



Competition is (Still) Working in the Texas Electricity Market

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Key Points

- Texas' energy-only electricity market is the most competitive in the U.S.
- Electricity prices in ERCOT are lower after deregulation.
- Texans have a much greater variety of choice in both electricity providers and plans.
- The PUC should not intervene in the market to raise prices.

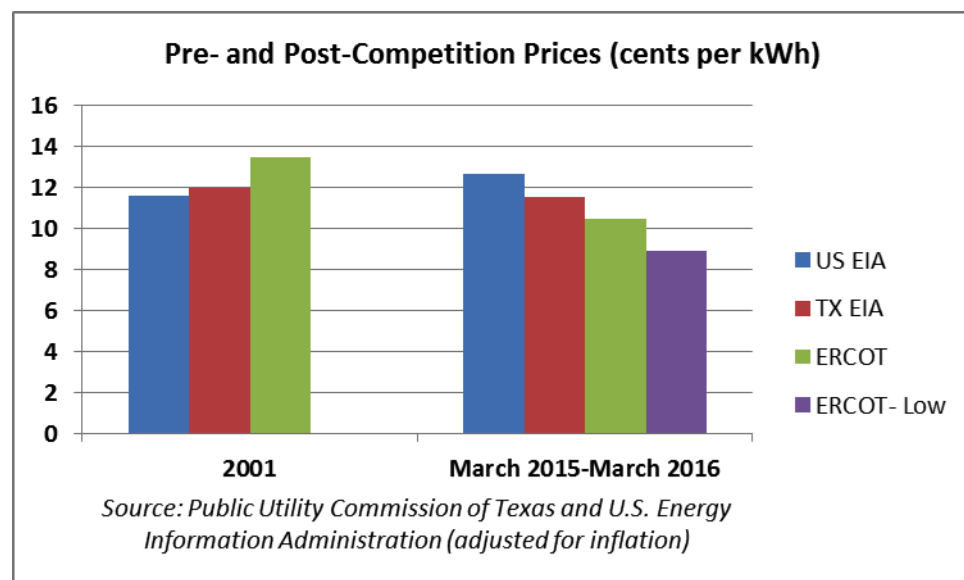
Overview

In 1999, the Texas Legislature elected to radically change the way the state's electricity market operated. Previously, Texans received their electricity from regulated monopolies. Under the new legislation, however, Texas opened its market up to competition, joining a host of other states participating in electricity deregulation. Texas' approach was nevertheless unique. Instead of instituting a capacity market structure—which imposes additional regulation and tax expense to subsidize the construction of new generation capacity—Texas opted for an energy-only marketplace. So named because generators receive payment only for the electricity they provide, the energy-only model offered Texas the opportunity to further reduce the government's presence in the market for electricity. As a result, the Texas electricity market under ERCOT is the most free market in the nation—and one of the most free markets in the world.

Prices, Providers, and Plans

Since the first stages of deregulation were implemented in 2002, Texas' electricity market has consistently provided electricity for its millions of customers at affordable prices. Texans now have the ability to shop around for the plan that best suits both their pocketbooks and their tastes. The effects of this change have been nothing short of stunning.

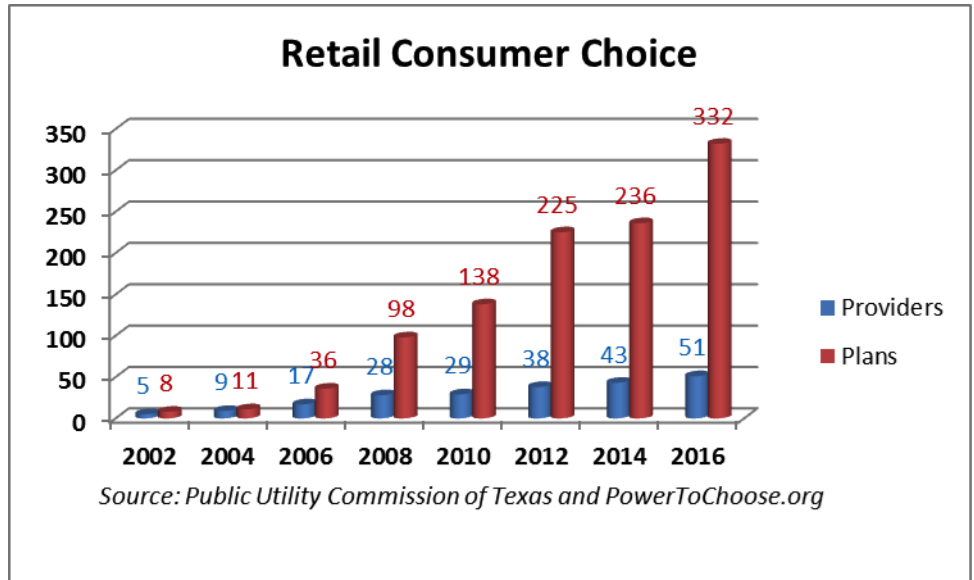
For one, electricity prices have declined from prederegulation rates, most dramatically in the deregulated ERCOT region. In real dollars, ERCOT's average price per kilowatt-hour has fallen from 13.48 cents to 10.44 cents, while Texas' overall average price has decreased 0.44 cents from the 2001 price. This drop contrasts with the increase in electricity prices that the overall United States has seen since 2001. In fact, Texas currently boasts a lower average price than the nation as a whole, a reversal of the situation prior to competition.



Examining Texas' prices more closely reveals that many Texans pay even less for their electricity than the state's already laudable average. The 15 lowest offers in ERCOT average out to 8.87 cents, indicating that for at least some segments of the Texas population, the deregulated market is delivering dramatically superior results.

All of this success owes itself to the competitive nature of Texas' marketplace for electricity. In the years following deregulation's start, the number of both providers and plans has exploded. Before, average Texans could choose neither their plan nor their provider; now, an average citizen is faced with over 300 plans from 51 providers.

The competition between these many companies and their even more numerous offerings has forced them to whittle down prices in order to appeal to consumers. Providers have also taken into account their customers' tastes, including environmentally friendly options among their plans in acknowledgement of "green" trends. Consequently, Texans now possess a much wider variety of options at much lower prices when purchasing their electricity.



Conclusion

Texas' decision to move from a regulated electricity marketplace to the most free market model in the United States has reaped great rewards for Texans. Residents of our state now enjoy reduced prices and a greater number of plans than they did prior to the 1999 reform, all as a result of the competition that deregulation introduced into the marketplace. The phenomenal success of our deregulated market for electricity offers further proof that the Texas Model of free markets and limited government can provide better lives for all Texans. ★

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