

Texas Electric Meter

Measuring the Effects of Electricity Deregulation

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Texas Public Policy Foundation

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Center for Economic Freedom

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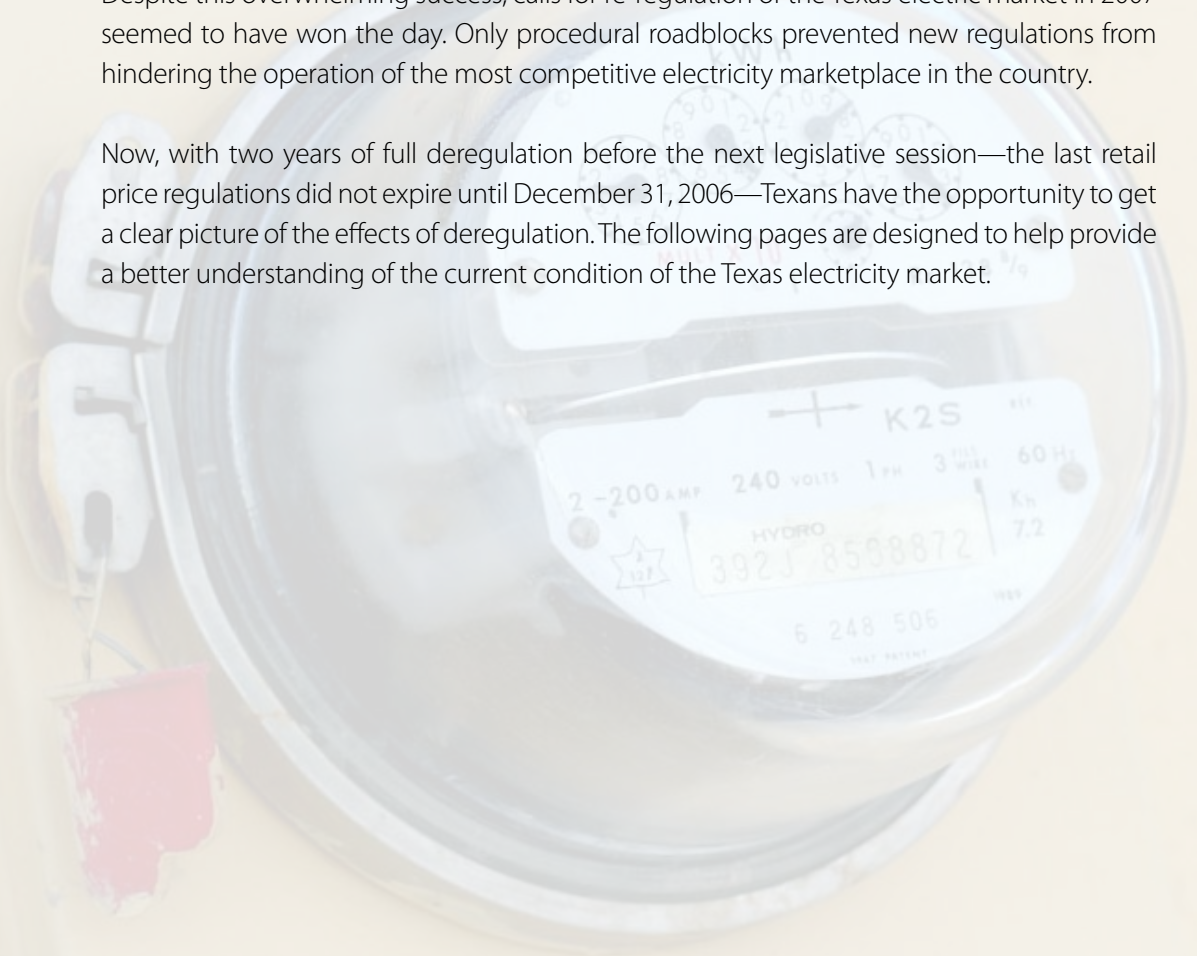
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The Texas Electricity Market

