

# ELECTRICITY PRICES IN TEXAS

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# The Analysis

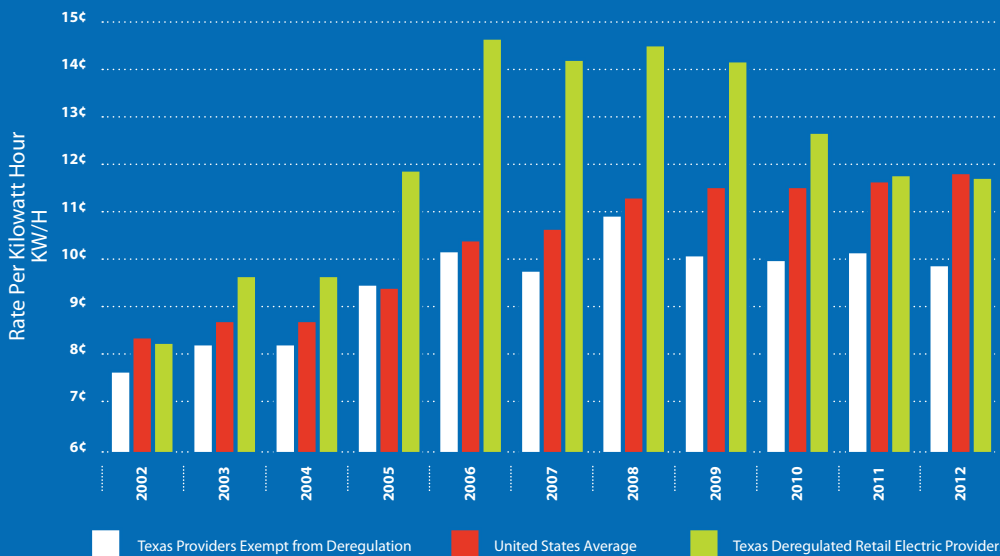
Under the Texas electric deregulation law, consumers in Houston, Dallas, Fort Worth, Corpus Christi and surrounding areas can choose among different retail electric providers. These providers compete for customers by offering different terms of service and prices. However about 15 percent of the state remains exempt from this competitive system for buying and selling electricity. Areas exempt from retail electric deregulation include San Antonio and Austin, which operate municipally-owned utilities. Electric cooperatives and investor-owned utilities operating outside the ERCOT region also are exempt.

This bifurcated electricity system — with some Texans served by the deregulated market and some living in areas exempt from electric deregulation — provides a unique opportunity to compare pricing outcomes. The Texas electric deregulation law was adopted in 1999, with the promise that it would lower rates. But as this analysis shows, the results have been mixed.

For this Snapshot Report, the Texas Coalition for Affordable Power reviewed pricing data obtained from the United States Energy Information Administration (US EIA). This analysis includes data for 11 years, from 2002 — the first year of deregulation — through 2012. This report does not include data for 2013 because the information necessary to perform the pricing analysis for that year is not yet available.

TCAP reviewed both pricing and sales data for electricity providers in Texas, and then calculated average prices charged to residential customers in areas of Texas inside and outside deregulation. TCAP has included in this report US EIA data for areas outside of Texas, as well as findings from previous TCAP reports. This report focuses primarily on residential rates.

