

Say that again?

By Marilyn Showalter, <http://ppiforum.wordpress.com>

On several occasions, EPSA has faulted PPI's studies for failing to include Illinois, Ohio, Pennsylvania, and Virginia (and sometimes Arizona) in the group of "restructured" or "deregulated" states, for purposes of comparing prices with "regulated" states. I have responded that because these states had price caps or price credits for virtually all of the study period, their prices do not reflect market prices, which is what I am comparing to regulated prices.

Recently, in a story on industrial prices, the New York Times described EPSA's rationale: "John Shelk, president of the supply association, said that but for efforts to create competitive markets, government would not have ordered lower prices during a transition from regulation to market pricing. Therefore, he reasoned, government-mandated savings should be included in calculating the benefits of market pricing."

This is curious logic, indeed: Legislated price caps are a benefit of market prices because they are constraining what would be higher market prices in the absence of the price caps, but these market prices are not yet in place and may never be.

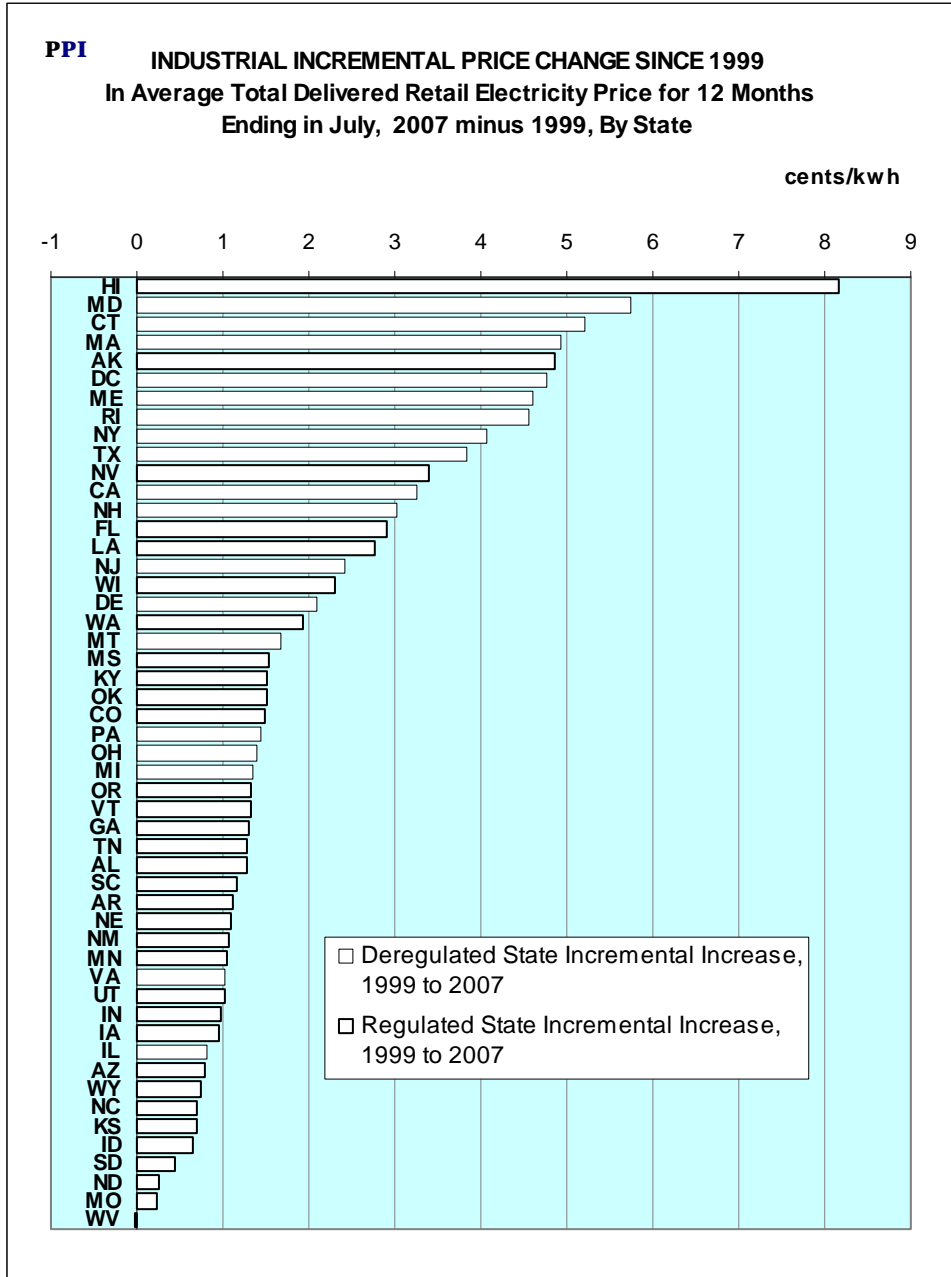
Readers can ponder this brain twister for themselves, but even EPSA's selection of states does not compare well with the rest of the states.

I had categorized as "deregulated," for purposes of industrial electricity prices, the states of California, Connecticut, District of Columbia, Delaware, Maryland, Massachusetts, Maine, Michigan, Montana, New Hampshire, New Jersey, New York, Rhode Island & Texas. I reported that the gap in industrial prices between regulated and these deregulated states tripled since 1999. I also reported that the cumulative value of this gap from 2000 through 2007 is \$55 billion in 2006 dollars if invested at a real return of 5%.

However, adding in the five states EPSA wants included, the gap doubles and the cumulative value of the gap from 2000 through 2007 *rises to \$70 billion*. Not much to crow about, there. (The rise in value is due to the large size and relatively high prices of the five states added into the "deregulated" groups and subtracted from the regulated group.)

Perhaps readers would like to make their own categories. Here are the incremental price increases since 1999 for all 50 states, ranked by size of increase. Go ahead! Color-code it for yourself! Of the top ten states, how many are deregulated, in your view?

COLOR IT IN YOURSELF INDUSTRIAL



For the 12 months ending in July, through July 2007, EIA data.