nearly 100 today.

The increase in choice among rate plans means consumers can go either with rates higher or lower than when deregulation began. Peacock acknowledged that residential ratepayers on average pay the same today as in the era of regulation. But they can *choose* less, he said.

"The free market doesn't promise lower prices," Peacock said. "It promises more efficient prices."

In January 2008, in Texas, the average competitive offer was 2.9 percent higher than the inflation-adjusted regulated rate in 2001, among the five major utilities. On average the lowest offer was 17.9 percent below the regulated rate.

"Despite the significant increases in natural gas, oil, and gasoline prices since 2001," the

TPPF study says, "most Texas consumers can buy electricity today for less than they could seven years ago."

"We may complain about the amount of choices we have to make," Peacock said, "but it's either we get to make those choices or in the case of a regulated industry, the government makes those choices for us."

**David Guenther**, TPPF director of media and government relations, observed that the average electric rate in Texas is 12 cents per kilowatt-hour. But in every region of the state, he added, one can find a rate plan for less than 10 cents. (Rates can be compared by zip code at the Texas Electric Choice Education Program's website [www.powertochoose.org](http://www.powertochoose.org).)

There is also something of a risk tradeoff in the choosing of rates for consumers. The lower offers tend to be month-to-month, Peacock said, because prices are low right now. Longer-term contracts tend to cost more per month in exchange for stability in rates.

The increased consumer choice has manifested also in the decreased market shares held by the major incumbent providers—TXU and Reliant among them. These five had lost between 53 and 78 percent of the entire (residential, industrial and commercial) market share to competition as of September 2007.

*Commercial and Industrial customers have not been the only beneficiaries.* Residential customers have not been left in the cold, according to TPPF's report. Whereas in March 2006 only 34.6 percent of residential consumers had chosen a competitive rate plan, by as the end of the year approached and the price-to-beat's days were numbered, the market began to anticipate complete deregulation. Well over half the residential market had chosen competitive rate plans by December 2006.

By December 2007, some 72 percent had chosen a plan. "Texas residential consumers are full participants in—and beneficiaries of—the competitive electricity market," the report says.

On average, prices went down five percent in 2007 for residential customers after the price-to-beat was completely eliminated, compared to the United States as a whole, where prices went up overall.

**See Electric Dereg/7**



**Electric Dereg/from 3**

Natural gas prices did not yank up electric rates in Texas. It has been widely believed that when natural gas prices shot up in 2006, electric retailers seized the opportunity to ride gas' coattails to higher prices, gouging the consumers. The Electric Meter's findings challenge that claim. Electric prices did go up in Texas, but not nearly as dramatically as natural gas prices did.

Among the five largest states — California, Florida, Illinois, New York, and Texas — the Lone Star State remained in the middle of the pack from January 2006 to the end of 2007. The spike in rates occurred in each state except Florida, most dramatically in California.

Texas is exceptional, further, in that its electric rates are already starting to go down, as opposed to those in natural gas-heavy states like those in New England, where "government regulators are playing catch-up," the report says.

*The big picture.* In 2001, Texas had the fourteenth highest average residential retail electric rates in the country. As of December 2007, Texas improved one slot to the fifteenth highest average.

Also, the report states that Texas has had unique success in energy investment. Since wholesale deregulation of electric utilities, some \$20 billion of investment has been completed. At least another \$25 billion of investment has been announced or is under construction.

The report says the investment comes "with no guarantee by consumers — they pay for it only if they use it." Texas is the only state where plant construction is not built into the rate base for consumers. ☐

**Feud/from 7**

of the aisle. People in the Permian Basin — in one of the highest [voting] Republican districts in the state — are constantly perplexed as to why we have to constantly check up on Buddy's loyalties. Any perusal of his voting record never matches up with the conservative rhetoric that he uses back at home. No hired PR-flack can change that fact."

While Craddick is not formally endorsing, he did say a lot of nice things on the radio about Lewis. "I've known Tryon for years," Craddick said. "He's been a district judge over there. He's a strong conservative judge."

Sanders accused Craddick of endorsing Lewis. "He recruited Mr. Lewis to run against Buddy West," Sanders added.

Craddick's communications director, **Alexis DeLee**, said of Sanders' statement, "That's not true."

Anderson asked Craddick about the two candidates' position on the speaker's race. "Tryon is going to support me if he's elected, and Buddy is not," Craddick replied. "Of course, Buddy did not vote for us in the last session of the Legislature after he said he would, and then he renegeed on that."

Having the speaker from the Permian Basin is a key issue in Odessa, and West's actions relating to the Craddick race have been debated throughout the campaign. West voted to make the contest for speaker a secret ballot, a decision widely viewed as a proxy vote for Speaker. The Craddick pledges voted for a public ballot, and the anti-Craddick faction voted for a secret ballot.

Talking with *LSR*, Lewis said that while the Speaker's race is not the biggest issue in the district, it does have an impact. "One thing that we like to emphasize out here is just regional cooperation,

is all of our representatives working together for issues important to our area," he said. "... Whether or not we're having the kind of regional cooperation we need is a real issue."

West's press conference featured endorsements from four known Craddick opponents — Reps. **Jim Pitts** (R-Waxahachie), **Jim Keffer** (R-Eastland), **Delwin Jones** (R-Lubbock), and **Edmund Kuempel** (R-Seguin).

The choice of Pitts, in particular, is becoming controversial. Craddick reminded Permian Basin voters that it was Pitts that argued on the floor against additional money being appropriated to UT Permian Basin.

On the radio, Craddick said that, during the six years prior to his becoming Speaker (during four of which West was vice chairman of Appropriations), UT Permian Basin got a \$5.7 million increase in appropriations. The Speaker said that since then the university has received \$16.9 million in additional funding.

"Anything that can help UTPB as far as funding, be it from the Speaker's office or from Rep. West's office, is certainly welcome by UTPB," Sanders said. "There's not been a bigger supporter of UTPB out in West Texas than Rep. West. He welcomes any support that the Speaker can offer to the university."

Also at West's press conference, candidate **Jesse Gore** (who did not make the runoff) reiterated his support for West. **Randy Rives**, who also did not make the runoff, has also backed West.

"I think it's important for candidates and public officeholders who are seeking office obviously to meet the public and to talk to the public," Lewis said. "I'm surprised a candidate would leave the district on the eve of early voting."

*Mark Lavergne contributed to this article.*

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