## Texas Residential Electricity Prices, Inside and Outside Deregulation

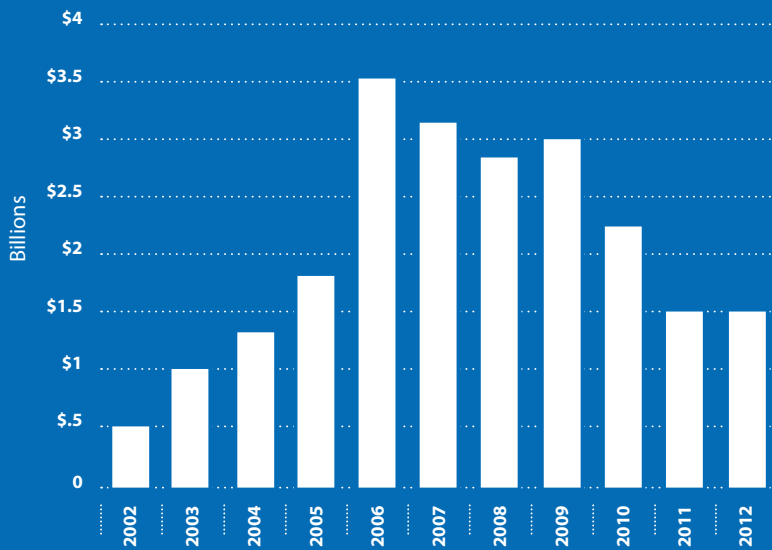


**Exhibit 1:** Residential prices inside and outside deregulated Texas.

Source: United States Energy Information Administration  
<http://www.eia.doe.gov/cneaf/electricity/page/eia861.html>



## The Price of Higher Residential Rates Under Deregulation



**Exhibit 2:** Average electric prices in Texas charged by deregulated providers have been consistently higher than average prices charged by providers exempt from deregulation. This exhibit measures the potential impact of these higher prices. The white bars illustrate the aggregate savings that would have accrued to Texans in deregulated areas had they instead paid the lower average rates charged in areas outside deregulation. The lost savings ranges from about a half billion per year to more than \$3.5 billion. Providers exempt from deregulation include investor-owned utilities within Texas but outside the ERCOT region, municipally-owned utilities and electric cooperatives. Only residential prices are considered.

Source: United States Energy Information Administration\*  
[http://www.eia.doe.gov/cneaf/electricity/page/sales\\_revenue.xls](http://www.eia.doe.gov/cneaf/electricity/page/sales_revenue.xls)

## Key Findings

- Residential electricity prices in areas of Texas with deregulated electricity service dipped below the national average in 2012. This is the first time since the inaugural year of retail electric deregulation that annual average residential prices under the deregulation law beat the nationwide average price.
- Average electricity prices in deregulated areas of Texas have been declining since 2008.
- Despite the drop in deregulated prices, Texans in deregulated areas have continued to pay significantly higher residential rates, on average, than Texans living in areas exempt from deregulation.
- All told, Texans living in deregulated areas would have saved more than \$22 billion dollars in lower residential electricity bills since 2002 had they paid the same average prices as Texans living outside deregulation. The lost savings amounts to more than \$4,500 for a typical household since 2002.



# Background History

Texans enjoyed residential electricity rates below the national average for many years prior to the adoption of the retail electric deregulation law in 1999.<sup>1</sup> That trend flipped shortly after the law took effect, with average residential prices in deregulated areas rising above the national average in 2003 and remaining above the national average for 10 years. [See Exhibit 1].

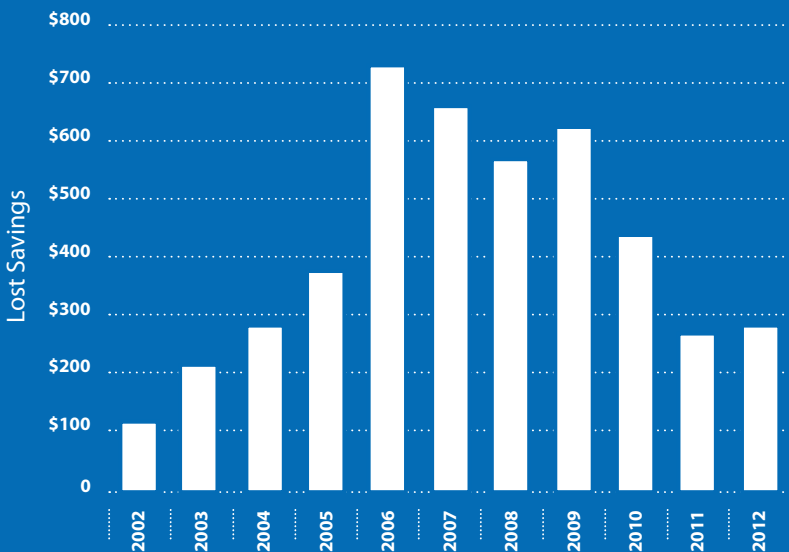
Some observers have suggested that the relative uptick in residential electricity prices under deregulation is not related to deregulation, per se, but rather to an increase in natural gas prices. This is because natural gas prices are closely linked to wholesale electricity prices, and natural gas prices went up for many years after deregulation.<sup>2</sup>

However, fluctuations in natural gas prices alone cannot explain the relatively high prices in deregulated areas of Texas, compared to prices in areas of Texas outside deregulation. Rather, this analysis of US EIA data suggests that the blame may lie with persistent inefficiencies in the state’s deregulated electricity market, continued customer confusion about rates and service, and the relatively high prices charged by the state’s legacy electricity providers.

