



# Trends in Electricity Prices

## Deregulated vs Regulated States What's Ahead for Ohio?

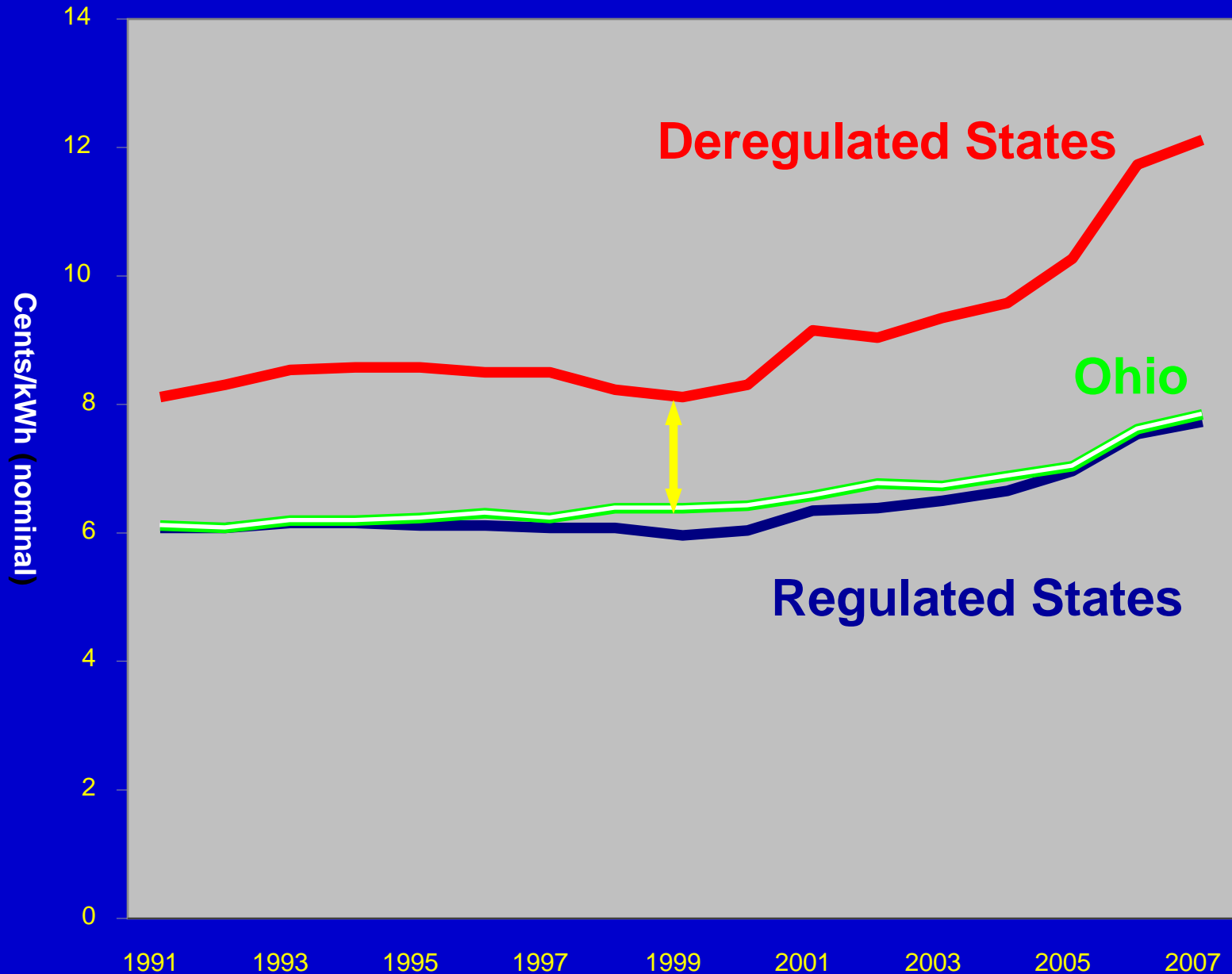
Marilyn Showalter

February 13, Columbus, Ohio

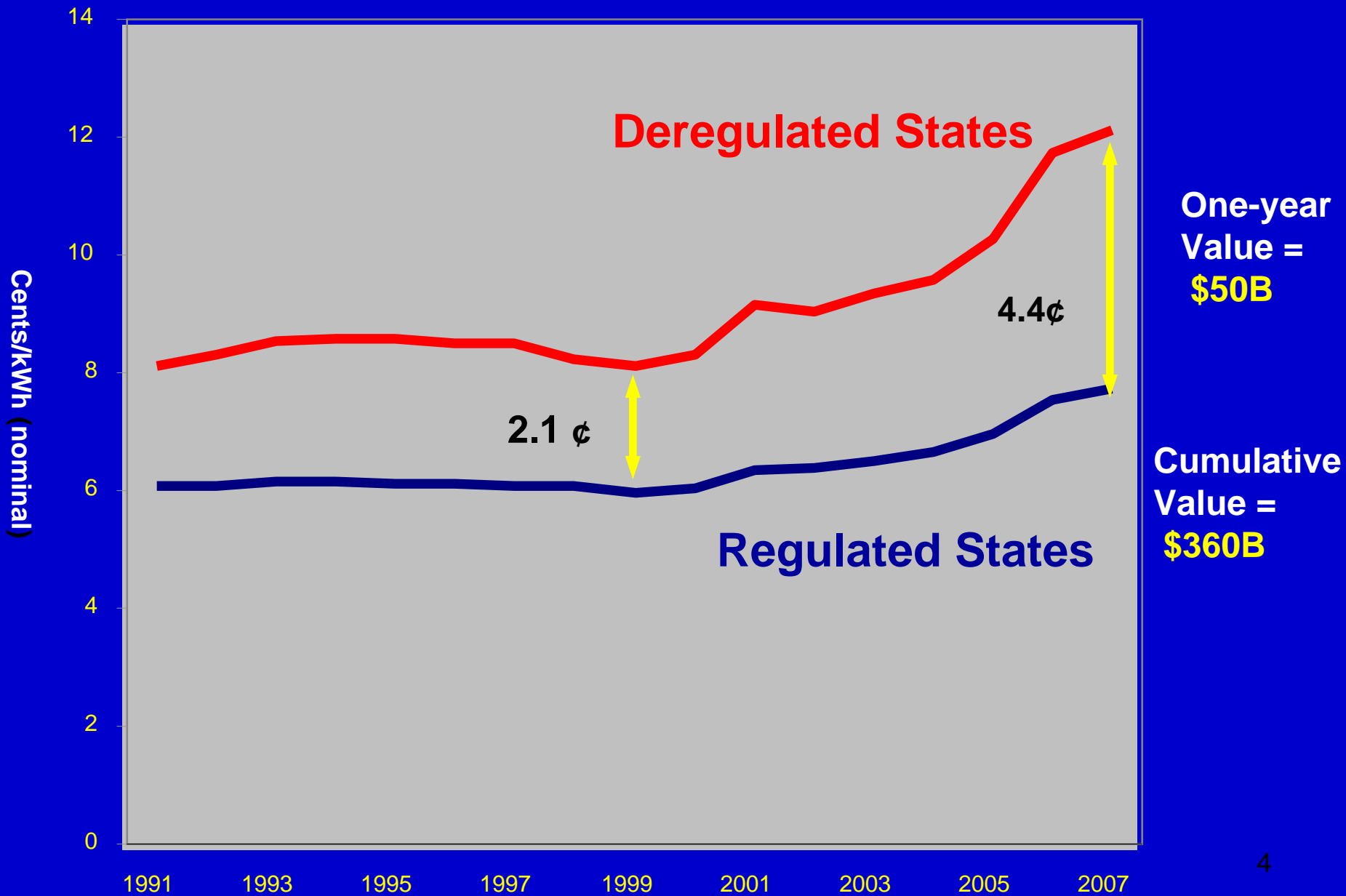
[marilyn.showalter@ppinet.org](mailto:marilyn.showalter@ppinet.org)



