

Competition and Choice in Electricity Markets

Summary of Panel Discussion - April 2022

On April 27, 2022, OurEnergyPolicy, a non-partisan organization, hosted a webinar looking at the state of competitive electricity markets and their potential role in the future of reliability and affordability. This paper briefly summarizes the panelists' key points. Find the recording [here](#).

PANELISTS



Devin Hartman
Director, Energy & Environmental Policy
R Street Institute
Moderator



Lynne Kiesling
Research Professor & Co-Director
IRLE, University of Colorado Denver



Amanda Frazier
Senior Vice President of Regulatory Policy
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Pat Wood
Chief Executive Officer
Hunt Energy Network

Issue Scope

- In the 1970s, following the passing of the Public Utility Regulatory Policies Act of 1978 (PURPA), the industry arrived at a consensus that “electricity generation” was not a natural monopoly. FERC moved to “unbundle” the monopolies that existed for natural gas and electricity, creating a “regulated part” consisting of transmission and distribution and “pushing” generation and production into a competitive environment.
- Since the 1990s, roughly two-thirds of the nation has joined competitive wholesale markets. Some states went further in disbanding monopolies and adopting competitive generation and retail supply.
- The growth of renewable power sources nationwide sparked renewed interest in the movement towards competitive power markets as a method of meeting consumer demand and providing choice.

Market Trends

- The path from regulation to competitive markets is non-linear, but is moving more linearly today.
- The growth of renewables and the push towards grid decarbonization ought to spur the development of more mature, competitive markets.
- Markets are not currently designed for decarbonization, they're designed to promote the lowest cost. Part of the growth of markets is recognizing how to bring the value of environmental qualities into pricing and grid dispatch.
- There is a need to continue to grow competitive retail markets, to help bring competition to the consumer level.

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Challenges Articulated by Panelists

- Certain states have managed competitive market transitions better than others.
 - Panelists discussed Texas and how it has valuable market features, despite the crisis of Winter Storm Uri in February 2021.
 - Market design is constantly evolving, and it is important to remove monopolies to allow competitive markets to function correctly.
- Technology and policy changes have further enabled competition in wholesale markets. The challenge has been promoting and allowing competition at the retail level. It's important to recognize that the economic characteristics of transmission and distribution will still need some form of regulation for the foreseeable future, even as the country moves to a future where end users will be able to self-supply.
- In states with restructured markets like Illinois, Maryland, Massachusetts, and New Jersey, which nominally have retail competition, actions like rolling, firm, three-year procurement contracts have created barriers to entry for suppliers that were not anticipated.
- Learning from Winter Storm Uri
 - Uri highlighted the need for continued innovation. In the context of consumer choice and financial markets, electricity markets should consider various ways to make better use of financial instruments/mechanisms (i.e. - hedging requirements and price insurance) in order to enable consumers to obtain the value they want (daily usage), bear the price risk they are capable of bearing (fluctuating rates in response to demand), and to “lay off” the remaining risk onto retailers.
 - Customers bear outage risk and are not compensated for lost value.
- Digitization and automation can help enable retailers to offer products and services to compensate customers for their losses resulting from these outages.

Key Insights

- Competition can deliver innovation better than monopoly models.
 - Important to have beneficial customer relationships and access to better data (smart meters/digital thermostats).
- Good market rules provide both low costs and innovation.
- Important to shift risk away from consumers to retailers, who can better manage risk.
- Periods of negative price and curtailment have not adapted enough to account for increased deployment of renewable technology.
 - Negative prices can lead to transmission bottlenecks when moving energy to consumers. Some of that is due to disproportionate incentives that production tax credits have created.
- Subsidies have created market distortions that are now being addressed with new subsidies – an inefficient state. This underscores the dangers of market interference.