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By Mitchell Schnurman

More proof that electric competition is working

A month ago, Pennsylvania regulators held a hearing on the state's competitive electric market, because so few residents are switching providers. For advice, they turned to Texas, inviting a top regulator along with some industry executives.

Barry Smitherman, chairman of the Texas Public Utility Commission, gave the opening address. Jim Burke, CEO of TXU Energy, was also on a panel.

"Texas is widely viewed as the most successful state in transitioning to a competitive model," said Ritchie Hudson, Pennsylvania chairman of the Retail Energy Supply Association.

These days, Texas doesn't need much outside confirmation that its experiment in deregulation is working. If your electric bill is like mine, there hasn't been any sticker shock yet, despite an early heat wave.

That's what happens when you can buy electricity on the cheap. On the state's Power to Choose website Monday, 70 offers were available for North Texas at less than 9 cents per kilowatt-hour, and half of them locked in the low rate for a year.

In most of Pennsylvania, rates are 12 to 13 cents per kwh, Hudson said. The statewide average in Texas through March, according to the Energy Information Administration, was 11.1 cents.

Active shoppers in the state's competitive regions can easily pay 25 percent less than the average, and the actual savings are even greater. In Smitherman's presentation in Pennsylvania, he showed a chart comparing today's electric rates with those in 2001, before residential rates were deregulated.

Adjusting the '01 price for inflation, today's rate is 31 percent lower in North Texas, he reported.

One more metric: Since December 2001, rates in the regulated sector -- municipal utilities, cooperatives and investor-owned

utilities -- often climbed by double-digit percentages. But prices offered by competitive retailers dropped by 26 to 43 percent.

Much of the credit goes to low natural gas prices. They drive rate trends in Texas, but are not as influential in Pennsylvania. The surge in shale gas production, led by the drilling boom in the Barnett Shale, has kept supplies high and prices low.

Experts talk about a decoupling of the prices for natural gas and oil. For decades, they moved in relative tandem, but oil has been surging twice as fast since prices began to recover after their collapse in the latter months of 2008. Much of the difference is attributed to the huge supplies of natural gas that can be extracted with new technology.

Still, the state's success also depends on competition among retailers and generators, and the design of the state's deregulation scheme. That's spurred more wind generation, making Texas easily the largest producer of wind power in the country and fifth-largest in the world.

The state also limits payments to generators for electricity they provide, not the capacity they have.

That keeps prices lower for consumers, although some worry that it will limit investments in new generation. Pennsylvania rewards generators for capacity, too, and Hudson says that's another reason that rates remain higher there.

To gauge the competitiveness of a market, analysts often focus on the number of customers that switch providers. In North Texas, about half the residential base has left TXU Energy, the affiliate of the incumbent monopoly, and statewide, the total switch from the previous incumbent is about 56 percent.

In Pennsylvania, over roughly the same period, 19 percent of residents have switched, and in some areas, it's less than 5 percent, Hudson said.

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Many Texas customers shop aggressively and stay with their provider because they get good terms. TXU estimates that 87 percent of residents in North Texas have changed either their provider or their electricity plan, and that's a better gauge of competition in practice.

As for choice, local residents had 285 offers for electricity at the end of 2010, up from 18 offers at the end of 2005.

Texas' electric market gets attention because of its low rates, retail competition and the growth in wind power. But the buildup in electric generation is among the most impressive outcomes.

Since 1999, hundreds of power plants have been built in the deregulated electric market, adding 45,000 megawatts of generation to the grid controlled by the Electric Reliability Council of Texas. Peak demand in ERCOT, set last August, was 65,776 megawatts.

Consider that investors, not ratepayers, paid for that new generation, representing more than half of today's total capacity. And since then, residential rates have declined, often sharply.

In sum, Texas gets much more for much less. Is there any better measure of a vibrant market?