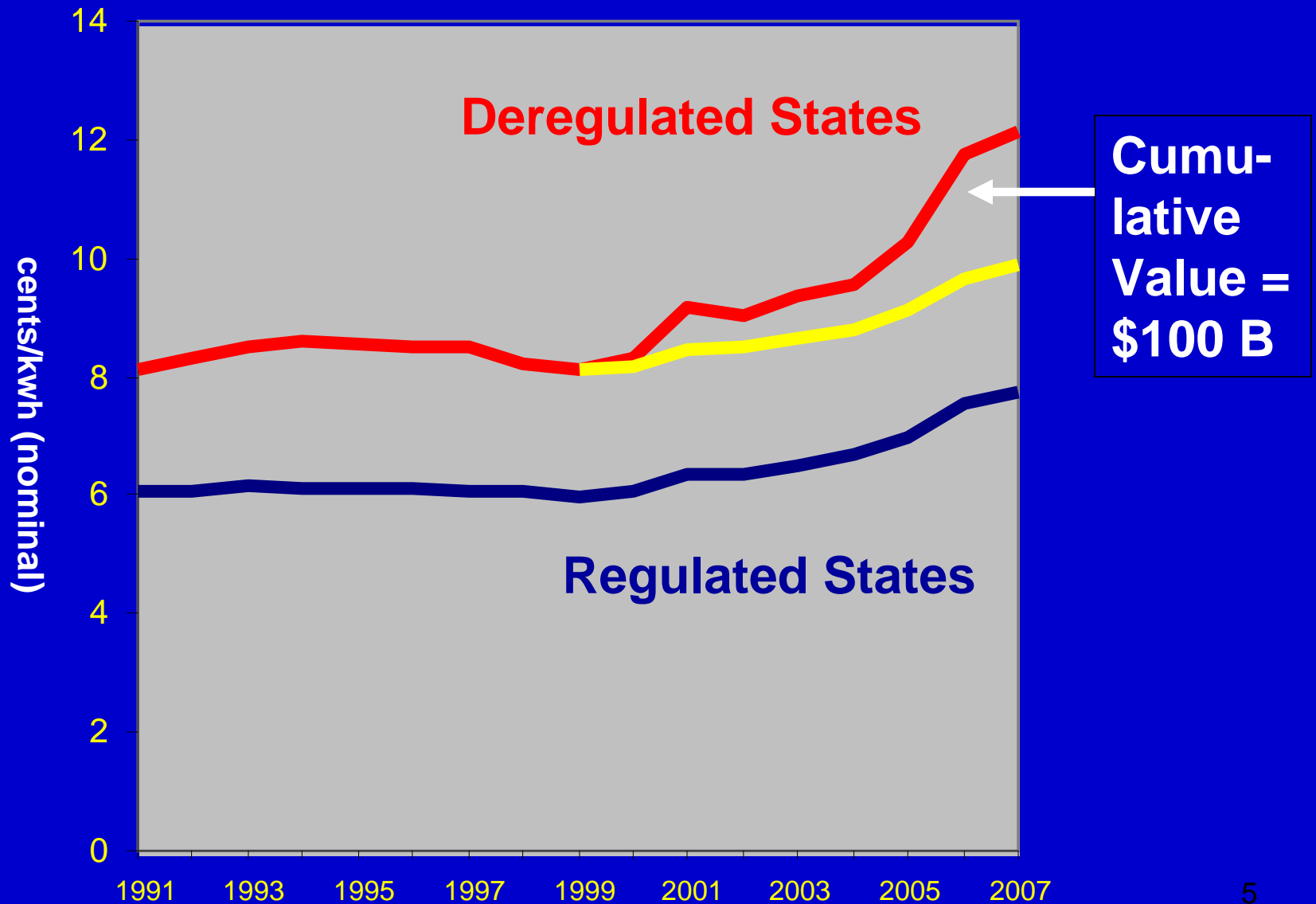
# The Widening Gap: All-in price, all customers



