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Remarks by R.A. Dyer  
Policy Analyst for the Cities Aggregation Power Project  
Business and Commerce Committee, October 25, 2010

For the record, my name is R.A. Dyer. I am a policy analyst for the Cities Aggregation Power Project, which is a coalition of municipalities that purchase power in the state's deregulated electricity market. I'd like to thank Chairman Carona and the committee for this opportunity to address you here today.

Right now electric prices are down. This is an undeniable fact. According to information from the United States Energy Information Administration, average residential electric prices in Texas have decreased by more than 13 percent from a high recorded back in July 2008. Natural gas prices largely determine the price of electricity in our deregulated market. This means that when natural gas prices go down — as they have with the downturn in the economy — so too does the price of power.

But unfortunately, the story doesn't end there. Despite the price declines, it seems clear that this market is not functioning as efficiently as a truly competitive market would.

While overall electric prices in Texas currently are hovering just below the national average, prices for residential customers — that is, what ordinary Texans pay to light their homes — remain stuck above the national average. This is in contrast to the many years prior to the passage of the deregulation law when residential prices were consistently below the national average.

Electricity prices in Texas also remain higher than what we see in neighboring states, even higher than in those states that also rely heavily upon natural gas to fuel their power plants. We wouldn't expect this outcome if our market was working more efficiently.

October 26, 2010

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Let me direct your attention to the chart on page 3. Here we're comparing changes in electricity prices among the nation's 50 states. As you can see, since 1999, which was the year the Texas Legislature adopted the retail deregulation law, Texans have suffered greater increases than residents in all but six states.

As I noted earlier, residential prices in Texas were well below the national average prior to the adoption of the law, but they have remained consistently above it after its implementation. You can see that trend illustrated graphically in the chart on page 2. I'm sure that many of you may have received complaints from your constituents about these high prices.

Now one my ask: how do we know that that these punishing increases are the result of deregulation? Maybe prices were on the way up anyway. Let me just say here that the Public Utility Commission, in a report to the Texas Legislature just prior to the adoption of retail deregulation, confirmed that the electric industry was then entering a period of *declining* costs. That is, costs were going down when we deregulated the market, not up.

Let me also direct your attention to the chart on page 6 of your packet — the one marked “Texas Residential Electricity Costs: Areas inside and outside deregulation.” Note here the line in red, the one at the bottom. This shows that below-average prices remained the norm in Texas even after deregulation — but only in those areas that remained outside of deregulation. This means that if you were lucky enough to be living in a part of Texas that remained outside deregulation, it's likely that you've been saving on your electric bill all this time. But in those areas that opened their markets to deregulation, the news was grim indeed. Here, prices shot up as much as 41 percent above the national average. Again, the blue line shows deregulated prices only, and the green line shows the national average.

Now it's been said that if you don't like what you're paying for electricity, with deregulation you can always shop around. The problem here is that even some of the lowest-cost fixed rate offers in places like Houston and Dallas often cannot compare to what tens of thousands of Texans pay in areas of Texas not open to competition. Moreover, the average price of electricity in Louisiana is often lower than the best fixed-rate deal in Houston. Also let me remind you that many Texans living in deregulated areas — perhaps most of them — cannot avail themselves of the lowest-cost deals without breaking their existing contracts.

These higher bills have a real impact on the consumer economy in this state. By our calculations, had electric prices remained at the national average — not below it, just at it — Texas residential consumers would have saved \$12 billion since the implementation of deregulation. That's money they could have been spent on other priorities. If you look at the *entire* market — that is the effect of higher electricity costs on commercial, industrial and residential customers — the savings would have totaled \$16.4 billion. The represents a massive loss to the consumer economy in Texas.

I'll leave you with one last piece of information. Several of these charts compare prices in Texas with other states. In the last chart, the one on page 10, we show how the price increases in Texas, through 2010, have outstripped even those in most other states with deregulation. I'll say that again: when considered on the basis of price increases, our state has not compared favorably even with most other deregulated states. This tells me that something is not right with this market.

Cities support choice. But we also believe that a bottom-line metric to judge the success or failure of this market is consumer savings. And so far we simply haven't seen it. It's clear to us that the price drops that have occurred recently relate more directly to the natural gas market, and not, per se, to deregulation. If this market worked more efficiently, the savings would have been greater. We also remain concerned about that day when natural gas prices come back up. Heaven forbid the gas market rebounds during the heat of summer.

Thank you again for the invitation. I'm happy to answer any questions.

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