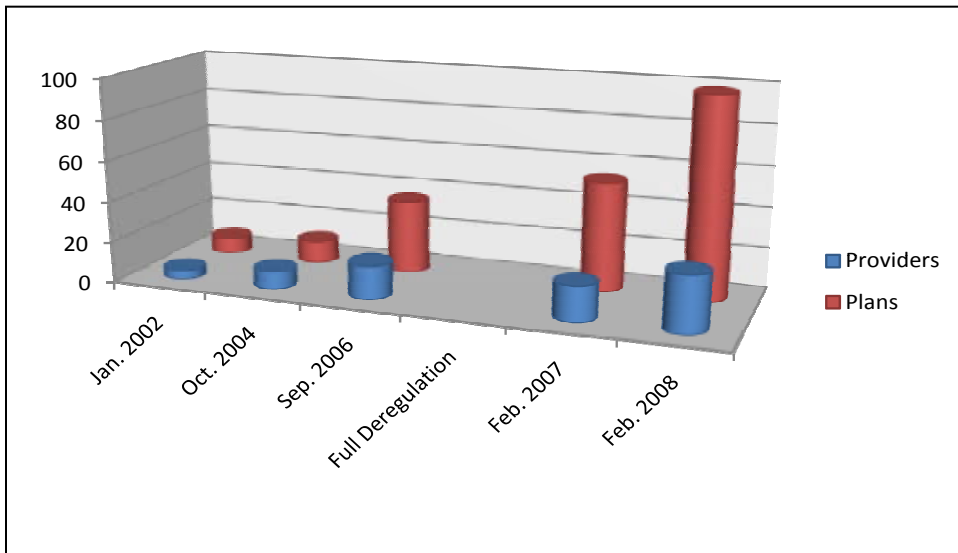
Economic analysis and historical experience show that free markets serve consumers and the economy better than regulated markets. This holds true for the Texas electricity market. Research in early 2007 consistently showed that the Texas electric market was the most successful example of deregulation of an electric market in the United States, if not the world. Despite this overwhelming success, calls for re-regulation of the Texas electric market in 2007 seemed to have won the day. Only procedural roadblocks prevented new regulations from hindering the operation of the most competitive electricity marketplace in the country.

Now, with two years of full deregulation before the next legislative session—the last retail price regulations did not expire until December 31, 2006—Texans have the opportunity to get a clear picture of the effects of deregulation. The following pages are designed to help provide a better understanding of the current condition of the Texas electricity market.



Deregulation & Consumer Choice

Average Number of Texas Retail Electric Providers and Plans

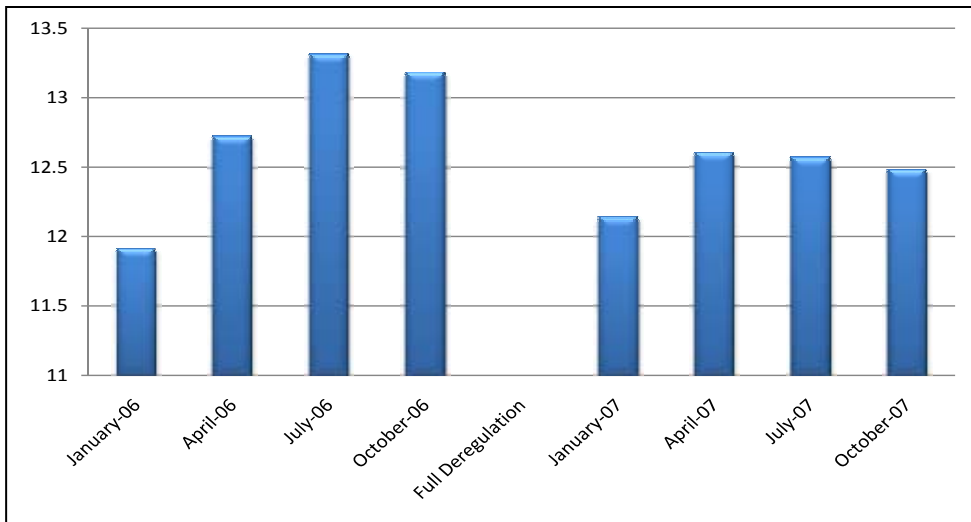


Sources: Texas Public Utility Commission, "Power to Choose," <http://www.powertochoose.org> (February 2008) and Robert Michaels, "Competition in Texas Electric Markets: What Texas Did Right & What's Left to Do," Texas Public Policy Foundation (March 2007).