# The Widening Gap: \$50 Billion in 2007

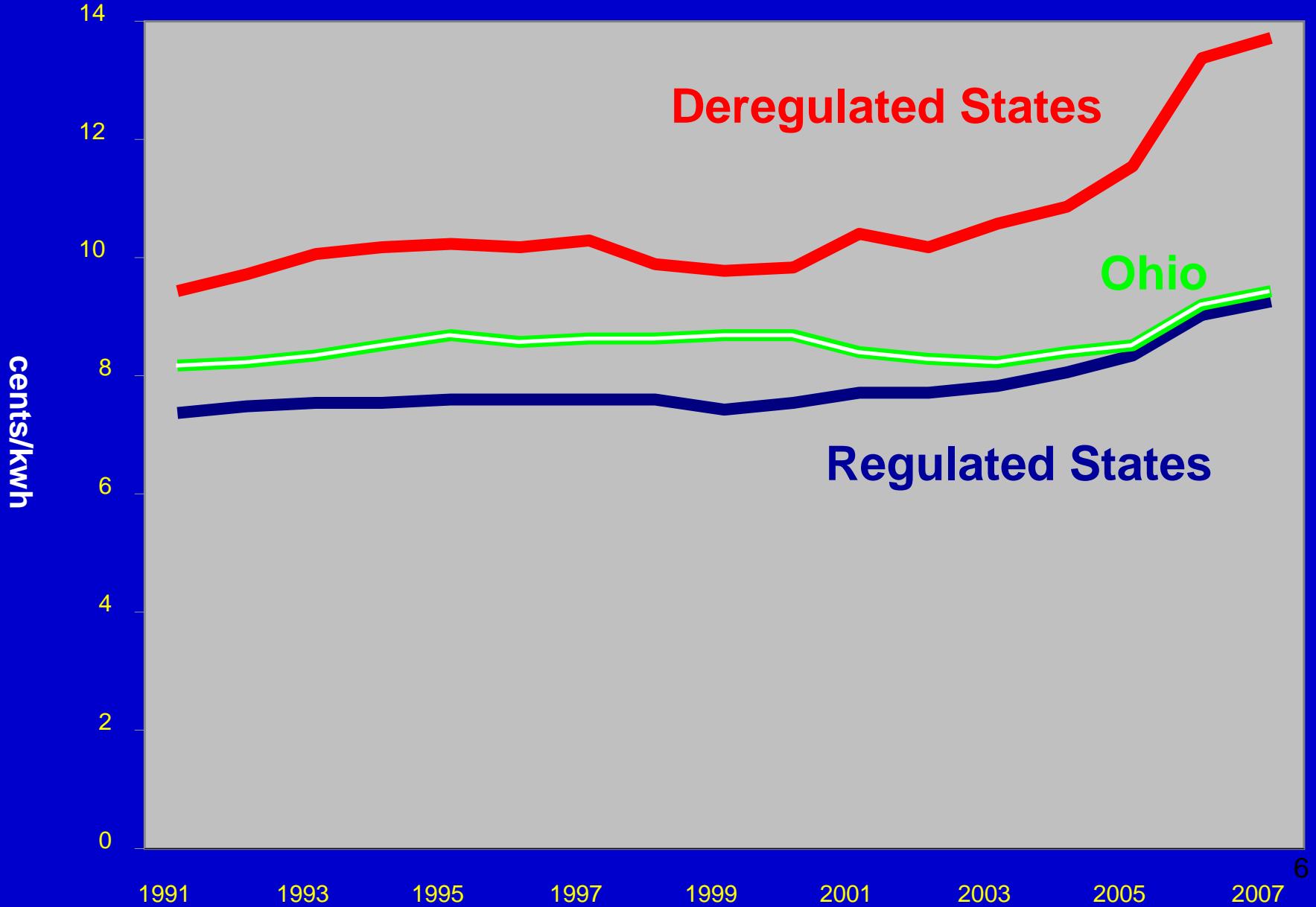


# What *if* prices had just stayed parallel?

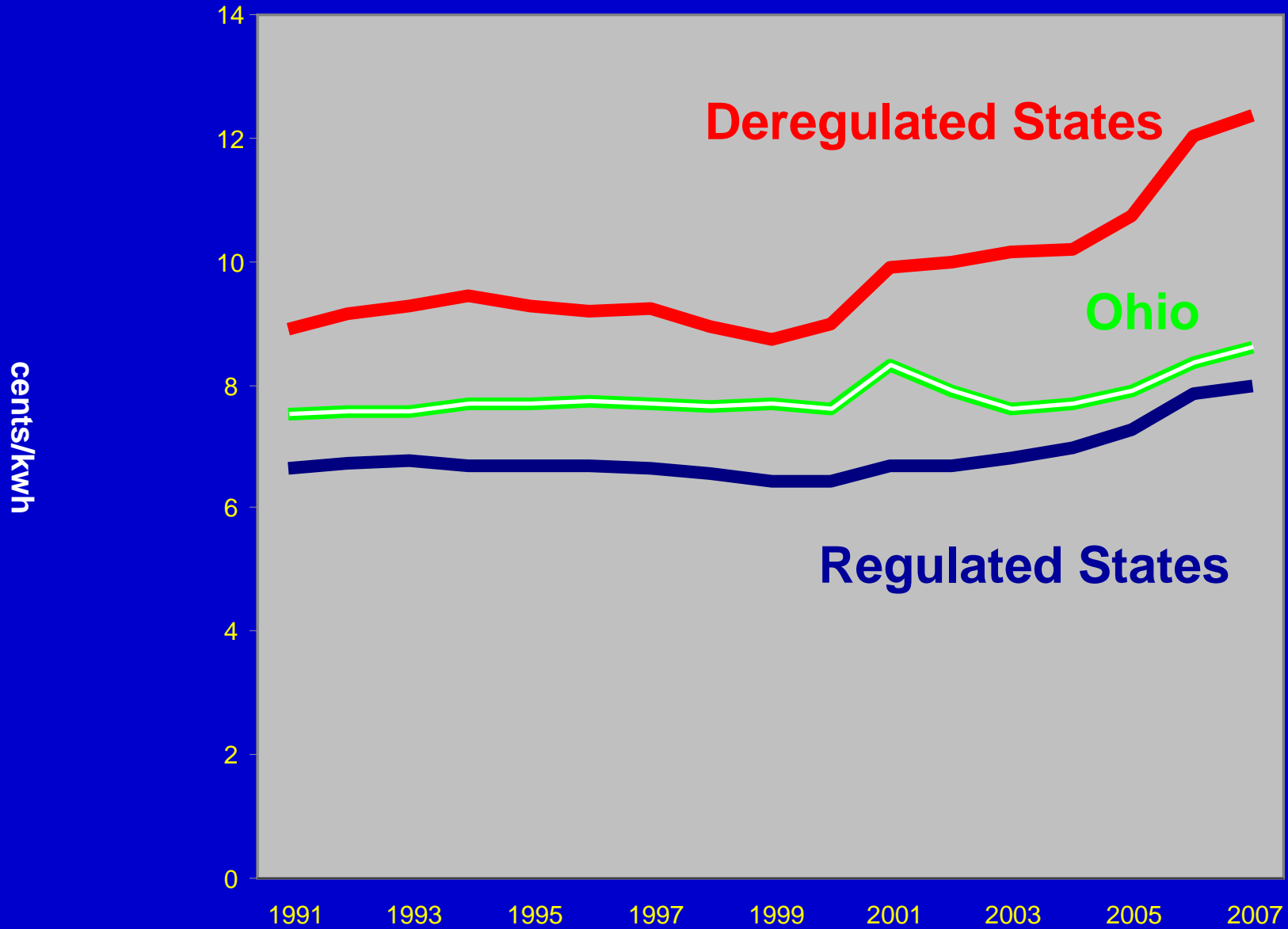




# Residential Customers

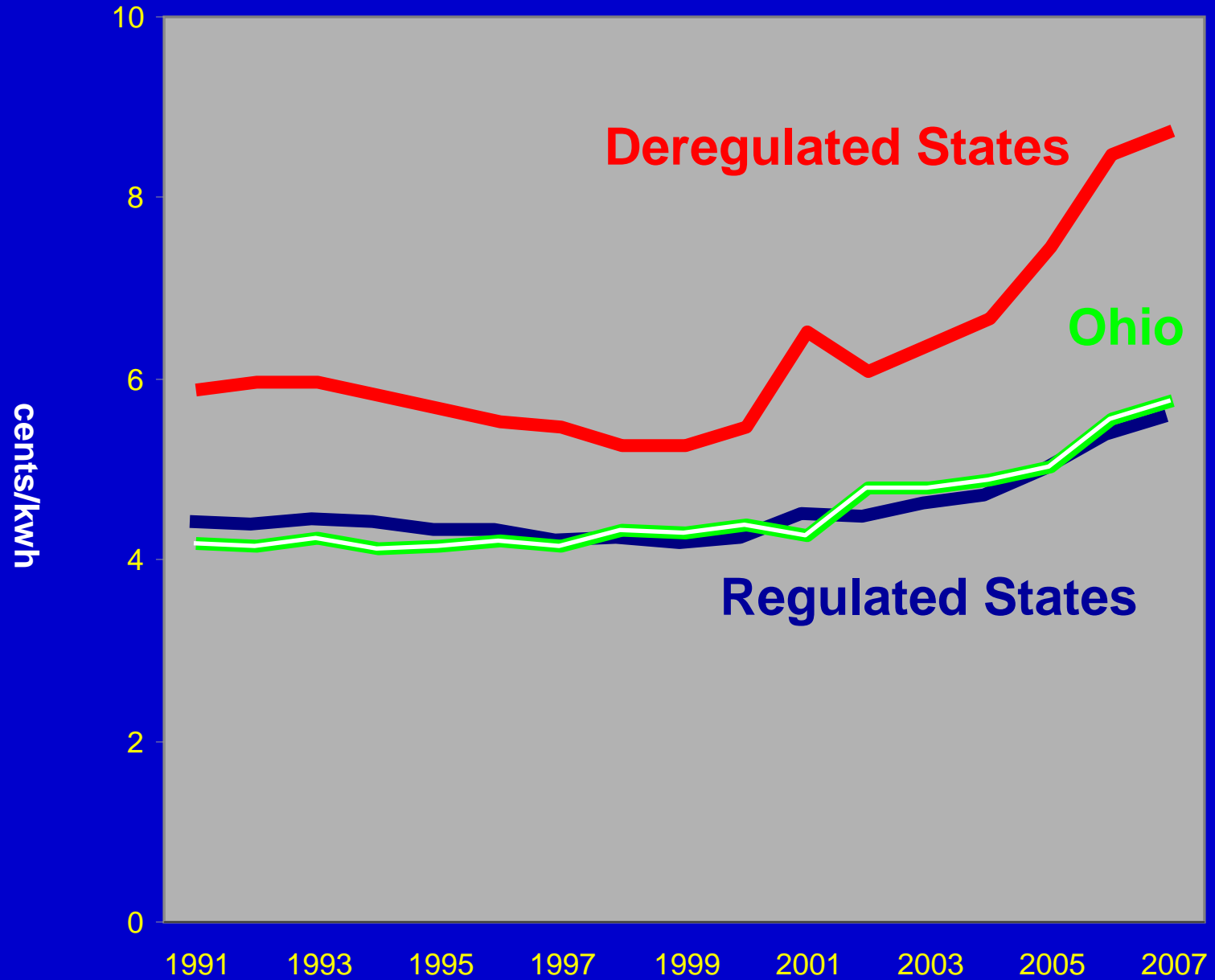