In recent years, the differential in Texas between average residential electricity prices inside and outside deregulation has diminished. Average residential rates in deregulated areas have fallen four years in a row. [See Exhibit 1]. These are positive developments for Texans who receive electricity in the state’s deregulated electricity market.

Unfortunately, prices in deregulated areas could increase under proposed mandates under consideration at the Texas Public Utility Commission.<sup>3</sup> These mandates would require that retail electric providers make extra “capacity” payments to generation companies. These capacity payments would inflate retail electric bills, potentially through a new line-item fee. For more information about these proposals, see *A Retreat from Competition: How a Texas Capacity Market Will Lead to Expensive Subsidies, New Regulations and Higher Prices*. [You can find the report here.](#)

## More than \$4,500 in Lost Savings



**Exhibit 3:** This exhibit compares electricity costs for a typical customer paying average rates charged by deregulated retail electric providers in Texas, to costs for a customer with the same usage but paying average rates charged by Texas providers exempt from deregulation.

\*For purposes of comparison, this exhibit assumes monthly electricity usage of 1,300 kWh.

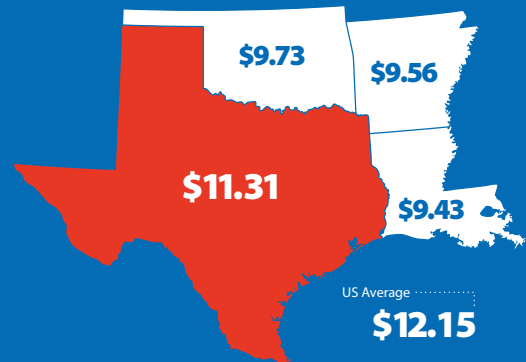
Source: United States Energy Information Administration [http://www.eia.doe.gov/cneaf/electricity/page/sales\\_revenue.xls](http://www.eia.doe.gov/cneaf/electricity/page/sales_revenue.xls)



## Additional Findings of the TCAP Analysis

- Average residential electricity prices in deregulated areas of Texas have declined since highs recorded in 2008.
- In 2012, Texans in deregulated areas paid, on average, 11.75 cents per kilowatt hour for electricity, while the nationwide average was 11.88. This marked the first time in 10 years that average residential electricity prices in deregulated areas of the state dipped below the national average.
- Nonetheless, a dramatic disparity remains between average residential prices charged in deregulated areas of Texas and average prices in areas of Texas outside deregulation. In 2012, average residential prices in deregulated areas of Texas were 18.6 percent higher than average prices in areas of Texas outside deregulation.
- Since the implementation of the deregulation law, average residential prices in deregulated areas of Texas have been between 9.2 and 46.5 percent higher than average prices in areas of Texas outside deregulation.
- Annual average residential electricity prices in deregulated areas of Texas have been higher than the nationwide average during nine of the 11 years reviewed in the analysis. Annual average residential electricity prices in areas of Texas exempt from deregulation have been higher than the nationwide average once during those 11 years.
- Had Texans under deregulation paid the same average residential prices for electricity as Texans in areas exempt from deregulation, Texans under deregulation would have saved \$1.5 billion in 2012. Over the course of the entire deregulation law, the computed savings would have exceeded \$22 billion. [See Exhibit 2].
- A typical customer living in a deregulated area of Texas (defined as a customer paying average deregulated prices and consuming 1,300 kilowatt hours of electricity every month) could have saved approximately \$288 in 2012 if he or she instead had paid the average prices charged to Texans outside deregulation. Since the beginning of deregulation, such a customer would have saved more than \$4,500. [See Exhibit 3].
- Residents in adjoining Louisiana, Oklahoma and Arkansas consistently pay less for electricity than residents in deregulated areas of Texas. [See Exhibit 4.]
- The average kWh price for electricity in deregulated Texas for all customer classes (residential, commercial and industrial) was 8.79 cents per kWh. For all classes of customers in Texas, but outside deregulation, the average price was 8.18 cents — or about 7 percent less.