When the transition to deregulation began in January 2002, the typical Texas consumer could choose from about 17 rate plans offered by four retail electric providers. Consumer choice increased during the transition to deregulation, but exploded since full deregulation took effect on January 1, 2007. There are now 28 providers on average in each region of the state offering nearly 100 different rate plans. Of course, providers and plans may consolidate over time, but it is clear that deregulation has had a beneficial effect on consumer choice and brought about a highly competitive residential retail environment.

Deregulation & Electricity Rates in Texas

Pre- and Post-Full Deregulation Average Residential Prices (¢ per kWh) in Texas

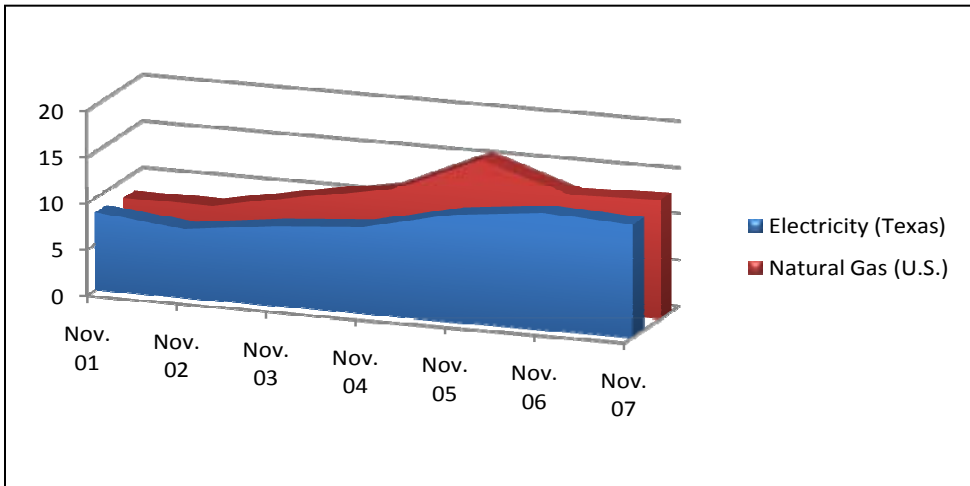


Source: Energy Information Administration, <http://www.eia.doe.gov/fuelectric.html> (February 2008).

With the Price-to-Beat finally out of the way and deregulation fully in place, competition and stable energy prices have helped lower residential rates in Texas.

Electricity Prices vs. Natural Gas Prices

Average Residential Prices for Electricity (¢ per kWh) and Natural Gas (\$ per 1,000 CF) Since 2001



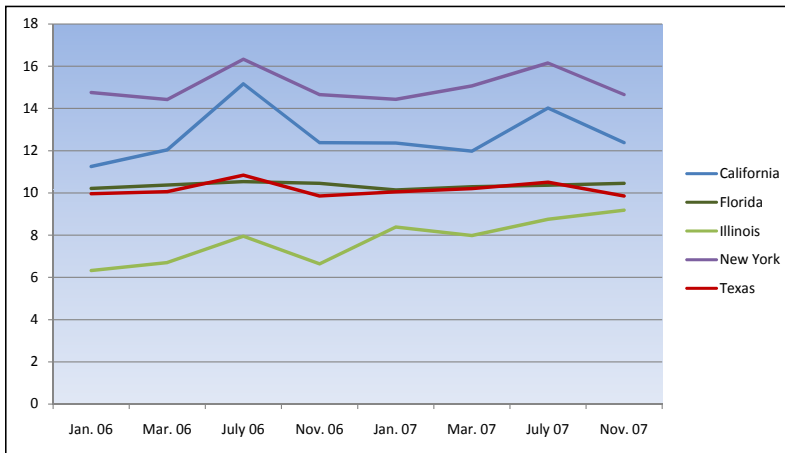
Source: Energy Information Administration, <http://www.eia.doe.gov/fuelectric.html> & http://www.eia.doe.gov/oil_gas/natural_gas/info_glance/natural_gas.html (February 2008).

This graph dispels the myth that electricity prices went up with natural gas prices, but didn't come down.

