

Electricity Policy Primer: The Challenges of Deregulation

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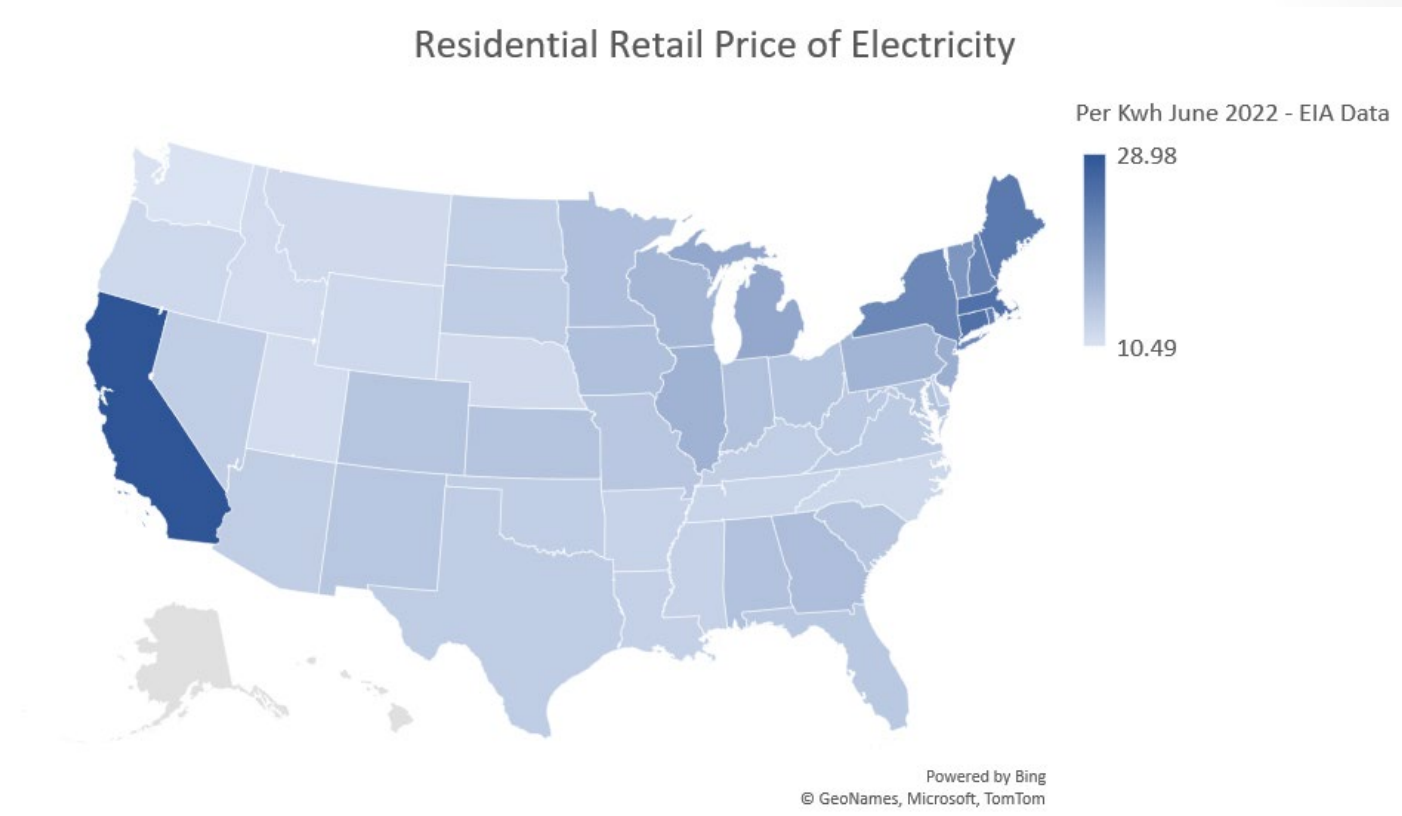
Deregulated States Have the Highest Cost Electricity

