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The TCCFUI Annual Texas Rate Report: Comparison of Competitive and Non-Competitive Rates

The Texas Legislature adopted Senate Bill 7 in 1999 to deregulate the Texas retail electric market. The general theory was that fewer regulations would lead to productivity and efficiency gains. That, in turn, would translate into lower prices. The ability of the deregulated market to produce lower-priced energy was one of the key selling points of SB 7.

But the reality has been otherwise. Proponents sold retail deregulation by promising big savings for consumers who shop around in the market. As it turns out, millions of consumers in the deregulated portions of the state can shop around all they like and still never find more affordable electricity than that enjoyed by Texans who reside in areas outside deregulation.

The following report, commissioned by the Texas Coalition of Cities for Utility Issues, is based upon a comparison of prices offered by an extensive sample of the state's competitive Retail Electric Providers, electric cooperatives, municipal utilities and investor-owned utilities. It shows that savings offered under SB 7 continues to fall short of the savings offered outside competition.

ABOUT the TEXAS COALITION OF CITIES FOR UTILITY ISSUES

TCCFUI is an unincorporated non-profit association of Texas cities concerned with issues involving telecommunications, electric and gas utilities. TCCFUI has a direct interest in ensuring that city residents and city governments have access to affordable electricity. TCCFUI supports all market reforms that will help bring real competition to Texas and lower prices. For more information, go to www.tccfui.org.

Key Findings

*Many fully regulated utilities in Texas offer much lower rates than the best competitive rates available to millions of Texans in our survey. Likewise, the best competitive rate in the survey is significantly higher than the rates offered by many cooperatives and municipally-owned utilities.

*Only two of the ten best rates in the survey were offered by competitive providers under deregulation. The remaining eight best offers were from providers outside deregulation.

*A residential ratepayer receiving power from the lowest-cost competitive retailer in the survey would still pay 56% more than a customer of the lowest-cost non-competitive provider outside deregulation.

*The average of competitive rates in the survey remains above the average of rates for cooperatives, municipally-owned utilities and investor-owned utilities outside deregulation.

TCCFUI's Recommendations

As a non-profit association of Texas cities, TCCFUI has a direct interest in ensuring that city residents and city governments have access to affordable electricity. Lower rates mean a better life for our citizens and more economic development for our communities. TCCFUI supports all market reforms that will help bring real competition to Texas and lower prices. TCCFUI does not support reregulation at this time.

About the Survey

This report compares rates charged by an extensive sample of retail electric providers operating within deregulated areas of the state against rates charged by a sample of the state's municipally-owned utilities, cooperatives, and investor-owned utilities operating outside competition.

For purposes of comparison, the analysis considered the lowest rates offered by all competitive electric providers serving North Texas. Offerings from competitive retail providers operating in other parts of the state can be expected to be similar. A

total of twenty-two municipally-owned utilities, cooperatives and investor-owned utilities operating outside competition were also surveyed. The investor-owned utilities operate in Texas, but outside the geographical boundaries managed by ERCOT.

The information on rates comes from several sources. Each month, the Public Utility Commission of Texas publishes data on select non-competitive rates for the prior month. Additionally, information was accessed from websites of other municipalities and cooperatives not listed in the PUC's monthly report. When data was not available online, telephone calls were made to electric cooperatives and municipalities requesting rate information.

Competitive rates available in North Texas came from the PUC's "Power to Choose" website. The most current rate information available for electric cooperatives and municipal utilities is from September. Likewise, the survey considers September rates for competitive providers and non-competitive investor-owned utilities outside of ERCOT.

The Background

The sweeping legislation that deregulated much of the Texas electric retail market exempted investor-owned utilities that operate in Texas but outside of the ERCOT system. It also exempted all electric cooperatives and municipal power providers, regardless of location. Although electric cooperatives and municipal utilities have the right to opt into competition, only one of the state's 51 cooperatives has done so.

The fact that many providers continue to offer non-competitive electric service in various areas throughout the state provides an opportunity to compare the effect of deregulation upon electric prices charged to residential customers. Non-competitive providers are subject to the same external factors that ultimately affect the price of electricity (extraordinary weather events, generation fuel cost increases, and other such factors), so the comparison between deregulated prices and non-competitive rates is relatively straightforward.

