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Bill Peacock: Numbers show deregulation works

Deregulation has increased choice, lowered prices, says Bill Peacock

Our newly released "Texas Electric Meter: Measuring the Effects of Electricity Deregulation" establishes conclusively that last year's critics of the state's electricity market spoke too soon. Using data from the still-regulated 2006 market, they claimed that deregulation wasn't working.

The pattern held true across the country. Deregulation was widely blamed for causing California's power crisis, but its electricity market was never really deregulated. A poorly designed set of wholesale regulations combined with retail price controls led to that market's collapse when natural gas prices skyrocketed.

The only things that have skyrocketed in Texas since full deregulation took effect in January 2007 are consumer choice and competition. In September 2006, an average Texas consumer in an area open to electric competition had access to about 17 retail electric providers with 36 different rate plans. Today, those consumers average 28 providers and nearly 100 rate plans.

Consumers can lock in today's rate for the long term or let it float month-to-month. They can pick providers and rate plans based on fuel sources. They can

choose electric providers that will give them a commission for each household they recruit to the company.

Since competition began, the five former monopoly electric providers have lost between 53 and 78 percent of market share. The percentage of residential customers who chose competitive rate plans more than doubled during 2006 and 2007.

As of December, 72 percent of residential consumers had chosen a competitive rate plan, and 80 percent had made an observable choice of providers. The remaining 20 percent of the market can choose a new plan at any time.

Competition in the wholesale market has led to the construction of more than \$20 billion in new generation facilities in Texas since wholesale deregulation began in the 1990s. An additional \$25 billion is under construction or planned.

The reliability resulting from these massive investments testifies to the success of deregulation, as Texans have been spared the rolling blackouts of California and New York.

Prior to deregulation, Texas had the 14th highest average electricity rates in the country; as of

December, we had slightly improved to 15th. The average competitive offer in January was only 2.9 percent higher than the inflation-adjusted regulated rates of 2001, but consumers could select rate plans almost 18 percent below the former regulated rate.

Yes, prices climbed higher in 2005 and 2006, but this was influenced by the vestiges of regulation and higher natural gas prices. Once the "price-to-beat" expired and deregulation was fully implemented last year, the average state price declined by more than five percent even while U.S. prices rose.

The temperature will soon increase, and it looks like natural gas prices might do the same. This is a formula for higher electricity prices, especially in states that depend heavily on natural gas for electricity generation. But those prices won't be due to deregulation.

The facts clearly show that Texans benefited from deregulation in 2007 and will continue to do so in the future.

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