Top 10 Highest Electricity Cost States

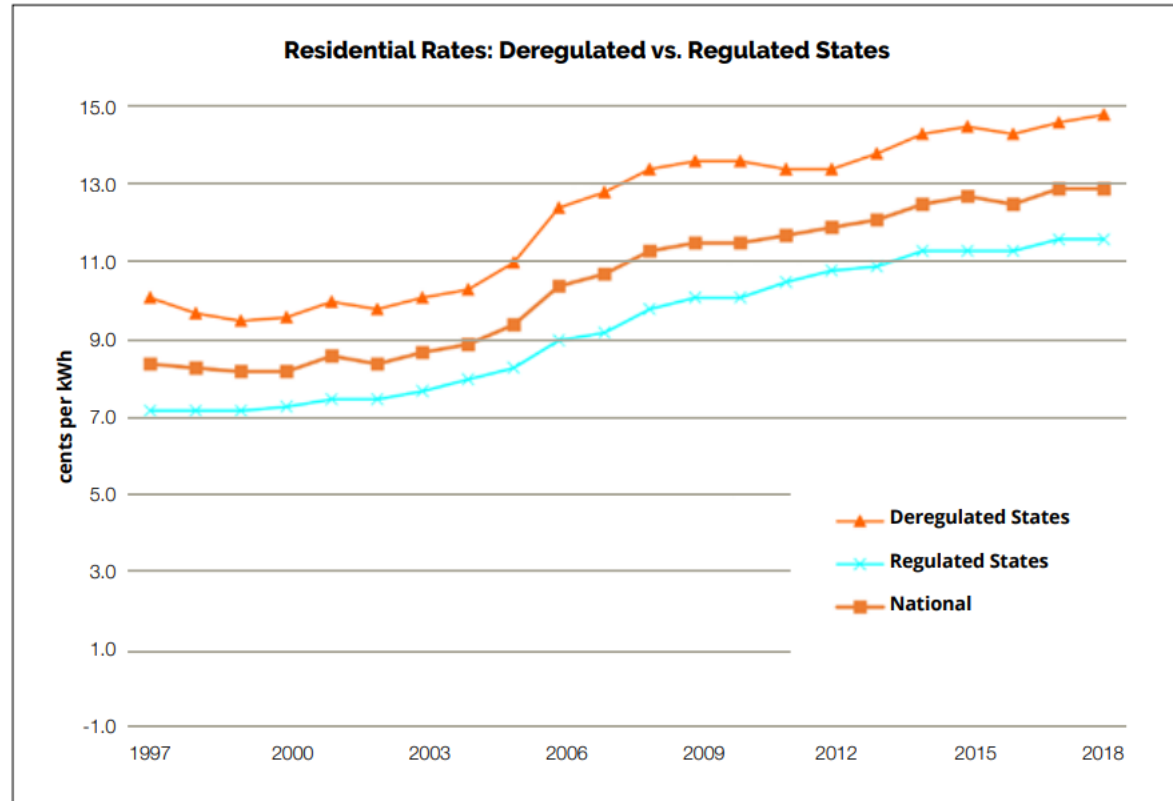
1. California	28.98 cents
2. Connecticut	25.43 cents
3. Massachusetts	25.20 cents
4. Maine	24.22 cents
5. Rhode Island	23.63 cents
6. New Hampshire	22.72 cents
7. New York	22.38 cents
8. Vermont*	20.47 cents
9. Michigan	18.11 cents
10. New Jersey	17.27 cents

45. Wyoming 11.75 cents

*VT is the only state in the top 10 with full traditional utility regulation



Deregulated States Have Consistently Highest Costs



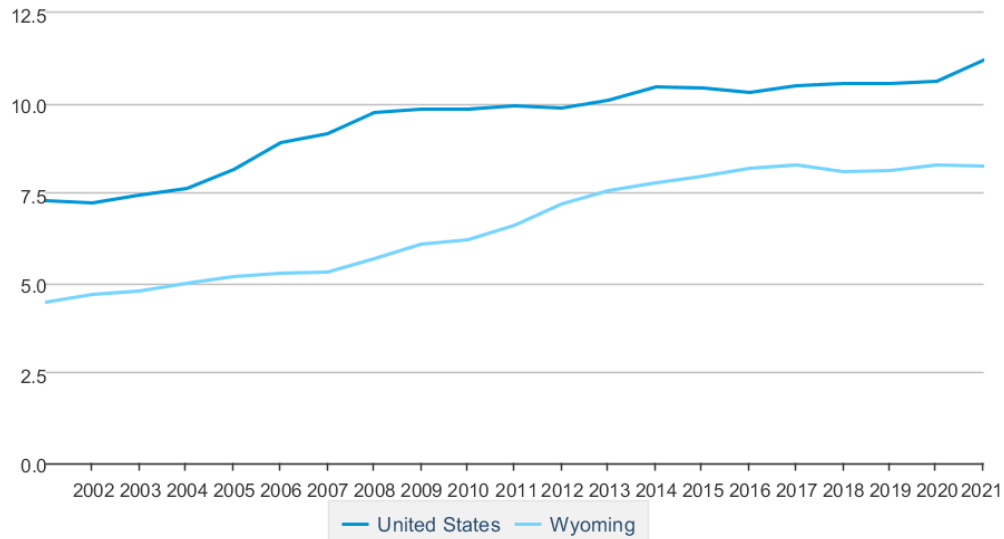
Source:

https://www.publicpower.org/system/files/documents/2019%20%282018%20data%29%20Retail%20Electric%20Rates_final.pdf