Deregulation has resulted in higher rates

The results of our survey indicate that competitive rates do not fare well when compared to the non-competitive rates available in the state. Attachments A and B, on pages 11 and 12, show the ranked listings of the best competitive rates offered by each REP in our sample, along with rates offered by cooperatives, municipally-owned utilities, and fully regulated utilities outside of ERCOT but within Texas.

The ten lowest-cost providers are shown in **Figure 1**.

Figure 1: Ten Lowest-Cost Providers

1	Southwestern Electric Power	\$ 75.59
2	Upshur-Rural Cooperative	\$ 92.28
3	San Antonio CPS	\$ 96.28
4	Austin Energy	\$ 99.38
5	SWEPCO North Texas	\$ 100.66
6	Southwestern Public Service	\$ 109.60
7	City of Granbury	\$ 116.90
8	StarTex Power - Star Secure 8-month Plan	\$ 118.00
9	Cap Rock Energy	\$ 120.19
10	Champion Energy Services - One Rate Fixed 6	\$ 124.00

As Figure 1 illustrates, only *two* of the ten best rates in our survey were offered by competitive providers, with the lowest-cost competitive provider – StarTex Power – coming in only at number eight. Each of the other providers is either a fully-regulated investor-owned utility, a municipally-owned utility, or an electric cooperative. **Note that an average residential consumer taking service from StarTex Power still pays an electricity bill that is more than 56% higher than the same consumer in the service territory of Southwestern Electric Power, the lowest-cost non-competitive provider and the lowest-cost provider overall.**

This fact alone calls into question the fundamental premise of electricity deregulation: that market forces drive efficiencies and reduce prices more than a regulated or non-competitive model does. Clearly, nothing about a deregulated system inherently drives prices lower than a non-competitive system. Otherwise, one might expect most – if not all – of the ten lowest rates in the survey to be offered by competitive REPs.

Competitive REP offerings versus specific non-competitive rates

As of late September, the average of the best of each REP's prices found in our survey was \$141.69. Note that this is a simple average; if it were possible, an average price that reflects the number of customers on each plan would likely result in a more accurate and much higher figure. For instance, TXU Energy's best rate results in a monthly bill of \$159. It is not known how many customers are on that rate, as the industry and the PUC consider that information to be competitively sensitive. However, it is reasonable to assume that as the successor to the incumbent electric utility in North Texas, TXU Energy retains the largest market share in the region. Accordingly, TXU's \$159 plan ought to be given greater weight in the average.

Although it may therefore be understated, **Figure 2** illustrates that the average REP bill of \$141.69 is still generally higher than many of the monthly rates offered by electric cooperatives, and is greater than the \$132.93 average cooperative bill found in our survey.

Figure 2

ELECTRIC COOPERATIVE	TOTAL MONTHLY BILL
Hilco	\$ 142.70
Wise	\$ 135.45
TriCounty	\$ 127.50
Farmer's	\$ 136.00
Trinity Valley	\$ 150.00
Co-Serv	\$ 136.54
Upshur-Rural	\$ 92.28
Grayson	\$ 143.00
Average	\$ 132.93

As **Figure 3**, below, illustrates, the difference is even more stark when comparing competitive REP rates to those offered by municipal utilities. The average competitive monthly bill is nearly \$20 higher than the average bill from a municipally-owned utility. The lowest municipal utility rates – from San Antonio, equating to a monthly bill of \$96.28 – is substantially lower than the lowest REP rate, from StarTex Power at \$118 per month.

Figure 3

MUNICIPAL UTILITY	TOTAL MONTHLY BILL
Garland Power and Light	\$ 125.84
Greenville	\$ 138.41
Bridgeport	\$ 131.52
Granbury	\$ 116.90
Weatherford	\$ 149.25
Denton	\$ 125.25
Austin Energy	\$ 99.38
San Antonio CPS	\$ 96.28
Average	\$ 122.85

Finally, within Texas there are a number of traditional, fully-bundled investor-owned electric utilities whose rates are regulated by the PUC. Although these are for-profit entities, their rates compare extremely favorably to the rates offered by competitive REPs in the deregulated portions of the state. As **Figure 4** illustrates, the average competitive REP bill of \$141.69 far exceeds the average fully-regulated investor-owned utility bill of \$109.78.

