



Texas Public Policy Foundation

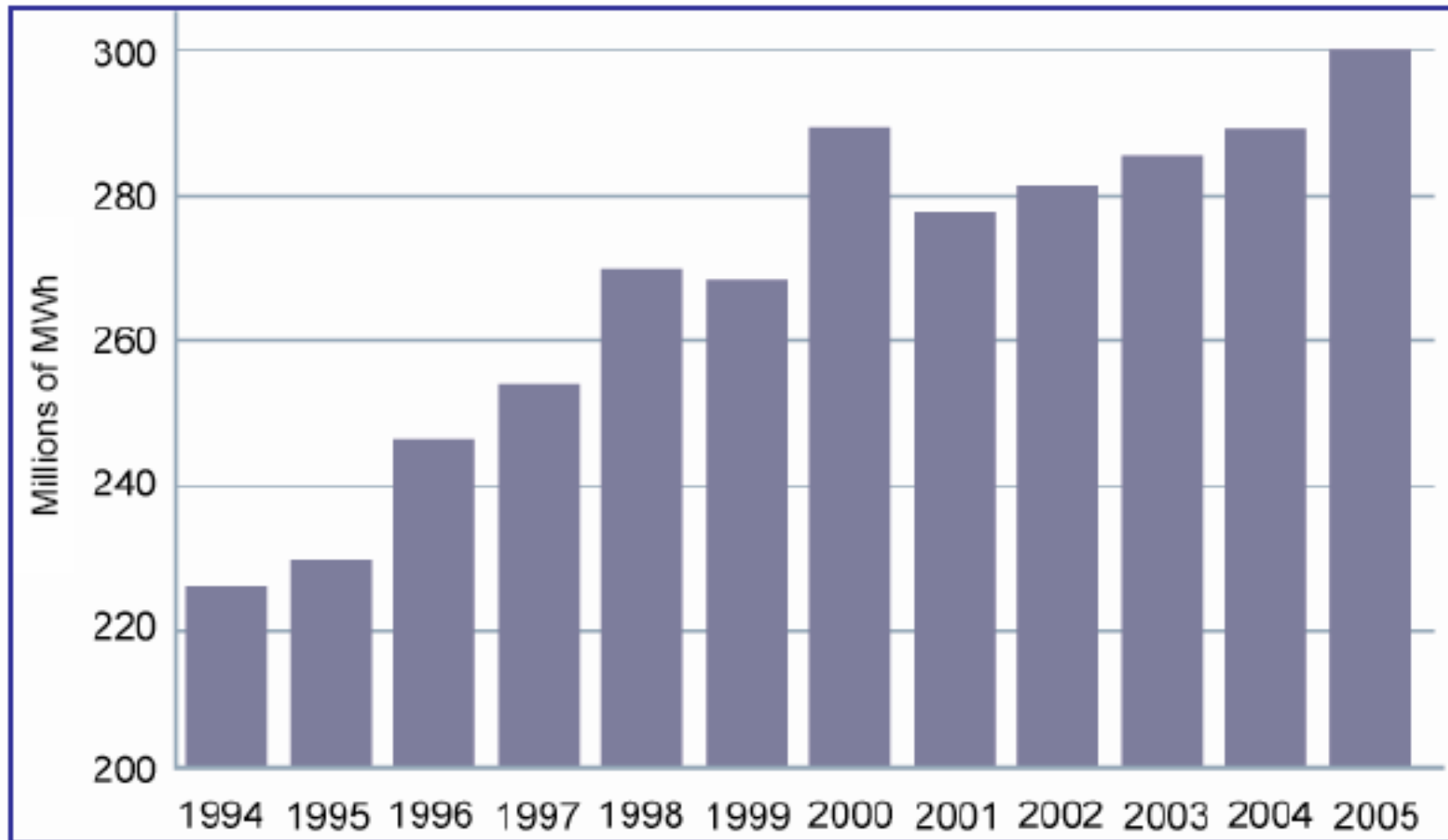
TexasPolicy.com

Electric Competition in Texas

Testimony before the Senate Business & Commerce Committee
February 20, 2007

Bill Peacock

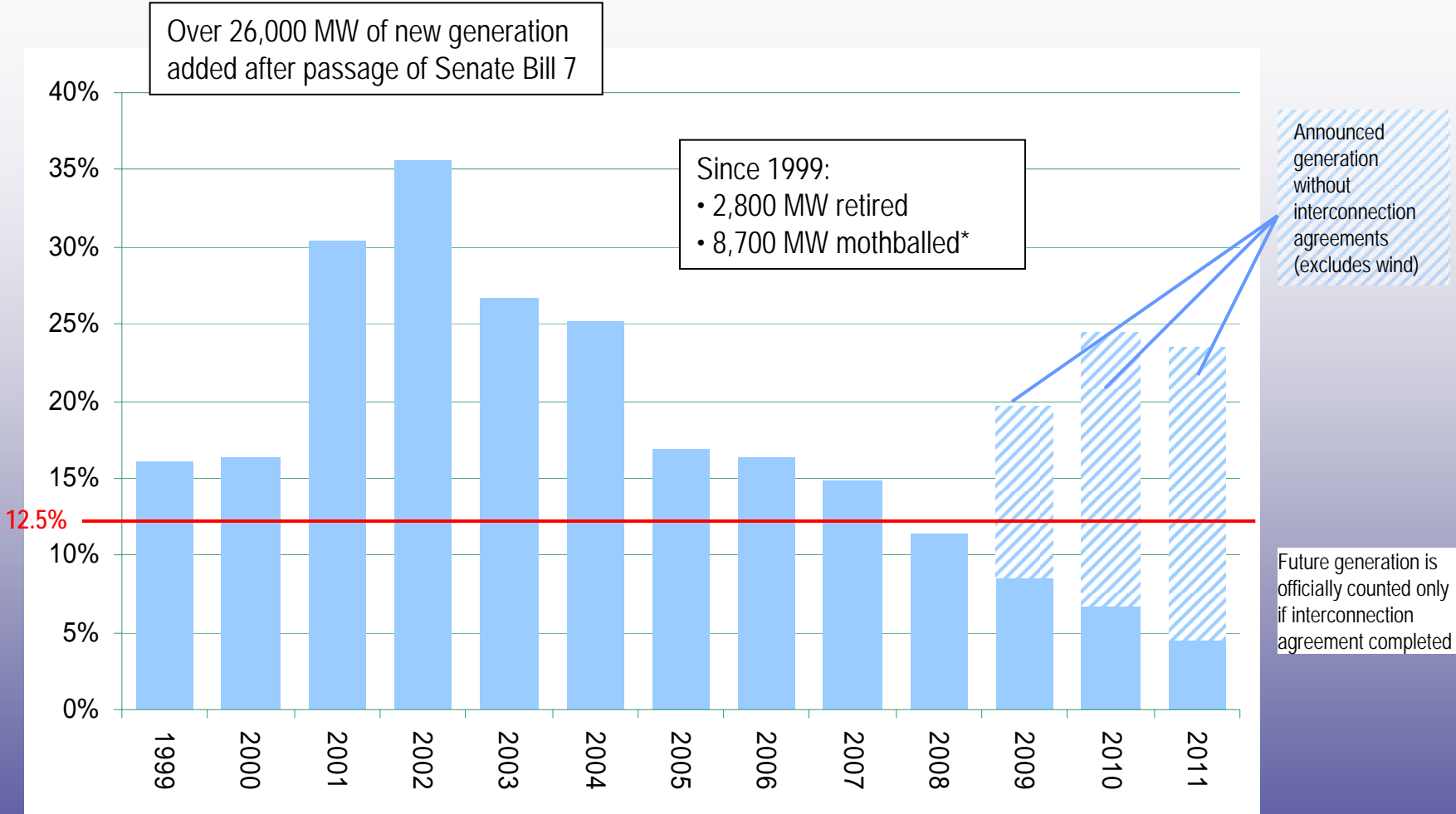
Center for Economic Freedom



Electric Energy Consumption in the ERCOT Region
1994-2005 (Actual)

Source: ERCOT

Reserve Margins 1999-2011



Percentage difference between projections for peak demand and available generation/resources

Source: ERCOT

How to Fill the Gap - Regulation or Competitive Markets?