Wyoming vs. National Average Electricity Prices

Average retail price of electricity, all sectors, annual

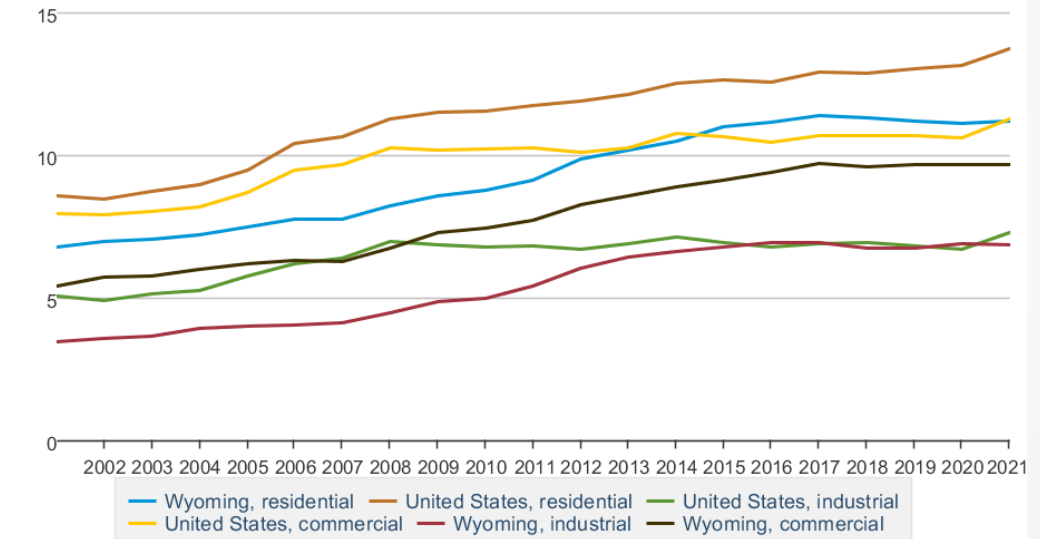
cents per kilowatthour



Data source: U.S. Energy Information Administration

Average retail price of electricity, annual

cents per kilowatthour



Data source: U.S. Energy Information Administration

Initial Takeaways

- After 25 years of practice, if deregulation were driving large cost savings for consumers, these persistent disparities between high and low-cost states would not exist.
- Even within regions with similar characteristics (like New England), the highest cost states are the deregulated ones, as compared to fully regulated states.
- Deregulation proposals in Wyoming make little sense. The state has among the lowest electricity rates in the nation today. Rates have limited opportunity to go down, but significant opportunity to go up, if deregulated.
- Recent academic studies back-up these conclusions. For example, an April 2022 working paper from MIT indicated consumers have not benefitted from deregulation, and in fact, *“our findings show that deregulation does not necessarily lead to lower prices to consumers,”* and... *“electric deregulation in the U.S. has resulted in increased prices from market power, and that this effect has dominated cost efficiencies”* Citation: <https://ceepr.mit.edu/deregulation-market-power-and-prices-evidence-from-the-electricity-sector/>

Case Study: California



- California's regulatory structure is unique.
- Utilities generally do not own their own generation.
- The state has authorized a limited form of retail access called Community Choice Aggregation (CCA), in which certain geographic areas (cities, counties) can directly contract for energy supply.
- CCAs act as energy buyers, primarily securing zero-fuel cost renewables, which cannot ensure resource adequacy 24/7.
- Over 1/3 of California's load is now served by this form of direct retail access.
- This has led to a lack of investment in on-demand power generation – leaving the state dependent on imports which aren't always available.
- This has been a contributor to California's ongoing reliability problems.

Case Study: Texas



- Texas is the most fully deregulated state in the country.
- In Texas, there is no backstop for reliability. High prices are supposed to attract new generation investment, while customers can choose their own energy supplier.
- Deregulated portions of Texas still have rates consistently above regulated portions of Texas.
- Texas now finds itself at significant risk of blackouts during portions of the year – especially when high demand coincides with uncooperative weather. While subsidized renewables are growing significantly in Texas, on-demand generation lacks investment.
- Since last winter Texas has netted few new on-demand generation resources, while adding 12 GW of new capacity – mostly wind/solar.