Figure 4

INVESTOR-OWNED UTILITY	TOTAL MONTHLY BILL
Cap Rock Energy	\$ 120.19
El Paso Electric	\$ 125.38
Entergy Texas	\$ 127.28
Southwestern Public Service	\$ 109.60
Southwestern Electric Power	\$ 75.59
SWEPCO North Texas	\$ 100.66
Average	\$ 109.78

Texas's competitive rates versus regulated rates nationwide

The Federal Government's Energy Information Administration (“EIA”) collects nationwide utility rate data that is reported on the PUC's website. This data enables a comparison of how the rates of regulated utilities across the country compare to the rates produced by Texas's competitive retail market. As indicated below, regulated rates outside of Texas are substantially lower than the prices offered by competitive REPs in our survey. According to the EIA, in September, averaging rates nationwide for all utilities in the United States would result in a monthly bill of \$111.89 for 1,000 kw/h of usage. This is substantially lower than the average competitive REP bill of \$141.69 for September. As noted in **Figure 5**, below, several regulated utilities in the country offer rates unmatched by even the best competitive offers in our survey.

Figure 5

NON-TEXAS UTILITY	TOTAL MONTHLY BILL
Entergy Louisiana	\$ 128.36
NSPC (Minnesota)	\$ 102.00
OG&E (Oklahoma)	\$ 103.50
PSCo (Colorado)	\$ 113.63
Other US Utilities Average	\$ 111.89

Why has deregulation not lowered prices in Texas?

Deregulation has demonstrably resulted in higher electricity prices than the non-competitive rates offered by municipal utilities, cooperatives, and investor-owned utilities outside of ERCOT, and even utilities outside of Texas. There are several reasons why the competitive rates are higher than most regulated rates.

***In the deregulated market, the price of energy from the most expensive category of power has a disproportionate effect on wholesale prices.**

One of the most significant reasons for the great disparity between the amount paid for electricity in regulated and deregulated areas is the way that a deregulated wholesale market sets the price for energy. In a competitive wholesale market, the price of energy from the most expensive category of power plant has a disproportionate effect on wholesale prices. This is because in the ERCOT spot market, *all* power accepted to meet demand during any given interval is paid for at the price of the *most expensive* power accepted to meet that demand. In Texas, the plants setting these high clearing prices in the spot market are fueled by natural gas. These spot market prices, in turn, ripple throughout the entire wholesale market — even the substantial portion of the market in which wholesale buyers and sellers privately negotiate power supply contracts.

As a result, all energy options made available in the Texas deregulated retail energy market, regardless of source, have been priced as if the energy was produced exclusively from natural gas-fired plants. **Because natural gas is extremely expensive and remains the fuel option with the most volatile prices, energy costs in the deregulated market have trended steadily up each year since 2002.** These increases have little to do with supply and demand, capacity or fuel mixes in Texas.

In contrast, regulated investor-owned utilities are required to charge rates that reflect the actual cost to generate power, based on *all* of the fuel used in the utility's generation fleet. This means that regulated retail rates include a fuel cost that is a blend of costs associated with several kinds of fuel, ranging from low-priced lignite or coal to high-priced gas. The same is also true for cooperatives and municipal utilities.

***Cooperatives and municipal utilities do not operate for profit.**

Unlike REPs, electric cooperatives and municipal utilities do not price their service to earn a profit. Cooperatives operate on a true non-profit basis. Municipal utilities similarly do not make a profit, but do frequently contribute a portion of their revenues to the city's general fund. That contribution is usually defined by the city council or other city governing authority, which in turn is politically accountable to the city's residents.

A REP, in contrast, can reasonably be expected to seek to earn as much profit as the market will bear.