# Commercial Customers

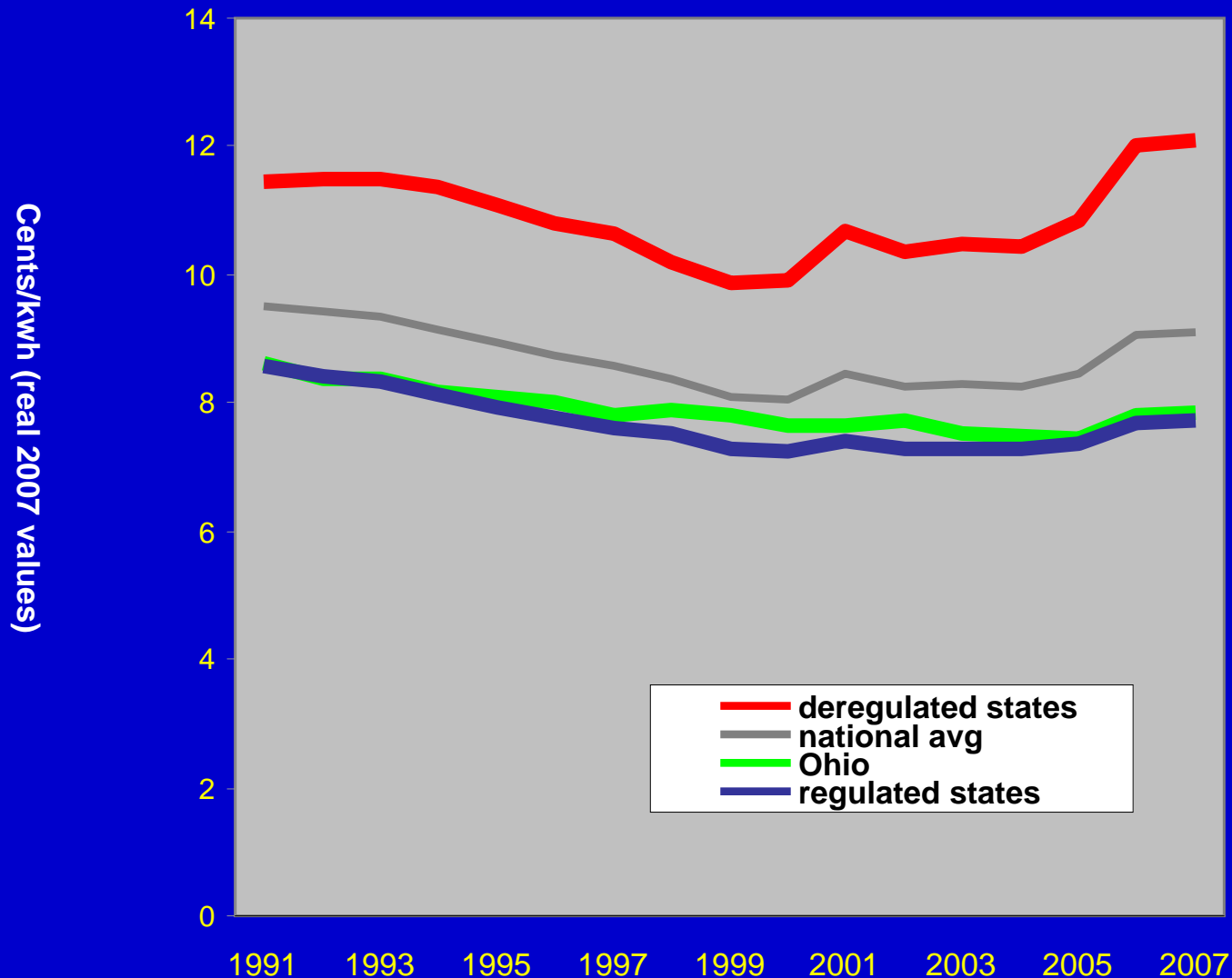




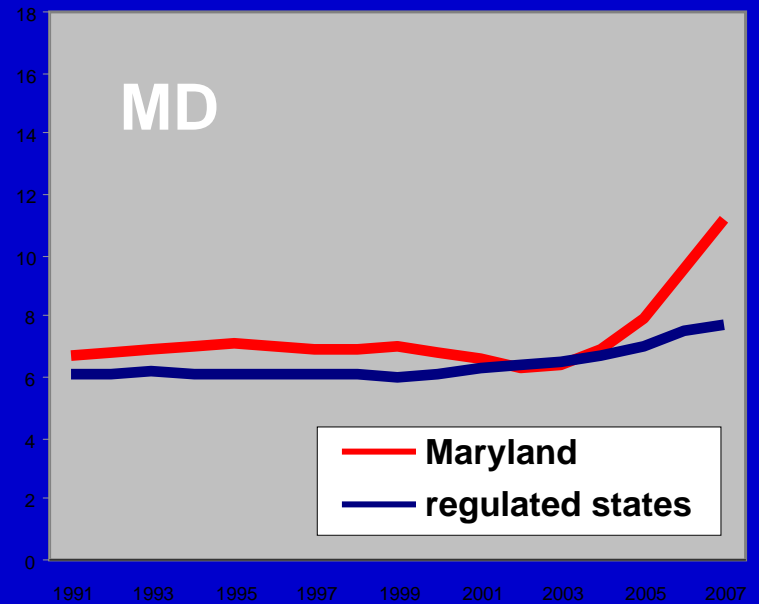
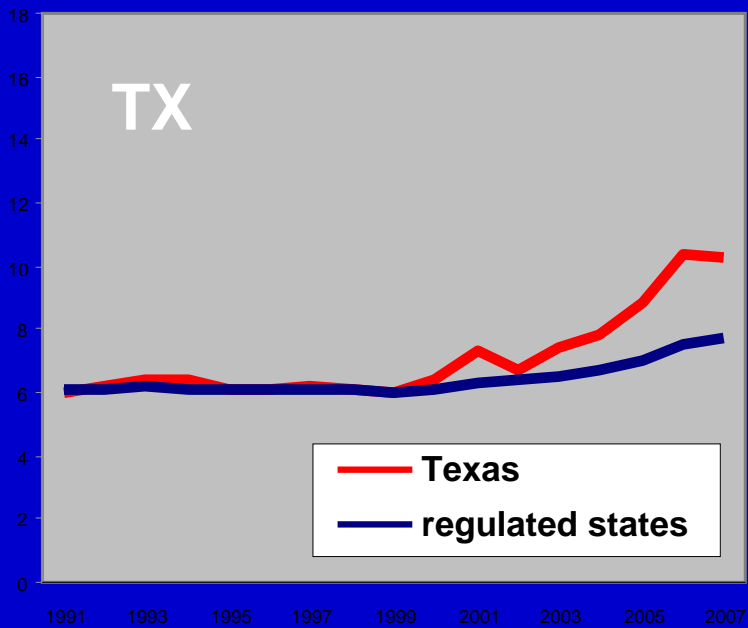
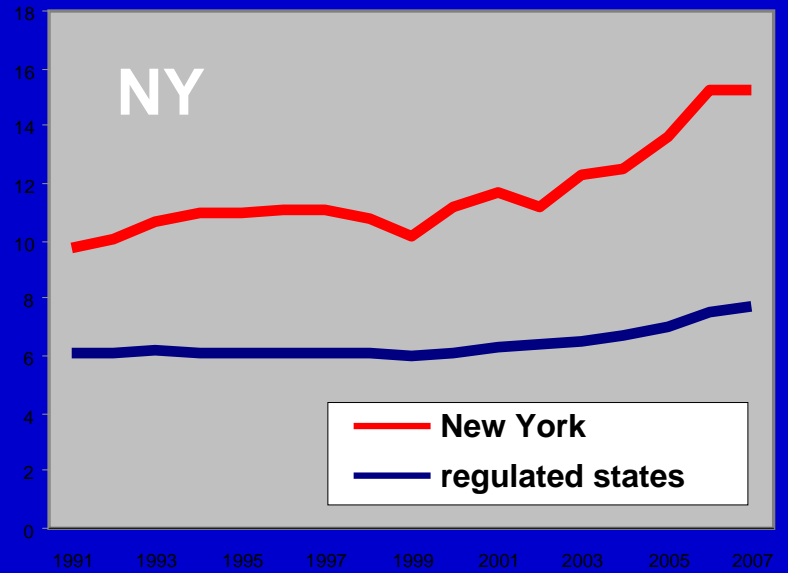
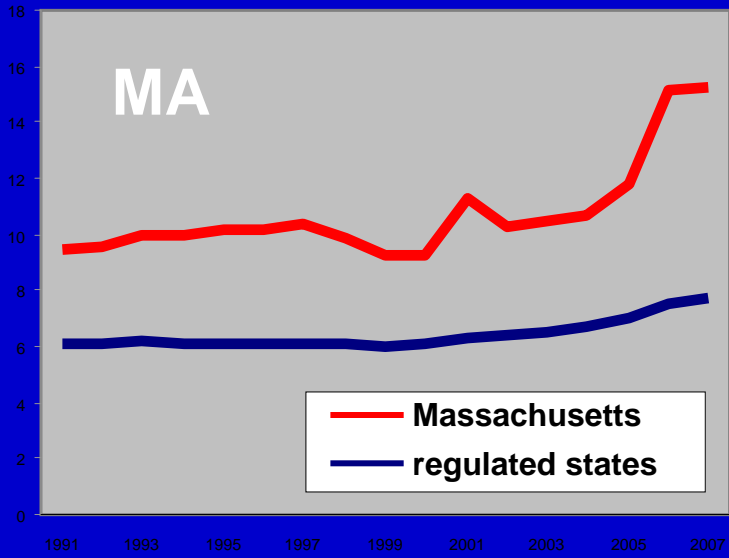
# Industrial Customers