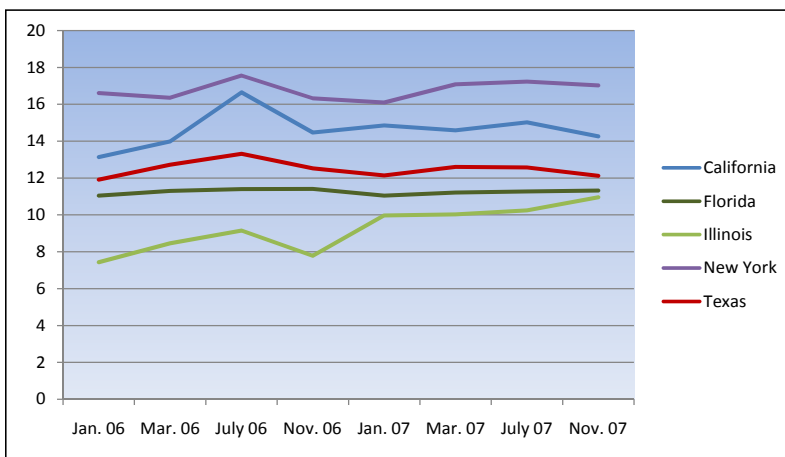
Electricity Prices in the Five Largest States

Electricity prices in Texas compare favorably with America's other large states.

Average Retail Price All Sectors (¢ per kWh) of the Five Largest States



Average Residential Retail Price (¢ per kWh) of the Five Largest States

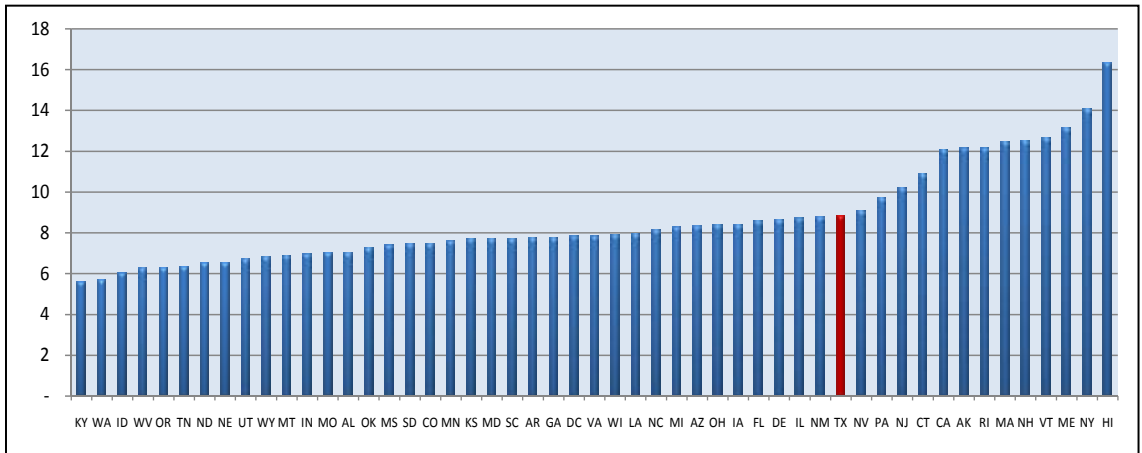


Source: Energy Information Administration, <http://www.eia.doe.gov/fuelectric.html> (February 2008).