***Certain costs are lower for cooperatives and municipal utilities, and the costs incurred by regulated investor-owned utilities are subject to PUC review.**

In some instances, a cooperative or municipal utility can operate with lower costs than a REP can. Cooperatives and municipal utilities can obtain financing at lower rates than a private corporation and can receive advantageous federal tax treatment.

In the case of regulated investor-owned utilities outside of ERCOT, the PUC continues to regulate those companies' rates. As part of that regulation, the PUC reviews each utility's investments in capacity and other utility assets, as well as the prudence of the utility's fuel purchasing practices. This process ensures that any change in rates is based on the reasonable cost of providing electric service.

Texas Deregulation Impacts Economic Development

Electricity prices can, and do, have a significant effect on economic development. In recent years, there are growing signs that industry leaders view the state's high energy prices as an obstacle to development.

For instance, an executive for the aluminum manufacturer Alcoa, which operates a large plant in Texas, has stated that his company does not want to pay a gas-based price for energy, and would prefer a contract-based price that reflects true baseload generating costs.¹ Because of the high cost of energy in the deregulated

markets in the United States, he stated that his company is considering building plants outside of the country. He added that, “The next large load will not be built in the U.S. Not likely in the U.S.”²

Texas manufacturers have noted generally that the relatively high cost of electricity in the state makes it difficult to compete with manufacturers in other states and other countries. Tony Bennett, an executive with Temple Inland and chairman of the Texas Association of Manufacturers, noted at a conference that the energy bills for paper mills in East Texas are twice those of competing mills in South Carolina and other southern states.³

Local grocery giant H-E-B has also felt the pinch from rising deregulated energy prices. In 2007, a representative from the company calculated that its electricity bills were \$35 million more than they should have been since 2005.⁴ He stated that he does not believe that the retail market is producing value for commercial and industrial consumers, and doubted that competition has produced rates that are lower than what would have occurred under regulation.⁵

The concern over the economic effects is heightened by announcements in recent years that major employers have decided to build large manufacturing facilities in areas of the state that have been exempted from deregulation. Toyota selected San Antonio for a new truck-manufacturing plant, and Samsung selected Austin for a large semiconductor plant. In both of these cities, municipal utilities provide electric service on a non-competitive basis and at very low rates. Indeed, San Antonio has been cited as an excellent location for new manufacturing operations in part precisely because of its “low-cost and efficient” utilities.⁶

How Texas can continue to attract energy-intensive businesses despite its high energy prices is not clear. Cities in the deregulated portions of the state are right to be concerned that businesses will continue to “vote with their feet” by locating in portions of Texas not affected by deregulation, or outside of the state altogether.

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TCCFUI ANNUAL ELECTRIC RATE REPORT