# *In “real prices,” dynamic is the same i.e., adjusted for inflation*



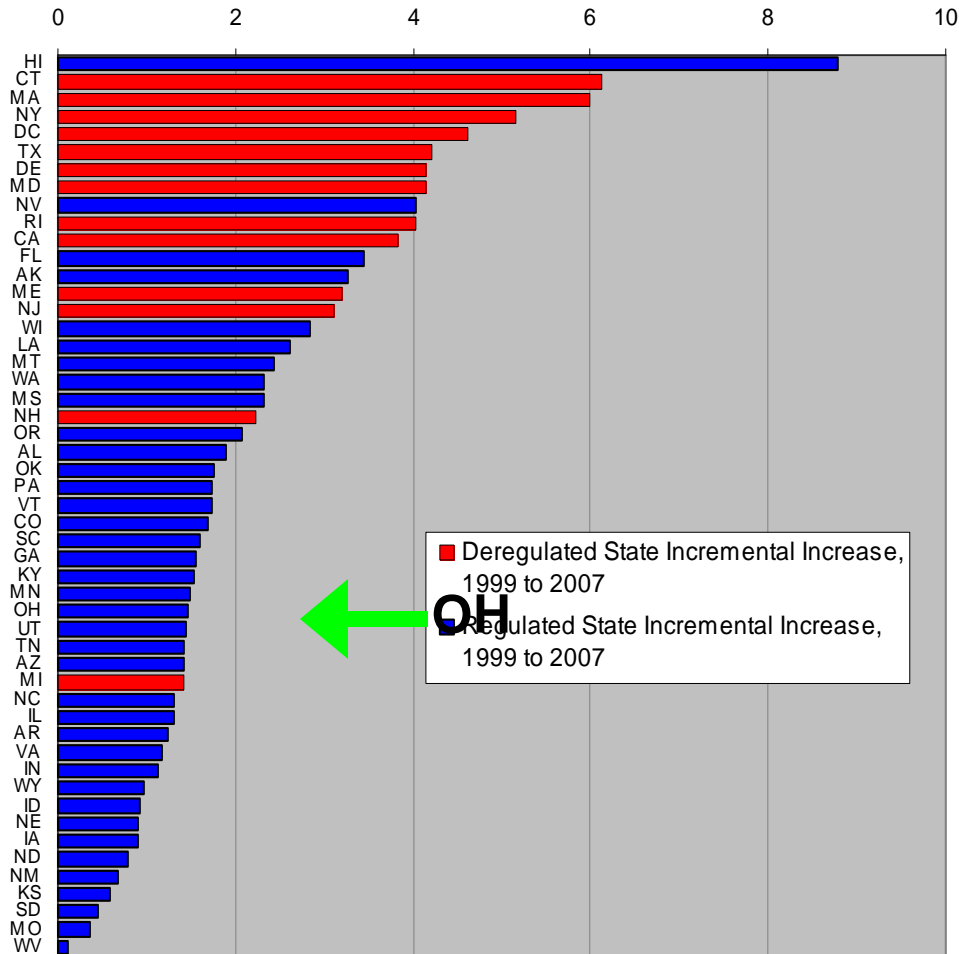
“Spread”  
between  
Reg and  
Dereg  
widened  
from 32  
to 45  
points  
around  
the  
average



PPI

### INCREMENTAL PRICE CHANGE SINCE 1999 Average Delivered Retail Electricity Price for 12 Months Ending October, 2007 minus 1999, By State

cents/kwh (nominal)