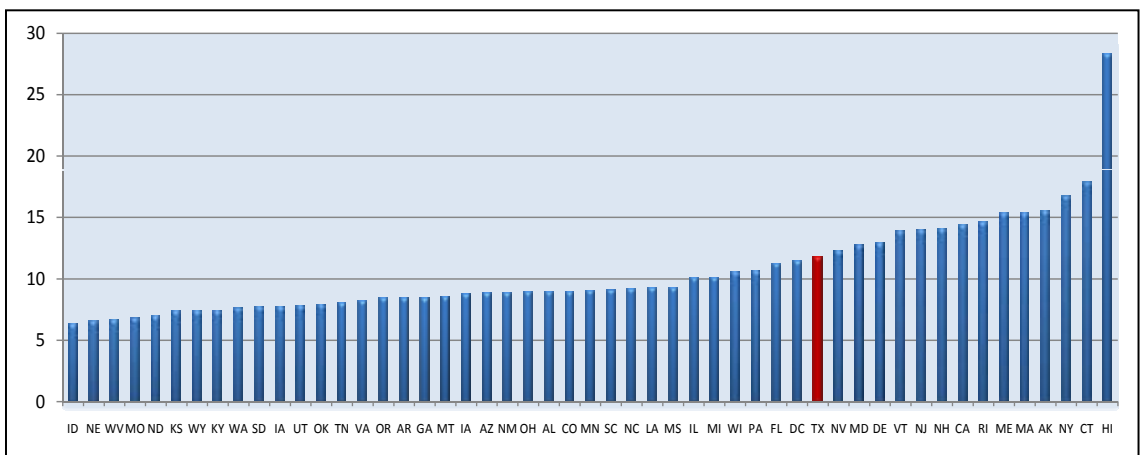
Comparison of Average Retail Price of Electricity for Residential Customers by State

Texas electricity prices relative to other states are slightly better today than they were before deregulation began.

Average Residential Price (¢ per kWh) of Electricity by State, 2001



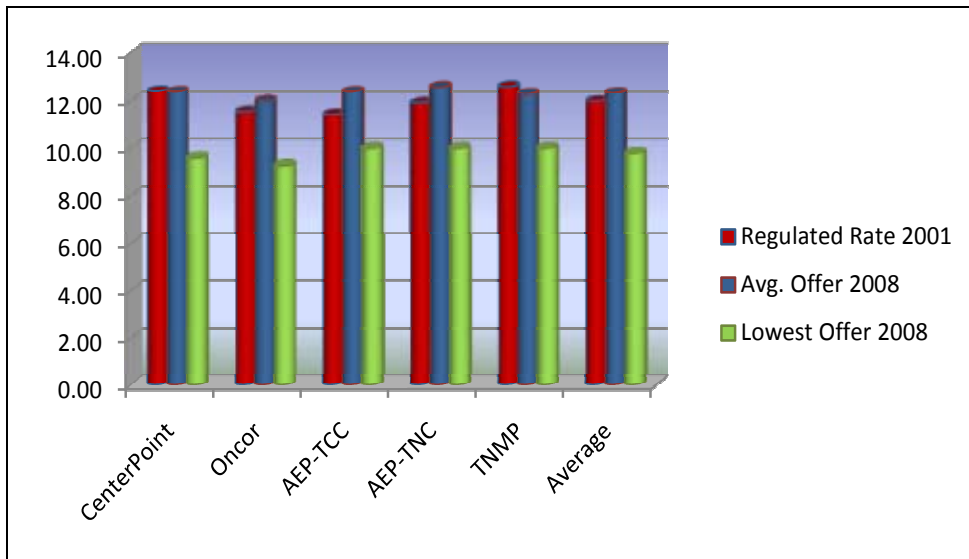
Average Residential Price (¢ per kWh) of Electricity by State, December 2007



Sources: Julie Caruthers Parsley, Commissioner, "What Have You Done for Me Lately? A Look at the Competitive Electricity Market," Public Utility Commission of Texas (November 29, 2007); and Energy Information Administration, <http://www.eia.doe.gov/fuelelectric.html> (February 2008).

Regulated Rates vs. Competitive Rates (Residential)

