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Power in the Public Interest

For immediate release

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Gap in Electricity Prices For Industrial Customers Between Deregulated and Regulated States Has Tripled Since 1999, Power in the Public Interest Reports

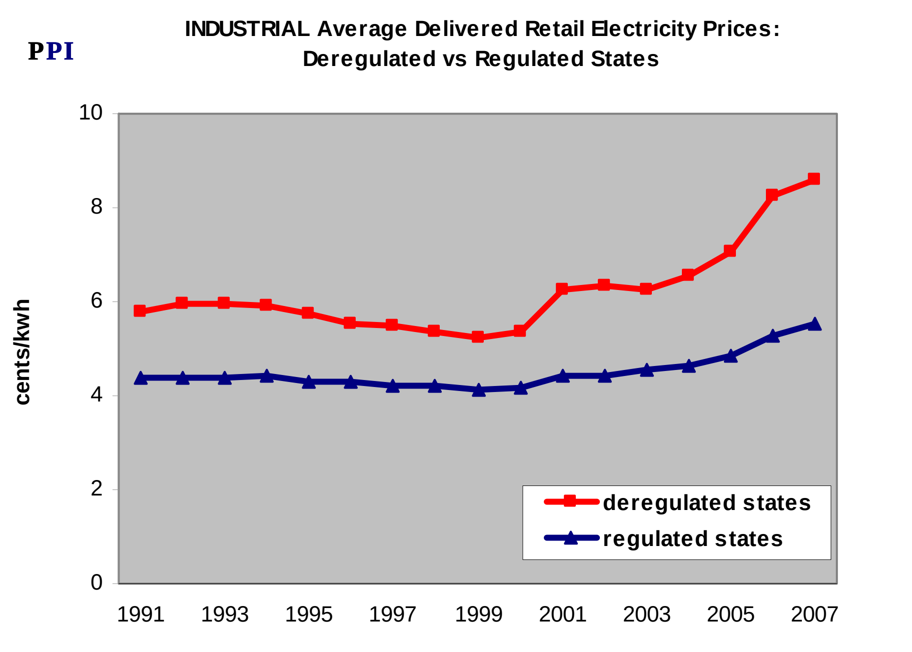
A $55 Billion Difference

OLYMPIA, WA, November 6, 2007—Industrial electricity customers who had hoped deregulation would bring them lower electricity prices have instead seen rising prices and a widening price gap between them and their counterparts in regulated states, according to a study released today by Power in the Public Interest. The price gap has tripled since 1999, and today industrial customers in deregulated states pay roughly $7.2 billion more annually for their power than their counterparts in regulated states would pay for the same amount of energy, according to the PPI study (http://www.ppinet.org/PDFs/PPI-rp-INDjul07data-nov07.pdf).

"This gap in purchasing power explains why industrial customers are hurting as they try to compete with their counterparts in regulated states," Showalter said. "Deregulation is not responsible for the entire gap, but the so-called competitive electricity markets aren't good for competitiveness," she observed.

Figure 2 from the study shows price trends for this group, compared to prices in the regulated states, since 1991, and the widening gap since 1999.

Figure 2 – Industrial Customers, Nominal Dollars



For the 12 months ending in July of each year, through July 2007, EIA Data. 'Deregulated' states include CA, CT, DC, DE, MA, MD, ME, MI, MT, NH, NJ, NY, RI & TX. All other states are 'regulated.'

Twelve states (California, Connecticut, Delaware, Maine, Maryland, Massachusetts, Michigan, New Hampshire, New Jersey, New York, Rhode Island and Texas) and the District of Columbia have deregulated electricity prices and their consumers are subject to market prices. In addition Montana deregulated industrial (but not residential) prices for the period analyzed in the study; it is now returning to a regulated model.

The PPI study, based on Energy Department data, reveals that the gap in prices between the deregulated and regulated states has dramatically widened since 1999, when deregulation began to unfold. Prices in the collective deregulated states have increased in real dollars, increased as a percent of the national average, and increased as a percent of the price in regulated states.

Key findings include:

- The gap in industrial retail electricity prices between the deregulated and regulated states has roughly *tripled* since 1999—from a gap of 1.09 cents/kwh in 1999 to a gap of 3.08 cents/kwh in 2007. In 1999, the average price per kwh for industrial customers in the now deregulated states was 5.23 cents, compared to 4.14 cents in the regulated states. In 2007, the average price for the deregulated states is 8.60 cents, compared to 5.52 in the regulated states.

- In 1999, industrial customers in the now-deregulated states paid $3.7 billion more for electricity (in 2006 dollars) than they would have paid, had they been able to purchase power at the regulated states' average price; today they pay $7.2 billion more than they would pay if they could purchase at the regulated states' average price. The eight-year (2000-2007) cumulative value of this gap in purchasing power, if the money were invested at a real rate of return, is $55 billion.