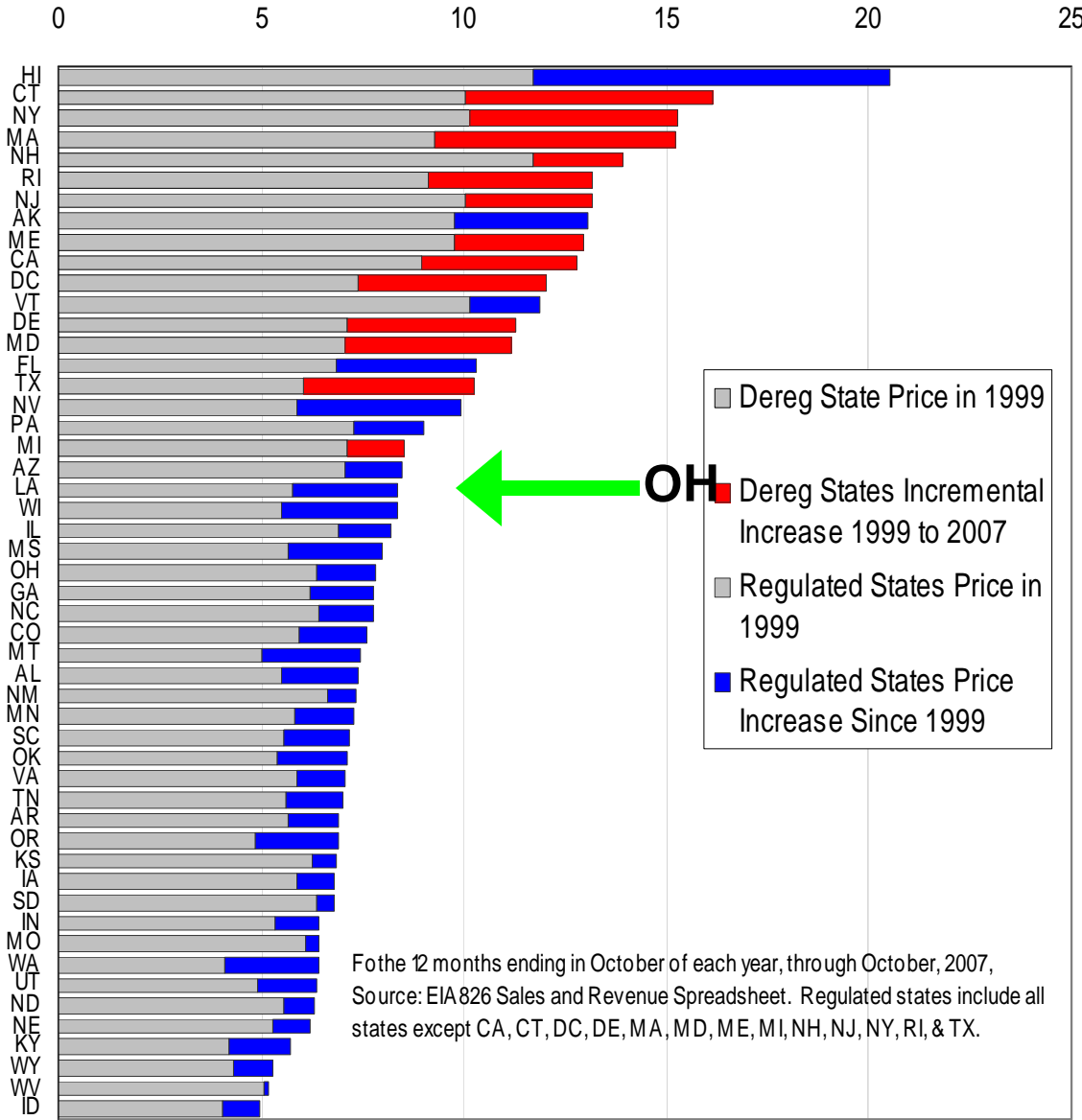
# INCREMENTAL INCREASE SINCE 1999

## TOP FIVE

- Connecticut
- Massachusetts
- New York
- District of Columbia
- Texas

PPI

### 2007 Total Delivered Retail Electricity Prices, Showing Increment Since 1999, By State



For the 12 months ending in October of each year, through October, 2007,  
 Source: EIA 826 Sales and Revenue Spreadsheet. Regulated states include all  
 states except CA, CT, DC, DE, MA, MD, ME, MI, NH, NJ, NY, RI, & TX.

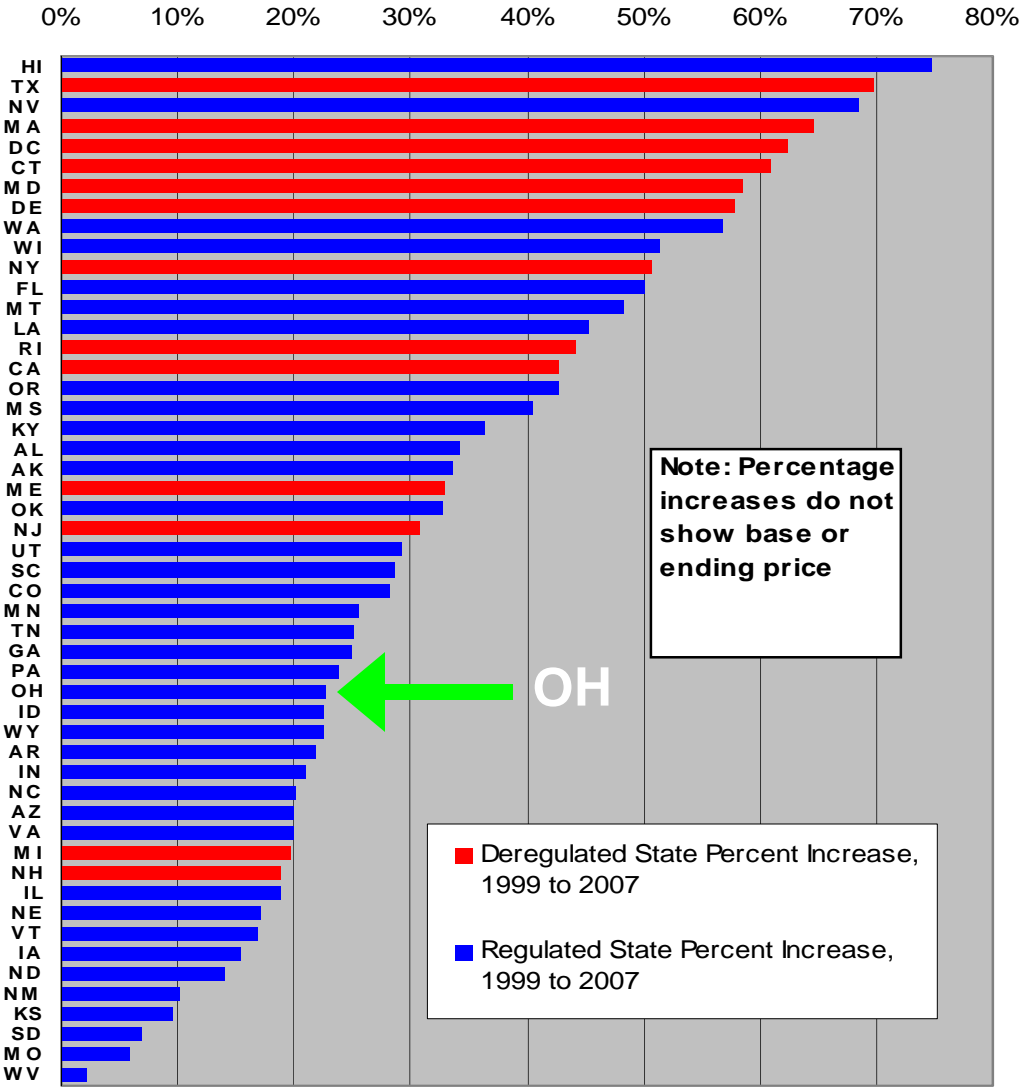
# PRICE IN 2007

## With increment since 1999

### TOP FIVE

- Connecticut
- Massachusetts
- New York
- New Hampshire
- Rhode Island

PERCENTAGE INCREASE SINCE 1999  
 In Average Total Delivered Retail Electricity Price for  
 12 Months Ending in October, 1999 to 2007, By State



# PERCENTAGE INCREASE SINCE 1999

## TOP FIVE

- Texas
- Nevada
- Massachusetts
- District of Columbia
- Connecticut

# ***NATURAL GAS PRICES ARE NOT THE CAUSE OF THE GAP***

- See Ken Rose: Only 5.5% of PJM's energy comes from natural gas plants

<http://www.appanet.org/newsletters/ppmagazinedetail.cfm?ItemNumber=19299&sn.ItemNumber=2108>

- See Robert McCullough: When natural gas price is controlled for, the differential between RTO and non-RTO states

*increases* <http://www.appanet.org/files/PDFs/RestructuringsMissingBenchmark.pdf>