ATTACHMENT A

RANKING OF AVERAGE RESIDENTIAL BILLS; ALL CATEGORIES OF PROVIDER	
Southwestern Electric Power	\$ 75.59
Upshur-Rural	\$ 92.28
San Antonio CPS	\$ 96.28
Austin Energy	\$ 99.38
SWEPCO North Texas	\$ 100.66
Southwestern Public Service	\$ 109.60
City of Granbury	\$ 116.90
StarTex Power - Star Secure 8-month Plan	\$ 118.00
Cap Rock Energy	\$ 120.19
Champion Energy Services - One Rate Fixed 6	\$ 124.00
Spark Energy - Online Advantage	\$ 125.00
Denton Municipal Electric	\$ 125.25
El Paso Electric	\$ 125.38
Garland Power and Light	\$ 125.84
Dynowatt - 6 month Rate Escape Plan	\$ 126.00
Gexa Energy - Gexa Guaranteed 6	\$ 127.00
LPT LLC A Liberty Power Company - Home Independence	\$ 127.00
Entergy Texas	\$ 127.28
TriCounty Cooperative	\$ 127.50
Mxenergy - Guaranteed Rate 12 Months	\$ 129.00
Reliant Energy-- Secure 6 ePlan	\$ 129.00
Simple Power -Simple 6	\$ 129.00
Ambit Energy - Lone Star Select 6 month	\$ 130.00
Commerce Energy - Sure Choice All-In	\$ 130.00
YEP - 6 month Fixed Rate Guaranteed	\$ 130.00
Amigo Energy - Online 12-month Commitment Program	\$ 131.00
City of Bridgeport	\$ 131.52
Texpo Energy - Try Us Out Plan	\$ 133.00
Gateway Power Services - Tex Flex Plan	\$ 134.00
Stream Energy - Six Month Fixed	\$ 134.00
Wise Cooperative	\$ 135.45
Farmer's Cooperative	\$ 136.00
Co-Serv Cooperative	\$ 136.54
Greenville Electric Utility Service	\$ 138.41
Cirro Energy - Smart Pass 12	\$ 139.00
Texas Power - 6 Fixed Oncor	\$ 139.00
Hilco Cooperative	\$ 142.70
Grayson Cooperative	\$ 143.00
City of Weatherford	\$ 149.25
Trinity Valley Cooperative	\$ 150.00
Direct Energy - Price Protection	\$ 151.00
First Choice Power - Simply Better Price	\$ 156.00
TXU Energy - TXU Energy Texas Choice 24	\$ 159.00
Brilliant Energy - Brilliant Low Price	\$ 169.00
U.S. Energy Savings Corp. Electricity Price Protection Program	\$ 171.00
Hudson Energy Services - Texas Super Saver	\$ 172.00
Nueces Electric Cooperative (Opt-In Plan)	\$ 177.00
Mega Energy - 24 month MEGA Plan	\$ 195.00

ATTACHMENT B

LOWEST-PRICED OFFERING FROM EACH REP AVAILABLE IN NORTH TEXAS	
StarTex Power - Star Secure 8-month Plan	\$118.00
Champion Energy Services - One Rate Fixed 6	\$124.00
Spark Energy - Online Advantage	\$125.00
Dynowatt - 6 month Rate Escape Plan	\$126.00
Gexa Energy - Gexa Guaranteed 6	\$127.00
LPT LLC A Liberty Power Company - Home Independence	\$127.00
Mxenergy - Guaranteed Rate 12 Months	\$129.00
Reliant Energy-- Secure 6 ePlan	\$129.00
Simple Power -Simple 6	\$129.00
Ambit Energy - Lone Star Select 6 month	\$130.00
Commerce Energy - Sure Choice All-In	\$130.00
YEP - 6 month Fixed Rate Guaranteed	\$130.00
Amigo Energy - Online 12-month Commitment Program	\$131.00
Texpo Energy - Try Us Out Plan	\$133.00
Gateway Power Services - Tex Flex Plan	\$134.00
Stream Energy - Six Month Fixed	\$134.00
Cirro Energy - Smart Pass 12	\$139.00
Texas Power - 6 Fixed Oncor	\$139.00
Direct Energy - Price Protection	\$151.00
First Choice Power - Simply Better Price	\$156.00
TXU Energy - TXU Energy Texas Choice 24	\$159.00
Brilliant Energy - Brilliant Low Price	\$169.00
U.S. Energy Savings Corp. Electricity Price Protection Program	\$171.00
Hudson Energy Services - Texas Super Saver	\$172.00
Nueces Electric Cooperative (Opt-In Plan)	\$177.00
Mega Energy - 24 month MEGA Plan	\$195.00
Average:	\$141.69

TCCFUI ANNUAL ELECTRIC RATE REPORT

ENDNOTES

1. *Walter Brockway Has a Big Job at ALCOA*, RESTRUCTURING TODAY, Dec. 8, 2006, quoting Walter Brockway of ALCOA.
2. *Id.*
3. *Electricity Costs Hamper Texas Economy*, Austin Business Journal, Nov. 16, 2006.
4. *Texas Energy Buyer Calls ERCOT 'Ferrari in a Ditch'*, RESTRUCTURING TODAY, Mar 14, 2007.
5. *Id.*
6. *Automotive Manufacturing: The Economy's Driving Force*, BUSINESS FACILITIES MAGAZINE available at http://www.businessfacilities.com/bf_04_02_special1.asp.