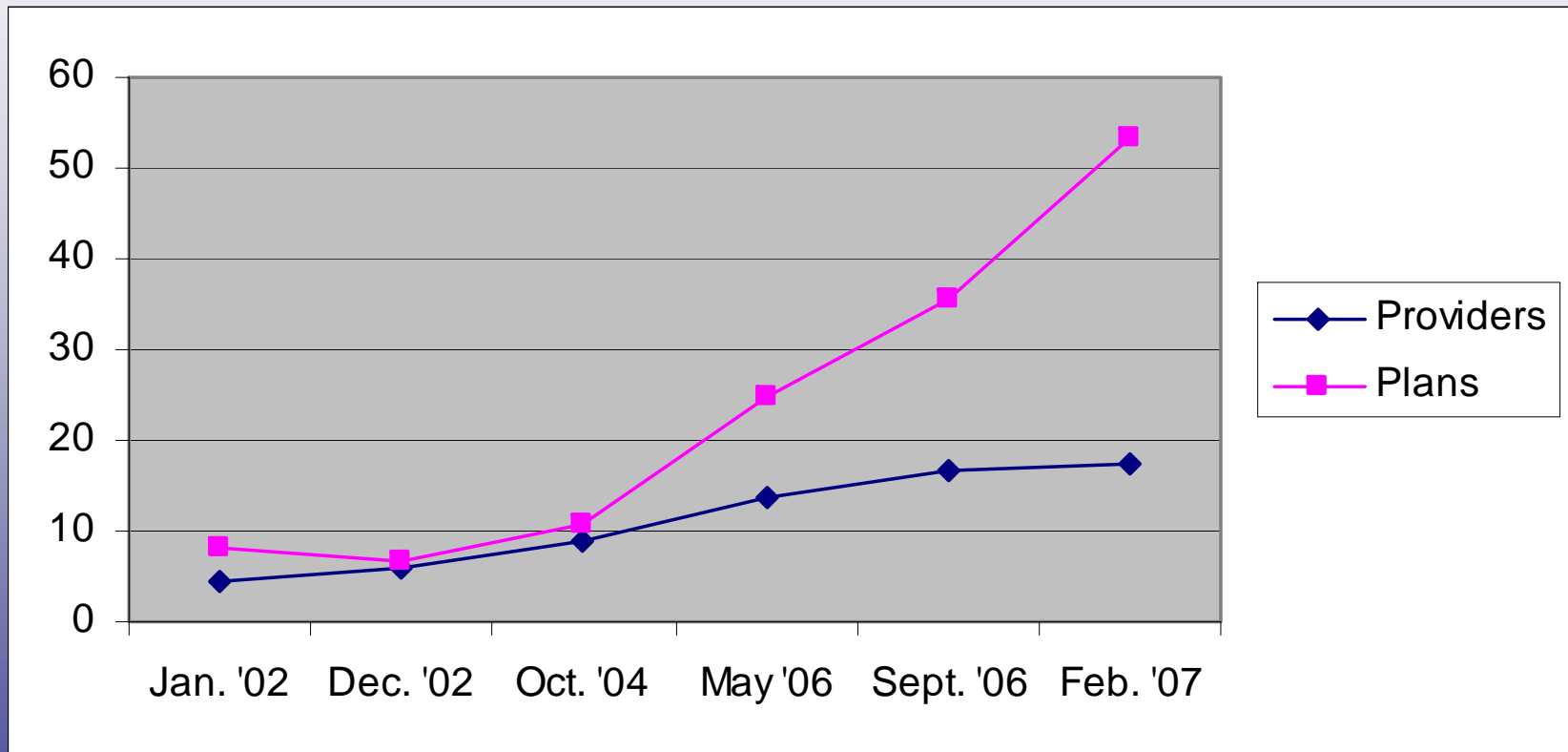
- Texas Has Chosen Competitive Markets
- How Are They Working?

