Texas Public Policy Foundation

October 30, 2006

The Wall Street Journal
200 Liberty Street
New York, NY 10281

To the Editor:

Your Oct. 27 article, "In Texas Energy Deregulation, Top Company Is a Winner," portrayed deregulation of the electric market in Texas as a failure, citing higher prices and profits absent sufficient competition.

The most obvious reason for higher electric prices in Texas is that generation here is heavily dependent on expensive natural gas—72 percent of capacity (including oil) in Texas versus 45 percent in the rest of the country. Additionally, higher prices could reflect Texans' desire to invest in new plants that have lower emissions and provide reliable supplies—notice the lack here of major blackouts like those that have plagued New York and California.

Speaking of California, offering it as "Exhibit A" against deregulation is folly. California's markets were heavily regulated when they imploded several years ago.

Likewise, neither is the Texas market deregulated. Retail prices remain regulated until January, partial regulation of wholesale prices will continue, and transmission is completely regulated. Plus, environmental regulations are being used to increase the cost of new generation capacity. Regulation still has a significant impact on Texas prices.

Concern was also expressed about profits gained through manipulation and lack of competition. But remember, it is government regulations that are being "manipulated," which is anyway just an anticompetitive slur of profit seeking. And despite regulation, competition is robust in Texas: consumers can choose from up to 41 different plans offered by as many 18 retail electric providers, with over 60 percent of residential customers having exercised identifiable choice.

Prices and profits in any competitive market reflect the voluntary tradeoffs consumers make between costs, quality and convenience. Those who clamor for highly regulated markets do so simply because they are frustrated that the vast majority of consumers make choices with which they disagree. Consumers lose when they succeed.

Sincerely,

Bill Peacock
Director, Center for Economic Freedom
Texas Public Policy Foundation