2001 Regulated Rates vs. January 2008 Competitive Rates (¢ per kWh)

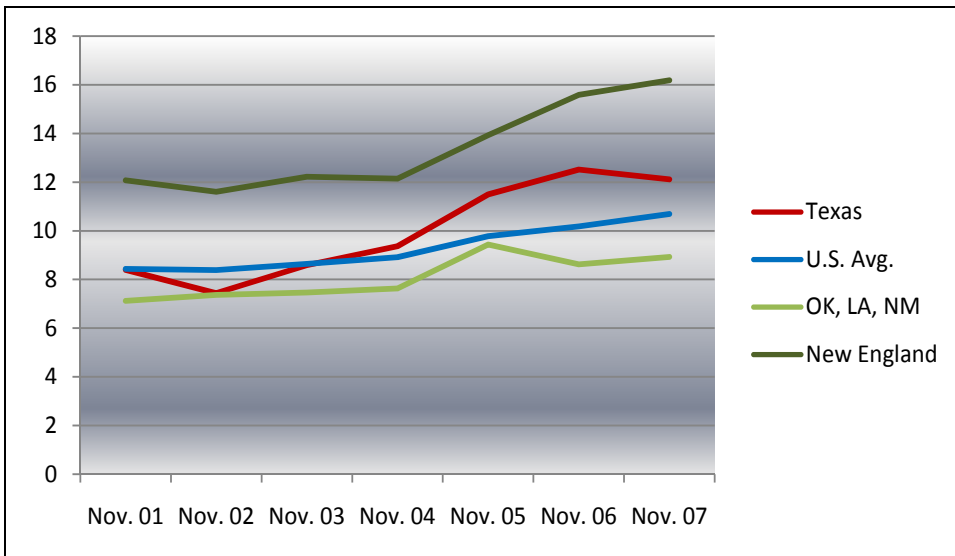


Sources: Texas Public Utility Commission, "Power to Choose," <http://www.powertochoose.org> (January 2008); <http://puc.state.tx.us/nrelease/2001/120701.cfm>; and Inflationdata.com, http://inflationdata.com/Inflation/Inflation_Calculators/Inflation_Rate_Calculator.asp#results.

The average competitive offer in Texas in January was only 2.9 percent higher than the inflation-adjusted regulated rate in 2001. And the average lowest offer is 17.9 percent *below* the former regulated rate. Despite the significant increases in natural gas, oil, and gasoline prices since 2001, most Texas consumers can buy electricity today for less than they could seven years ago.

Price Efficiency of Texas' Deregulated Market

Average Residential Electricity Price (¢ per kWh) Since 2001

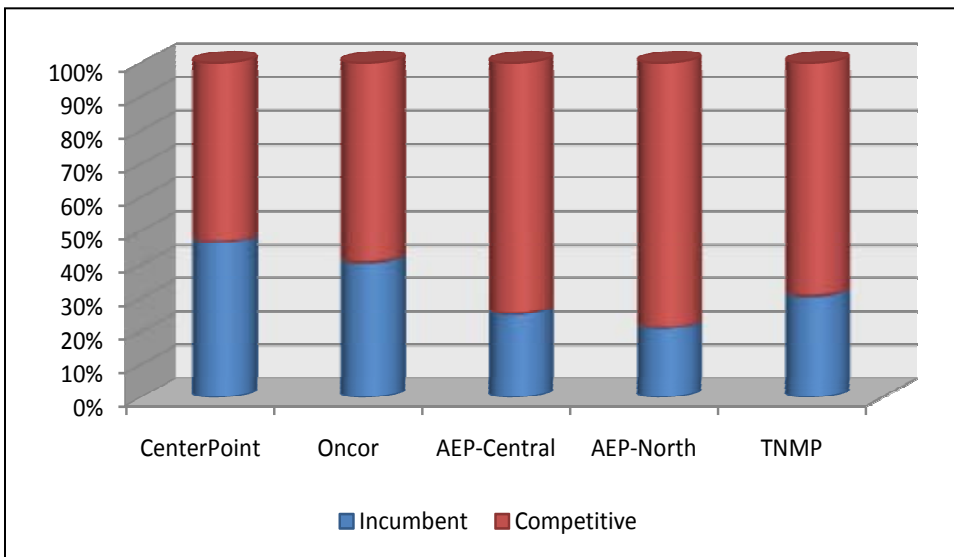


Source: Energy Information Administration, <http://www.eia.doe.gov/fuelelectric.html> (February 2008).

The United States as a whole experienced significant electricity price increases as natural gas prices spiked in 2005 and 2006. The impact was particularly strong in states and regions—like Texas and New England—that rely heavily on natural gas. However, deregulation allowed Texas to more efficiently factor natural gas prices (increases and decreases) into electricity prices. Market forces in Texas already have electricity prices headed down, while they continue to rise in states and regions where government regulators are playing catch-up.