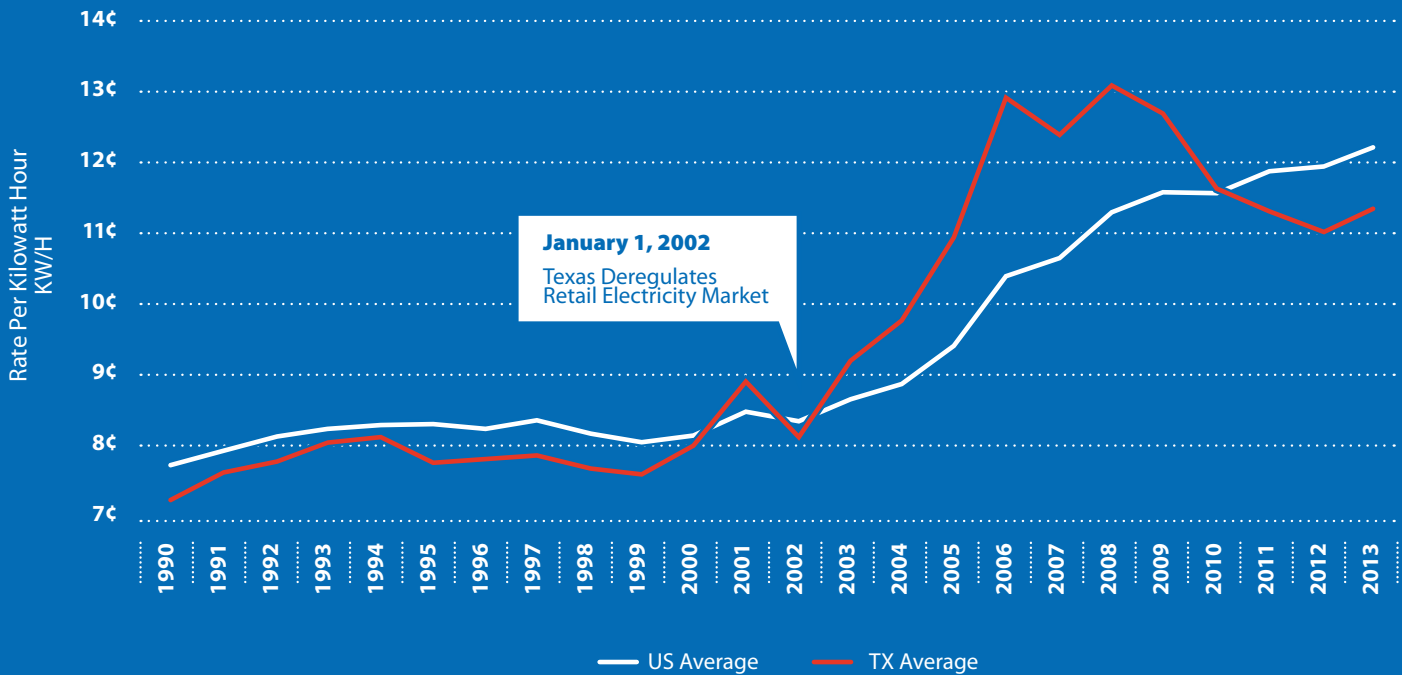
### Residential Electricity Prices in 2013, Texas and Surrounding States



**Exhibit 4:** For purposes of comparison, this exhibit shows average residential electricity prices in Texas, adjoining states and nationwide. These figures are the most recently available (year to date, through September 2013), as of the time of publication of this report. The price listed for Texas represents a weighted average of prices charged both inside and outside deregulated areas of the state.