- Since 1999, prices for industrial customers in deregulated states have gone from 18% *above* to 37% *above* the national average, while prices for industrial customers in regulated states have gone from 7% *below* to 12% *below* the national average. So the *spread* between the two prices has increased from 25 to 49 percentage points.

- Comparing the two groups directly to each other, since 1999, deregulated industrial prices have gone from 26% higher to 56% higher than regulated prices.

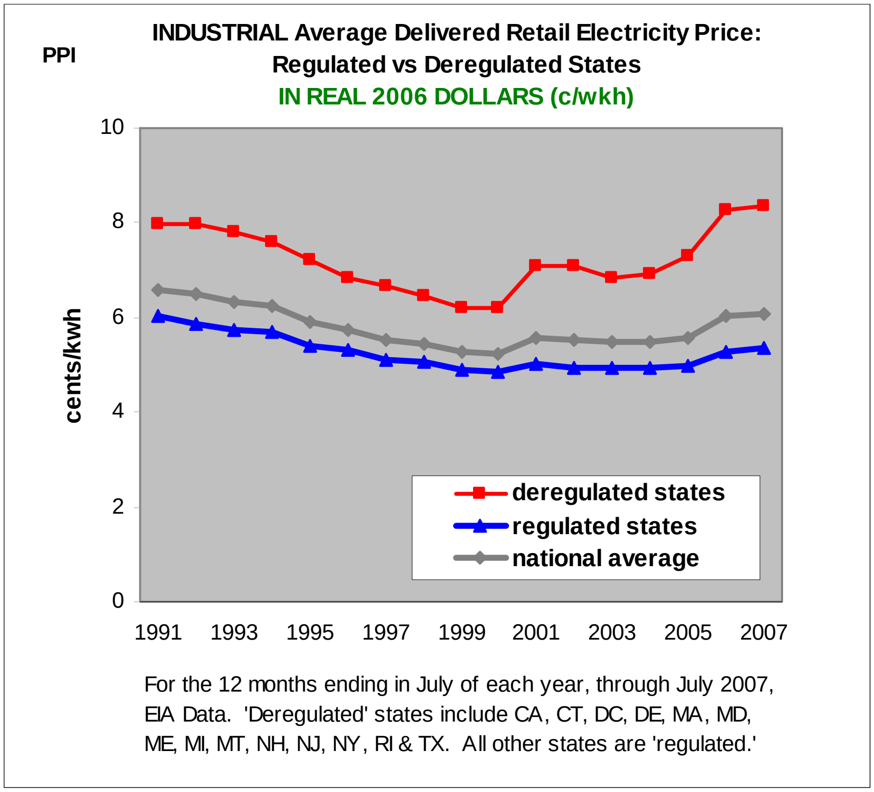
- Of the top ten states ranked according to largest incremental increase in industrial price since 1999, all are deregulated states (except Hawaii and Alaska). They are: Maryland, Connecticut, Massachusetts, Washington, D.C., Maine, Rhode Island, New York and Texas.

The main culprit behind the price gap is the wholesale market designs used by regional transmission organizations, Showalter said. In RTOs, the most expensive supply, often a natural gas plant, sets the price for all needed supplies, regardless of the underlying cost. In regulated, cost-based systems, a higher-cost resource will not significantly affect the amount consumers must pay for a lower-cost resource, Showalter said.

The study analyzed the latest data available from the U. S. Energy Information Administration, Department of Energy, through July 2007, for total delivered price (for generation, transmission, and distribution) to all industrial customers in a state. It measured prices for the 12 months ending in July of each year, through July 2007.

Figure 9 from the study shows price trends in *real* (2006) dollars. It shows that from 1991 through the 12 months ending July 2000 (before deregulation took hold), real prices trended down for both groups. Since then, however, real prices for the deregulated group have risen dramatically, whereas real prices in the regulated group have risen quite modestly.

Figure 9 – Industrial Customers, Real 2006 Dollars



Though the study focused on industrial customers, it also reported on prices for all customers (residential, commercial and industrial). For the total group, the gap in retail electricity prices between deregulated and regulated states has more than doubled—from 2.1 cents/kwh in 1999 to 4.3 cents/kwh in 2007. The eight-year cumulative value of the gap in prices between regulated and deregulated states, invested in a real return of 5 percent, is $337 billion, in 2006 dollars.

Power in the Public Interest was formed by utilities and utility-organizations interested in promoting state, regional, and federal electricity policies that secure for consumers a reliable, affordable, and durable electricity system. PPI's Executive Director is Marilyn Showalter, who has served previously as chair of the Washington State Utilities and Transportation Commission, as president of the National Association of Regulatory Utility Commissioners (NARUC), and as executive director of the Public Power Council. She is a graduate of Harvard College and Harvard Law School. She may be reached at 360-259-1700, marilyn.showalter@ppinet.org. PPI's website is www.ppinet.org.

Note: An earlier version of this release inadvertently omitted New York from the list of deregulated states.