The State of Competition—Market Share

Percent of Megawatt Hours Sold by Status of Retail Electric Providers, September 2007

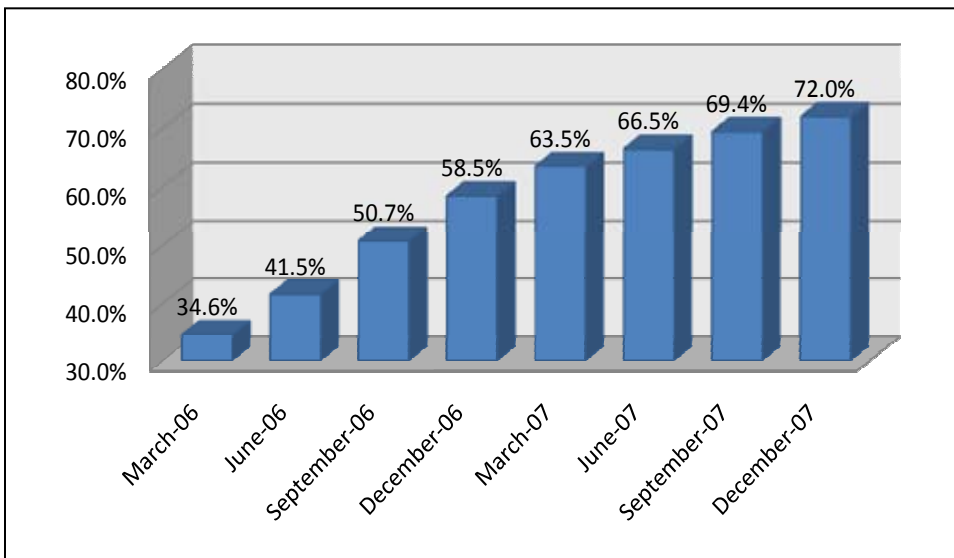


Source: Texas Public Utility Commission, Market Share Data, http://www.puc.state.tx.us/electric/reports/rptcard/market_share_data.xls.

Competition has lowered the market share of the five affiliate (or incumbent) retail electric providers by between 53 percent and 78 percent in their home territories.

The State of Competition—Residential Consumers

Percent of Residential Electricity Customers Choosing a Competitive Rate Plan

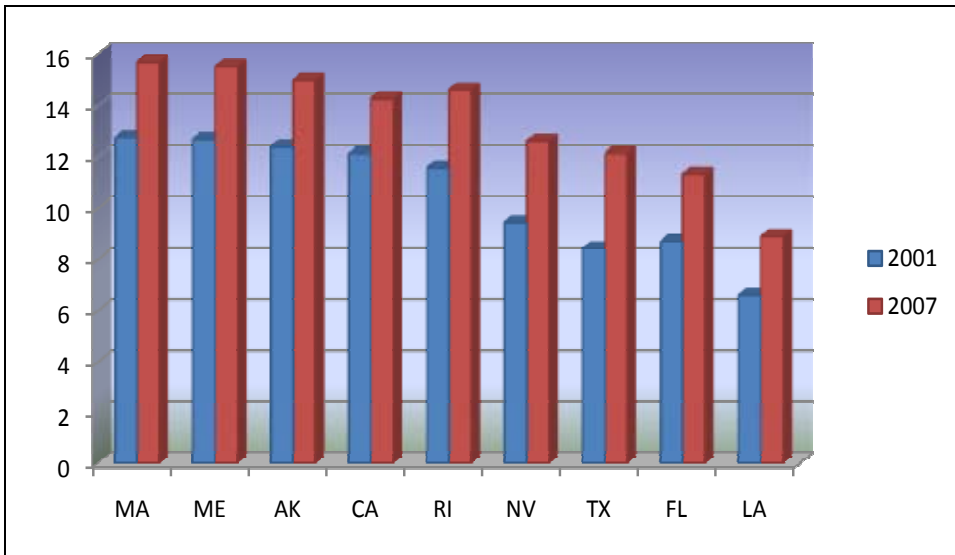


Source: Bret J. Slocum, "Fourth Quarter Data Concerning Customers Exercising Choice," letter to the Public Utility Commission of Texas (January 16, 2008).