2007 TPPF Electric Study*

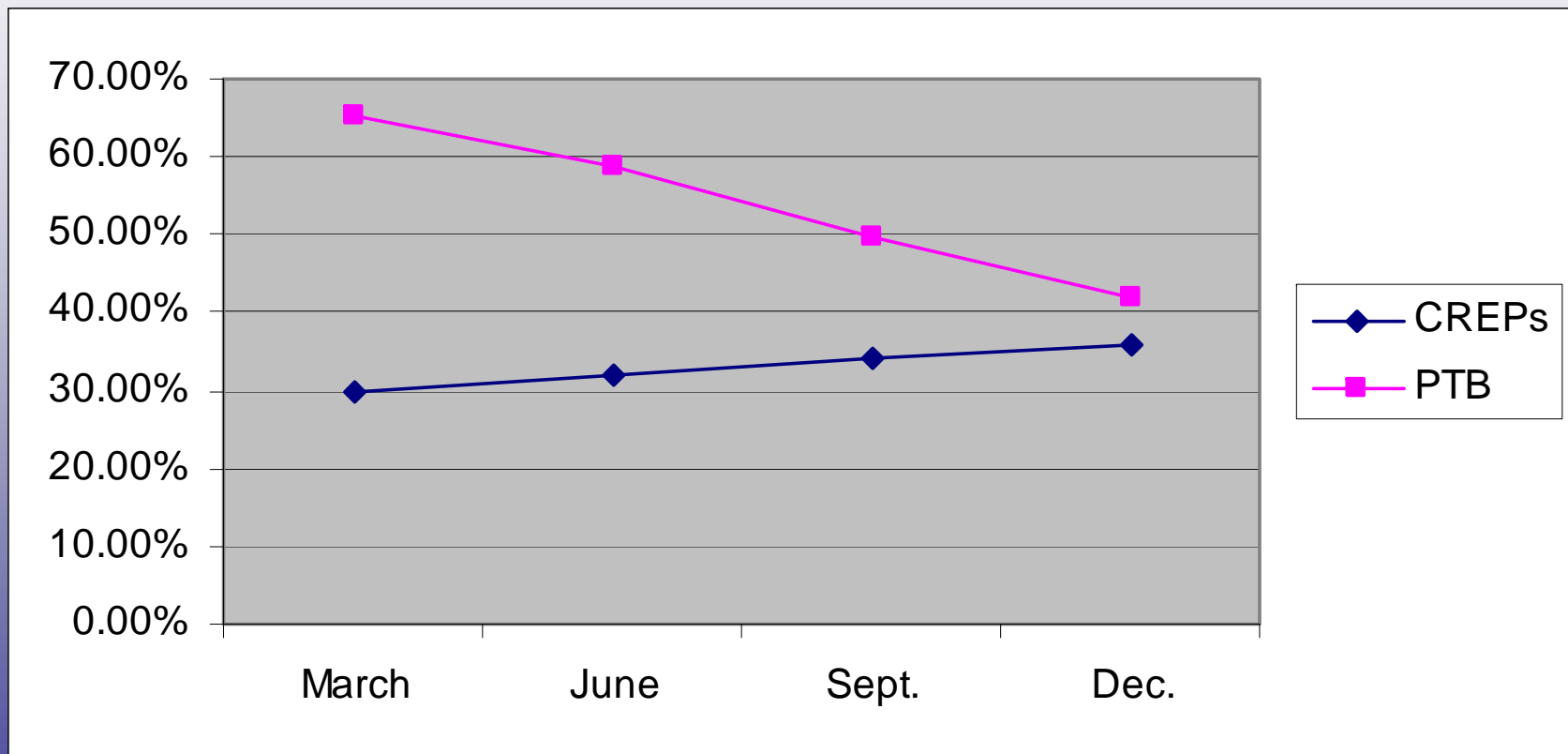
- Retail Markets – Prices, Service Plans, Switching Rates, Price to Beat
- Wholesale Markets – Prices, Market Design, Transmission Congestion
- Monitoring and Enforcement
- Investment and Resource Adequacy

