

WILL THE TEXAS MARKET SUCCEED, WHERE SO MANY OTHERS HAVE NOW FAILED?

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The Electric Reliability Council of Texas (ERCOT) market may be the last great hope for a successful restructured retail electricity market in North America. The market consistently receives high marks from retailers. Customer switching rates are relatively high. Competition has been enhanced in many segments of the market, providing consumers with new choices of suppliers and services. Reliability has been maintained. Many of the problems that plagued the California market have been avoided. The expiration of retail price caps (the price to beat or PTB) appears to have had no adverse consequences for market prices. In fact, allowing the retail electric provider (REP) affiliated with the traditional utility provider some pricing flexibility appears to have lowered competitive prices.

However, some policy goals remain elusive. In an era of high natural gas prices, electricity consumers in the competitive areas of Texas face much higher electricity prices than their neighbors in areas not opened to retail competition. Long-term resource adequacy and demand response remain concerns.

This paper provides a “progress report” and general assessment of the State’s efforts to foster a competitive restructured market.

Methods

The degree of competition in the ERCOT market is reviewed, along with the numbers of suppliers in various segments of the market. The concentration of suppliers in certain segments of the market is discussed. Customer switching rates and other metrics are reviewed to discern the degree of competition in retail sales of electricity.

Trends and levels in the average price of electricity to residential and commercial energy consumers in areas of the State where competition has been introduced are compared to prices in areas where competition has not yet been launched.

Results

In contrast to many other U.S. states, Texas has indeed been relatively successful in introducing competition into the retail level of the market. Much of this success may be traced to the creation of an open environment to encourage investment and entry. Steps were successfully taken to ensure fair competition for new entrants and the independent system operator assumed some unusual roles (including a “Central Registration Agent” function). Maintaining a workably competitive wholesale market remains a challenge, but Texas is taking a number of positive steps to mitigate market power as it transitions toward a nodal market structure.

For residential and commercial consumers of electricity, average electricity prices have increased more rapidly in areas of the State where competition has been introduced than in other areas. Thus, ERCOT is not immune to some of the problems that have caused California and many states in the Northeast U.S. to reconsider deregulation. However, the competitive Texas market offers opportunities for consumers to receive electric service at prices below the average prices.

Conclusions

It is hoped that the many lessons learned from Texas' relatively successful experience with restructuring will shape restructuring initiatives in other markets.

For the Texas market to continue its success, further work remains in the following areas:

- Implementation of a nodal wholesale market structure,
- Demand response,
- Constraining market power,
- Ensuring long-term resource adequacy, and
- Keeping an eye on retail prices.