Another myth regarding deregulation is that it has only helped commercial and industrial customers, that residential customers have been left out in the cold. However, almost three-quarters of residential consumers have actively chosen a new, competitive rate plan since the transition to deregulation began. Add in those who have chosen a new price-to-beat rate plan, and 80 percent of Texas residential consumers have made an observable choice. Texas residential consumers are full participants in—and beneficiaries of—the competitive electricity market.

Residential Electricity Rates in States that Rely Heavily on Natural Gas

Average November Residential Rates (¢ per kWh)

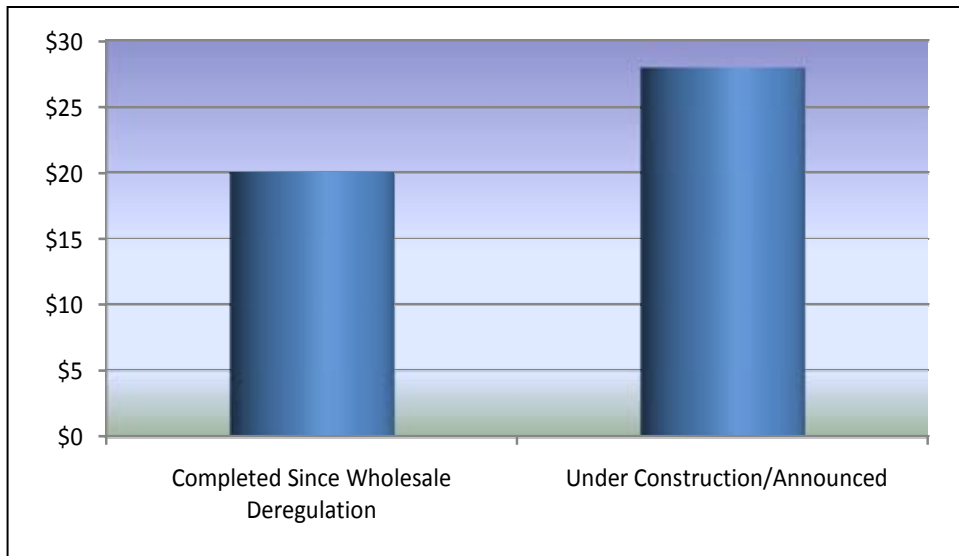


Source: Energy Information Administration, <http://www.eia.doe.gov/fuelelectric.html> (February 2008).

Texas rates remain in the low end of the range of states that rely heavily on natural gas for electricity generation.

Investment in the Future

Billions of Dollars Invested in New Electricity Generation Capacity in Texas



Source: Julie Caruthers Parsley, Commissioner, "What Have You Done for Me Lately? A Look at the Competitive Electricity Market," Public Utility Commission of Texas (November 29, 2007).

Unlike Californians and New Yorkers, Texans have experienced reliable energy supplies since deregulation began in the 1990s. That is because Texas did it right, and consequently attracted more than \$20 billion of investment in new generation—with at least another \$25 billion on its way. All with no guarantee by consumers—they pay for it only if they use it.

About the Author

Bill Peacock is the vice president of administration and director of the Texas Public Policy Foundation's Center for Economic Freedom. He has been with the Foundation since February 2005.

Bill has extensive experience in Texas government and policy on a variety of issues, including economic and regulatory policy, natural resources, public finance and public education. His work has focused on identifying and reducing the harmful effects of regulations on the economy, businesses, and consumers.

About the Texas Public Policy Foundation

The Texas Public Policy Foundation is a 501(c)3 non-profit, non-partisan research institute guided by the core principles of individual liberty, personal responsibility, private property rights, free markets, and limited government. The Foundation's mission is to lead the nation in public policy issues by using Texas as a model for reform. We seek to improve Texas by generating academically sound research and data on state issues, and recommending the findings to policymakers, opinion leaders, the media, and general public.

The work of the Foundation is primarily conducted by staff analysts under the auspices of issue-based policy centers. Their work is supplemented by academics from across Texas and the nation. Funded by hundreds of individuals, foundations, and corporations, the Foundation does not accept government funds or contributions to influence the outcomes of its research.

The public is demanding a different direction for their government, and the Texas Public Policy Foundation is providing the ideas that enable policymakers to chart that new course.