*Robert Michaels, Ph.D, Professor of Economics, Cal-State Fullerton

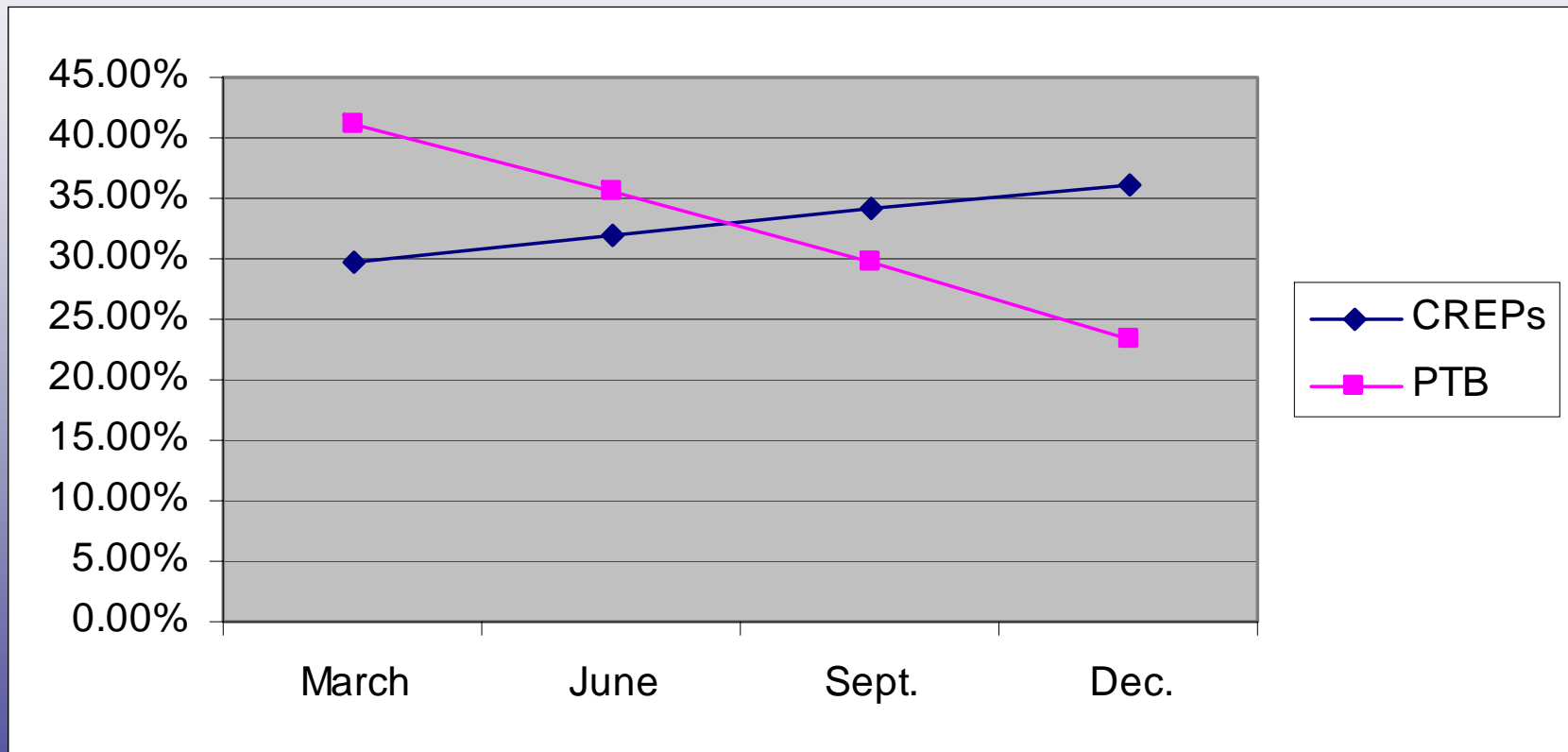
Retail Competition in Texas



CREPs & PTB 2006



CREPs & PTB 2006 (w/o observed choice)



Consumer Choice

- Many consumers value other factors over low prices:
 - Reliability
 - Service
 - Price stability
 - Familiarity
- They are often willing to pay more for them
- Suppliers offer products to meet consumer demand
- Prices & Plans reflect the collective choices of all market participants – producers and consumers