- Other dynamics DO help explain gap

# The “dark spread”

*All sellers get top price regardless of their underlying costs*

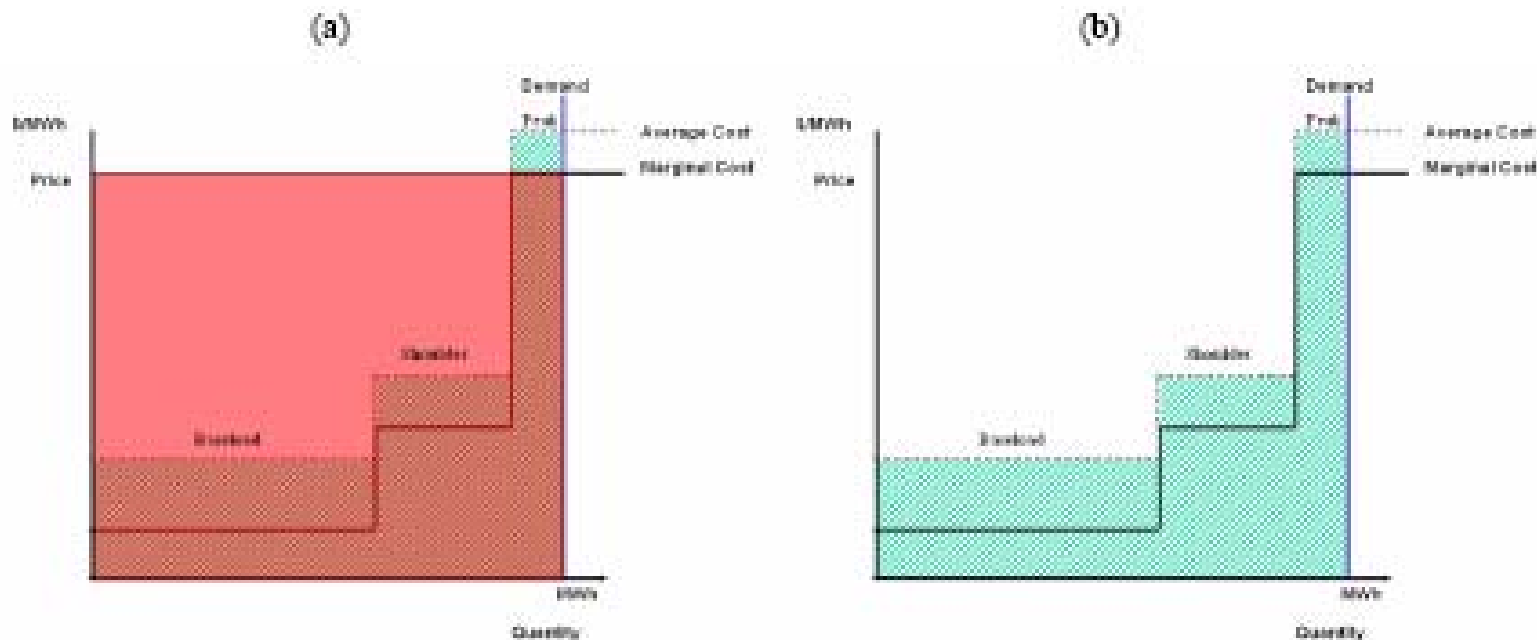
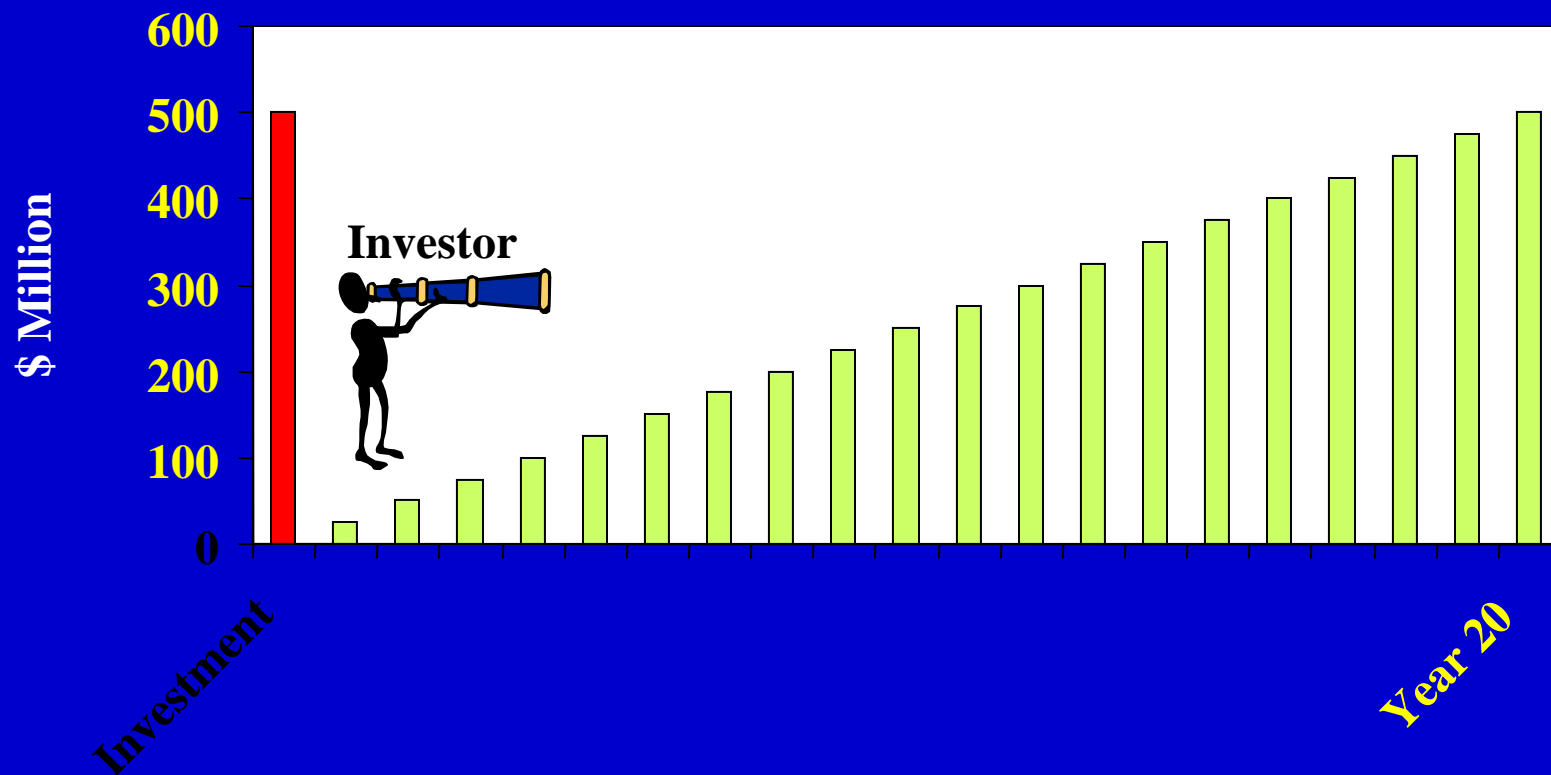


Figure 7. Marginal and average costs in a uniform auction and under regulation. Panel (a) represents the uniform-price auction, in which the price bid by the marginal unit is awarded to all successful bidders. Panel (b) represents the compensation in a regulated utility, where the regulator attempts to ensure that each generator is paid its average cost.