Source: United States Energy Information Administration  
[http://www.eia.gov/electricity/monthly/epm\\_table\\_grapher.cfm?t=epmt\\_5\\_06\\_b](http://www.eia.gov/electricity/monthly/epm_table_grapher.cfm?t=epmt_5_06_b)

## Average Residential Electricity Prices, Texas and the United States



**Exhibit 5:** Texans enjoyed average statewide electricity prices below the national average for many years prior to the implementation of the deregulation law. After the Texas electric market deregulated, average residential electricity prices increased above the national average and remained significantly above that mark for many years. However, this exhibit does not differentiate between average prices inside and outside areas of Texas with deregulation. Rather, it compares average residential prices statewide with average prices nationwide.

As has been demonstrated separately, average residential prices in Texas outside deregulation remained consistently below the national average after 2002, while average prices in deregulated areas shifted above the national average [see Exhibit 1]. Therefore, the high residential electricity prices statewide relative to the nationwide average must be attributed to the deregulated sector of Texas.

Note that Exhibit 5 demonstrates that average residential prices in Texas spiked above the national average in 2001. Although that spike occurred before the implementation of retail electric deregulation, it was nonetheless a function of deregulation. This is because the Texas Public Utility Commission allowed utilities in 2001 to collect excess earnings and high fuel surcharges as a down payment on anticipated collections from the restructuring law. Average residential prices in Texas dropped after the deregulated market opened in 2002 because the fuel surcharges expired and because the deregulation law mandated a 6 percent cut in base rates. Average statewide residential prices then remained above the national average through 2011.

Source: United States Energy Information Administration  
[http://www.eia.doe.gov/cneaf/electricity/page/sales\\_revenue.xls](http://www.eia.doe.gov/cneaf/electricity/page/sales_revenue.xls)



# Recommendations to Benefit Texas Electric Power Consumers

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## STANDARD OFFER PRODUCTS

To reduce confusion in the electricity market, the Public Utility Commission should establish rules for standardized electricity products for residential consumers. Retail electric providers should be required to offer these standardized arrangements along with all their other electricity deals. Uniform terms and conditions of these standardized deals would be set by the Public Utility Commission. The prices would be set by the retail electric providers.

## REJECT CAPACITY SUBSIDIES FOR GENERATORS

The PUC should reject any proposal to subsidize generators with ratepayer-financed capacity payments. These subsidies could substantially increase electricity costs in Texas.

## SUPPORT CUSTOMER EDUCATION

The PUC should make customer education a priority. Customer education efforts should include continued promotion and support of the [powertochoose.com](http://powertochoose.com) website, which was created to facilitate customer shopping in an impartial manner. All retail electric providers should be required to promote [powertochoose.com](http://powertochoose.com) through a printed notice on home electricity bills.

## RE-REGULATION IS NOT THE ANSWER

The state should reject any proposal to re-regulate the state's deregulated electricity market, including any move to create capacity subsidies for generators. Establishing capacity subsidies would mark a retreat from electric competition. Instead, policymakers should strive to make the market more efficient and fair to customers.





## End Notes

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### KEY CONCEPTS

<sup>1</sup>“Deregulated Electricity in Texas,” Texas Coalition for Affordable Power, December 2012.

<sup>2</sup> Public Utility Commission Docket 40000, Item No. 477, page 1, Memorandum to Commissioner Kenneth W. Anderson, Jr. from Chairman Donna Nelson.

<sup>3</sup>“A Retreat from Competition: How a Texas Capacity Market Will Lead to Expensive Subsidies, New Regulations and Higher Prices,” Texas Coalition for Affordable Power, November 2013.

## About TCAP

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Unlike the sponsors of other reports about the state’s deregulated power market, TCAP derives no profit from selling electricity. Instead, the 168 political subdivisions that comprise TCAP purchase electricity for their own governmental needs. TCAP understands how high-cost power can cause businesses to relocate out of state, and can place heavy burdens on home consumers. TCAP wants what all Texans want: an affordable and reliable supply of power and a vibrant economy.

## About the Data

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This analysis examines data drawn from the US EIA, which compiles official government data pertaining to the nation’s energy consumption and output. US EIA data are employed by regulators, industry representatives, investors and consumer groups because of the impartiality and uniformity of US EIA reporting.