Retail Prices: Then & Now

- Average Regulated Price (Real Dollars) in Texas:
 - Feb. 2001: 9.39 c/kWh
 - June 2001: 11.27 c/kWh
- Latest Average Price – Oct. 2006
 - Texas: 12.89 c/kWh
 - New England: 16.08 c/kWh
 - Mid-Atlantic: 13.51 c/kWh
 - U.S.: 10.55 c/kWh
- Lowest Residential Electricity Offer – Feb. 2007:
 - Abilene: 9.3 c/kWh
 - Dallas: 10.3 c/kWh
 - Houston: 10.8 c/kWh
 - Corpus Christi: 10.3 c/kWh

The Electric Market: Prices

- Texas rates are in the middle of those 9 states with greater than 40% gas-fueled generation
- Despite our heavy reliance on natural gas, Texans can choose rates below the national average
- Despite an almost 200% increase in the price of natural gas, Texas customers can choose rates near or below the regulated rates of 2001

Criteria

- Efficient, competitive wholesale markets
- Benefits of retail markets available to all users
- Long term predictability of investment climate, freedom to contract

Findings

- Texas (ERCOT) is the greatest success story in the United States, if not the world, in the transition to competitive electric markets
- Texas stands out among the states for the competitive performance of both its retail and wholesale markets.
- With the end of the PTB, Texas has entered a new world of customer-centered competition
- Innovations planned for 2009 will further improve investment choices and power pricing
- Institutions put in place by the PUCT can sustain competitive markets into the future.

Findings

- Wholesale Market is Competitive: Tracked Resource Prices
- Wholesale Market Will be Improved by:
 - Market Monitor
 - 2009 Day-Ahead Markets
 - 2009 Nodal Pricing
 - \$Billions in New Transmission Investment

Findings

- Retail Market Highly Competitive
- Megawatts Served by REPs ranged from 50% to 70%
- Residential Customers Making Observable Choice is 76.7%
- Improved Wholesale Market Will Benefit Retail Market

What Texas Did Right

“The success was largely due to Texas’ willingness to let markets work and not manipulate prices or access policies. While the transformation of American electricity has been dominated by a largely political competition to "design" markets for it, Texas did not "design" a retail market in any meaningful sense -- it instead set general rules for REPs and AREPs and allowed them to compete as they wished within those rules. The details of what would be sold and how it would be priced were left to the ingenuity of buyers and sellers.” – Robert Michaels

2007 Legislation

- For the most part, the infrastructure is in place to move competition in the markets forward
- SB 484 & 485 are compatible with continued growth of the Texas markets
- There are provisions in SB 482 & SB 483 that would not be beneficial to the growth of competition

Price Caps – 39.2025

- Price caps always hinder competition
- Texas telecom market is an example
- Price Caps Create Uncertainty in Markets and Hinder Long-term Investment
- We do not support price caps in the Texas electric market

Education, Not Slamming

39.101

- 76.7% of customers have exhibited observable choice
- Provision should apply only to customers who have not exhibited observable choice
- Provision should allow only for education and voluntary choice, not transfer of customers by government

Retail Market Design

39.05, 39.101, 39.110, 39.902

- Cost benefits to market branding in specific geographic areas
- Markets will determine optimal blend
- Retail market power does not exist
- Challenge can be dealt with through consumer education

Wholesale Market Design

SB 483 - 39.152 ff

- Issues of Market Power are already being addressed:
 - Market Monitor
 - 2009 Day-Ahead Markets
 - 2009 Nodal Pricing
 - \$Billions in New Transmission Investment

Recommendations

- Maintain the current practice in Texas of providing a framework for competition without prescribing how market participants should compete with one another
- Continue support for scheduled improvements to the wholesale market, including:
 - Market Monitor
 - 2009 Day-Ahead Markets
 - 2009 Nodal Pricing
 - Investment in Transmission Capacity
- Avoid unpredictable major alterations of the existing market structure that will dash expectations of future stability and ruin the climate for investment
- Introduce competition into non-ERCOT markets
- Separate environmental and income concerns from questions of competition