Texas Continued

- Texas electricity rates are now growing faster than the national average, and with a deregulated market and high natural gas prices, the trend will likely continue.

Electricity prices rising faster in D-FW than in U.S.

Consumer price index for electricity in Dallas-Fort Worth and the U.S. city average, not seasonally adjusted:



① U.S. city: 257.6

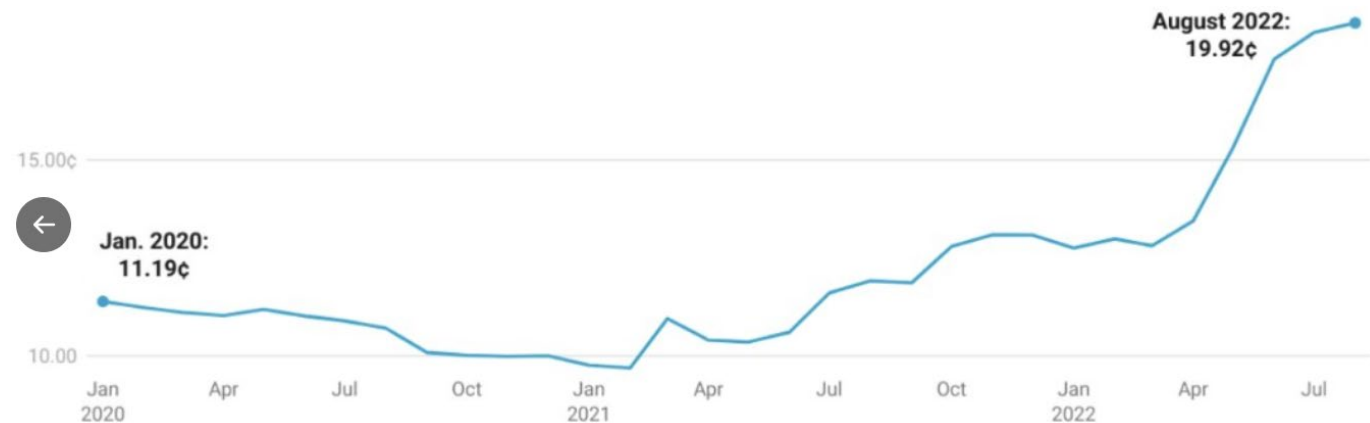
② D-FW June: 271.4

NOTE: Index of 100 was set in 1982-84.

Chart: Mitchell Schnurman/DMN • Source: [U.S. Bureau of Labor Statistics](#) • [Get the data](#) • Created with [Datawrapper](#)

Prices keep rising in Texas' deregulated power market

Average rate of residential electric plans offered on Texas' Power to Choose website, in cents per kilowatt hour:



NOTE: Rates based on customers using 1,000 kWh per month.

Chart: Mitchell Schnurman/DMN • Source: [Powertochoose.org](#) data provided by Association of Electric Companies of Texas • [Get the data](#) • Created with [Datawrapper](#)