# Who will invest? Why?

## Under Traditional Regulation

*Slow and Steady – Low Investment Risk*

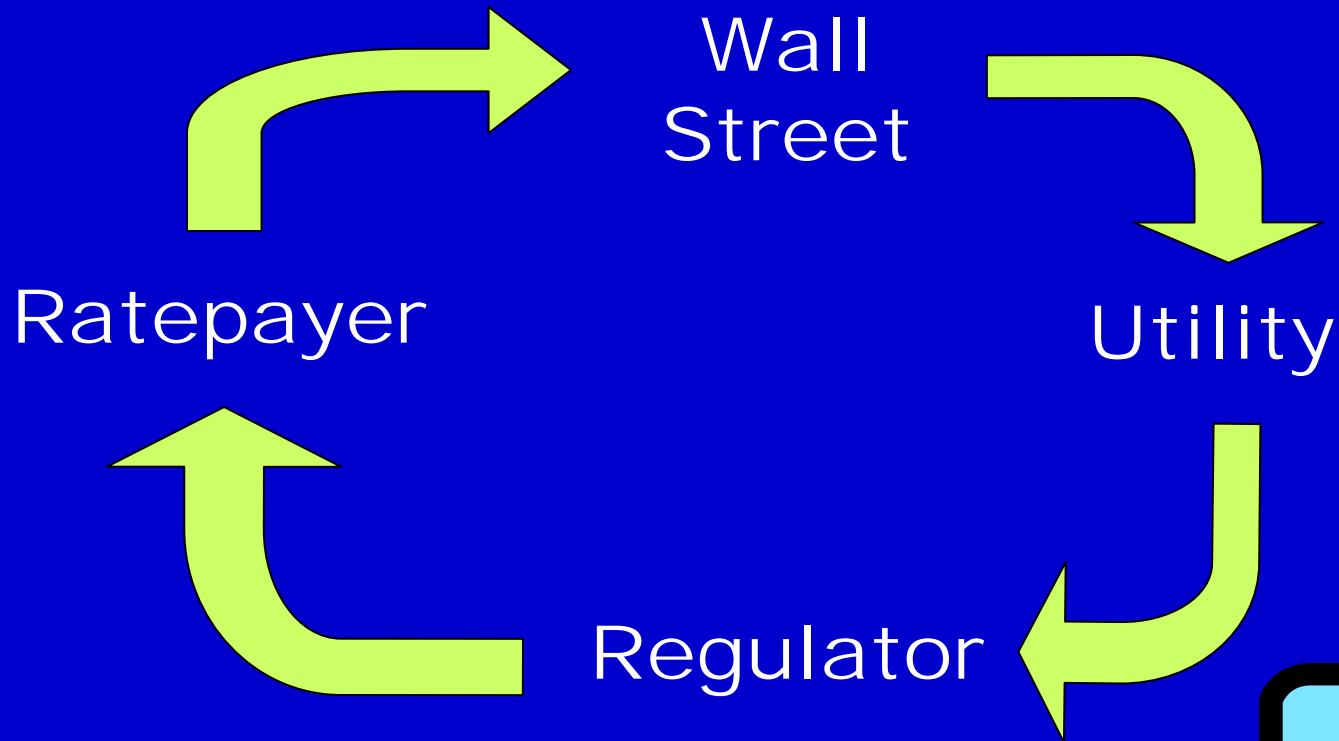


**Power Plant Investment Recovered Over 20 Years**



# Traditional Regulation

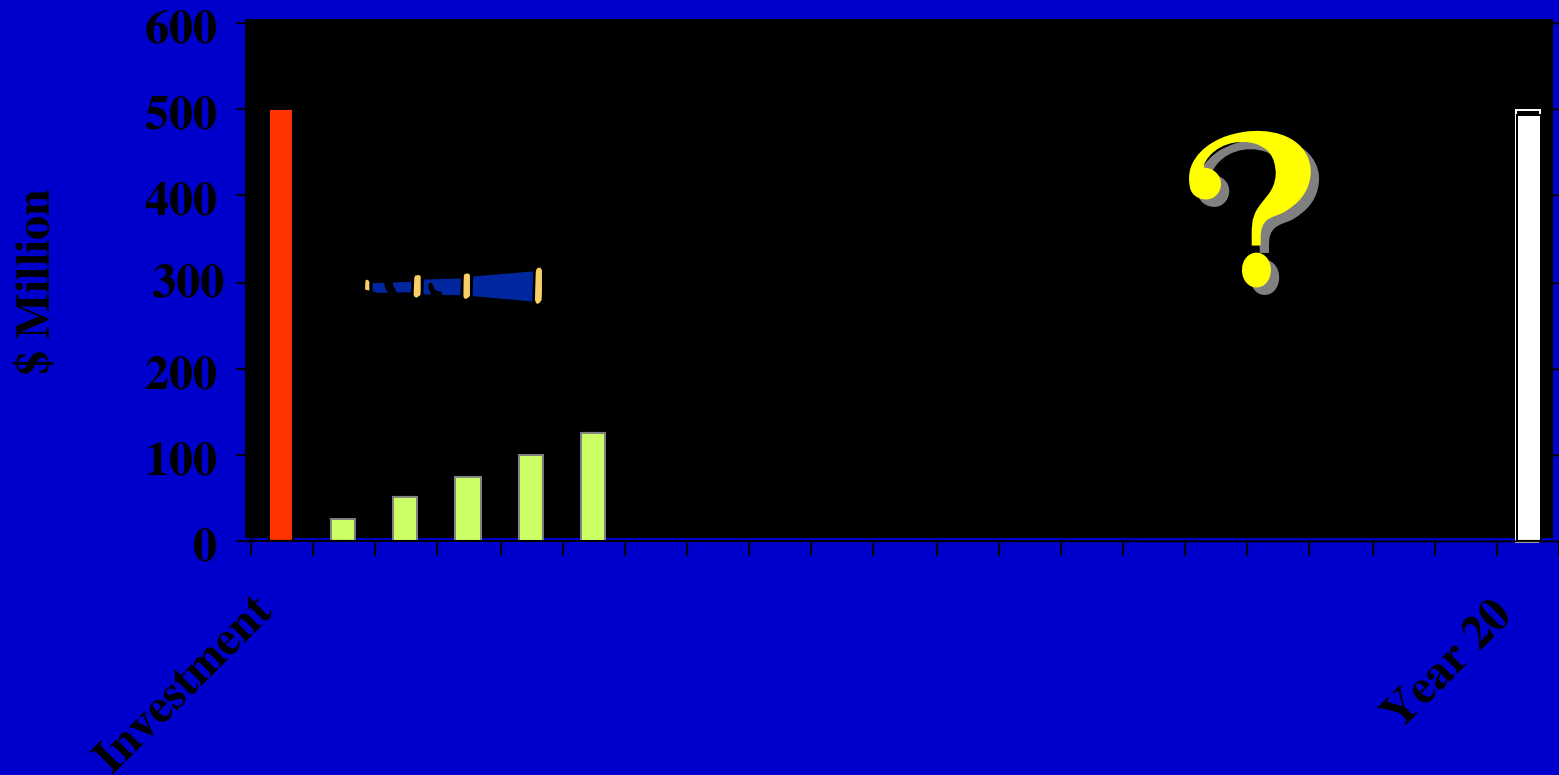
Tight Financial and Political Links



# *Who Will Invest? Why?*

## **With Competition/Customer Choice**

### *Uncertain Recovery Increases Risk & Cost*



# *Inherent Tensions with Competition*

- Scarcity pricing v reliability mandate for non-scarcity
- Volatile (scarcity) prices v consumer desire for stable prices
- Cyclical prices v burden among generations of customers
- Marginal pricing in inclining-cost era v avg cost advantage
- Short-term price signal v long-term investment needs
- Incentive to maintain scarcity v need to invest
- Reality of collective market behavior v competitive assumption
- Customer choice v increased risk & cost without captive base
- Customer “choice” v customer dissatisfaction
- RTO governance v demand for stronger public accountability
- “Efficiency” of market v efficiency of vertical integration

# *What to do?*

- Restore obligation and authority to regulate electricity in the public interest
- Restore obligation and ability of utility to pursue practices that bring the greatest public benefit
  - *This does not preclude competitive forces IF in they are found to be in the public interest*
- Measure net benefits to end-user, over time re:
  - *Reliability*
  - *Price*
  - *Sustainability*
  - *Accountability*

- Total Retail Reregulation
- Utility self-build, esp baseload
- Competitive Procurement
- State power authority
- Consumer Credits
- Advocating for changes at RTO
- Withdrawing from RTO
- Forming a “non-RTO”

# RPS, Carbon Tax/Cap and Regulatory Structure

- Regulated systems will incorporate mandates into planning, obligations, and rates; rates will go up *only proportionally*
- Deregulated systems will also have to meet requirements
  - *Higher cost of resources will drive all prices up in RTOs (due to single auction clearing price, or “dark spread”)*

# *Best of Luck*

- Restore obligation and authority to regulate electricity in the public interest
- Restore obligation and ability of utility to pursue practices that bring the greatest public benefit
- Measure net benefits to end-user, over time re:
  - *Reliability*
  - *Price*
  - *Sustainability*
  - *Accountability*

# NOTES

**Data in this presentation are derived from US DOE Energy Information Administration Spreadsheet 826, and reflect average prices for the 12 months ending in October, through October 2007—the most current data available on the date of this presentation.**

**These data are comprehensive and include sales by investor-owned utilities, consumer-owned utilities, and independent power marketers and suppliers.**

**The “deregulated states” are CA, CT, DC, DE, MA, MD, ME, MI, NH, NJ, NY, RI, & TX, and, for industrial prices only, MT. All others are “regulated.”**

**For fuller descriptions, definitions, sources, and data, please see report and appendix, “Electricity Prices Trends, Deregulated vs Regulated States,” and “Ohio Supplement” by Marilyn Showalter, February 12, 2008, at [www.ppinet.org](http://www.ppinet.org)**



## *Marilyn Showalter*

Marilyn Showalter is Executive Director of ***Power in the Public Interest***, which promotes state, regional, and federal electricity policies that benefit consumers over the long term.

Prior to her current position, Ms. Showalter was Executive Director of the Public Power Council, in Portland, Oregon. She also served for six years as Chairwoman of the Washington Utilities and Transportation Commission, which regulates investor-owned utilities. She is also a former President of the National Association of Regulatory Utility Commissioners (NARUC).

A graduate of Harvard College and Harvard Law School, Ms. Showalter has served in a number of governmental capacities in the state of Washington, including Counsel to the Governor, Chief Clerk of the state House of Representatives, Counsel to the state House Appropriations Committee, and Senior Deputy Prosecuting Attorney.

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