Case Study: Montana

MONTANA



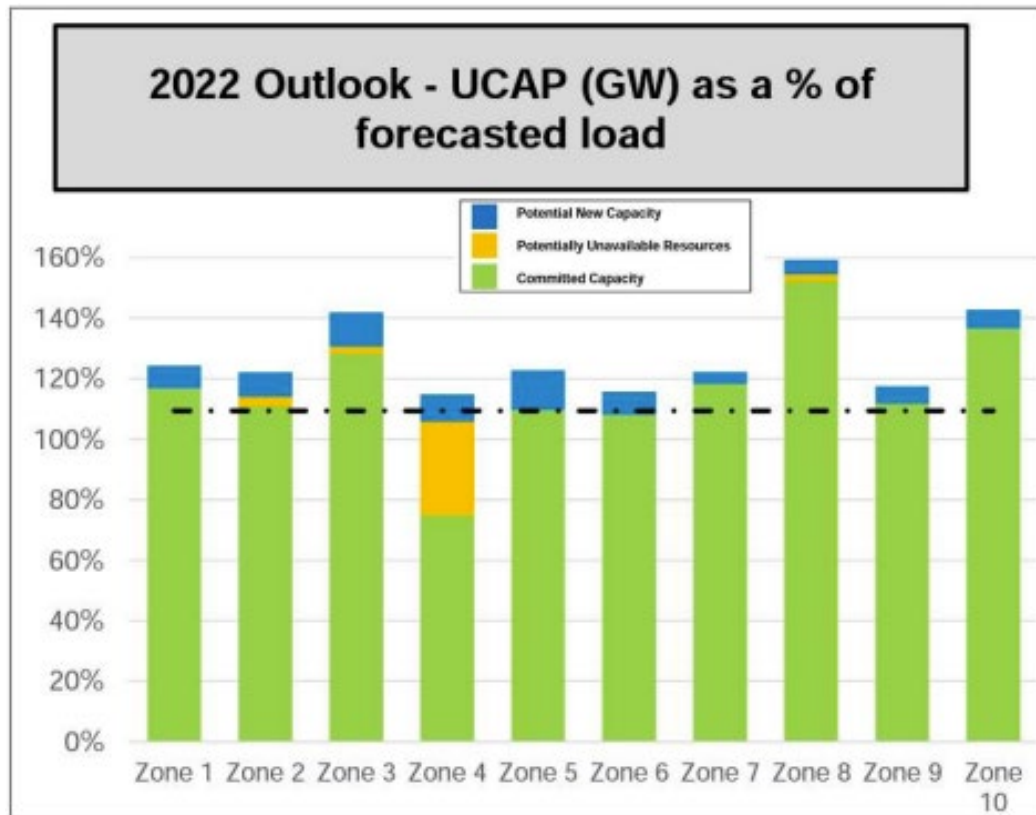
- Montana’s experience is instructive for Wyoming.
- Montana, like Wyoming is a lower-than-average cost state.
- Nonetheless, Montana enacted deregulation under the theory that “competition” would drive prices lower.
- What happened was just the opposite. As power prices spiked, Montanans were directly exposed to high prices.
- Cheap Montana power was exported, while in-state prices rose to market average.
- Montana ultimately re-regulated in 2007, but not before significant economic damage was inflicted. In his signing statement attached to the legislation repealing deregulation, Montana’s Governor called deregulation “an unmitigated disaster.”

https://leg.mt.gov/content/committees/interim/2007_2008/energy_telecom/assigned_studies/hb25page/hb25signstatement.pdf

Other Challenges with Deregulation

- Consumer Protection Problems. Regulators and attorneys general across the country have highlighted growing consumer protection problems. Among them:
 - Vulnerable residents being targeted by high pressure sales techniques, unfavorable contracts.
 - Customers paying more than they would have under regulated rates (See: Wall Street Journal – *“U.S. consumers who signed up with retail energy companies that emerged from deregulation paid \$19.2 billion more than they would have if they’d stuck with incumbent utilities from 2010 through 2019, a Wall Street Journal analysis of U.S. Energy Information Administration data found.”* <https://www.wsj.com/articles/electricity-deregulation-utility-retail-energy-bills-11615213623>)
- Consumer protection problems are so widespread that states have begun proceedings to end retail choice programs for residential customers.

Midwest Resource Adequacy Case Study: Illinois



Source: <https://cdn.misoenergy.org/2022%20PRA%20Results624053.pdf>



Note MISO Zone 4. Illinois is the only fully deregulated state in MISO.

The Challenge of Limited Deregulation

- Limited deregulation for the largest users creates its own problems:
 - Cherry picking the most profitable customers at expense of remaining customers.
 - Potential resource adequacy pitfalls. Who is ultimately responsible to ensure a networked geographic service territory has all resources needed for 24/7 power? Incumbents struggle to make long term investments for overall capacity needs since largest users can switch suppliers at any time, leaving remaining customers to pay the tab for fixed costs.
 - Initial implementation involves stranded cost proceedings for recovery of investments made to support customers who choose to leave the system.
 - Sophisticated energy users can use direct retail access to manage energy usage to shift costs to other customers – such as through transferring transmission costs or receiving payments for demand response.

A Better Way

- The traditional regulatory model used in most states continues to offer significant benefits.
- State policymakers and regulators maintain greater authority to ensure resource adequacy, consumer protections, and public policy prerogatives under traditional regulation.
- On average, customer rates continue to be lower, and reliability better, in regulated states.
- Most of the objectives individual commercial, industrial and residential customers might seek (access to zero-fuel cost renewables, corporate sustainability goals, economic development rates) can be achieved through the flexibility contained in the traditional regulatory model...but with protections for all customers. Tariff changes and reforms must be completed with the public's interest in mind. Regulators must be satisfied that other customers' access to reliable, affordable energy isn't harmed when another customer requests changes.