Retail Electric Rates in Deregulated and Regulated States: 2012Update

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Retail Electric Rates in Deregulated and Regulated States: 2012 Update

The U.S. Department of Energy, Energy Information Administration (EIA) data show that between 1997 and 2012, increases in retail electric prices were higher in states with deregulated electric markets than in regulated states. EIA has just published full-year 2012 data, allowing a 15-year comparison between deregulated and regulated states.

The deregulated category includes states with retail choice programs, and whose rates are strongly influenced by wholesale power prices in markets under the jurisdiction of the Federal Energy Regulatory Commission (FERC). These states allow end-use customers to choose their electricity provider (retail choice) and no longer have rate caps or other forms of regulatory protections that limit customers' exposure to wholesale market prices. Deregulated states are California, Connecticut, the District of Columbia, Delaware, Illinois, Massachusetts, Maryland, Maine, Michigan, Montana, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, and Rhode Island.

The regulated category includes those states with traditional rate regulation. Ohio has been added to the list of deregulated states as its transitional rate regulation has come to an end.

Average retail rates for each category were calculated by dividing total annual revenue from sales to consumers by total annual sales to consumers.

In most deregulated states, IOUs sold off their electric generating facilities as part of the implementation of the retail choice regime. Over the past few years, the percentage of customers purchasing from an alternative supplier has increased and currently ranges from about 15 to 45 percent in most retail choice states. The distribution utility purchases power from the wholesale market to serve the remaining customers not purchasing from an alternative supplier. (This is generally called default or provider-of-last-resort service). With the exception of part of Montana, all of these states are located in regions where wholesale electricity prices are set through centralized wholesale markets run by regional transmission organizations (RTOs) and Independent System Operators (ISOs).

The following chart and graph cover fifteen years of experience with retail choice programs. 1997 was chosen as the starting year as it represents the last year with essentially no retail choice activity. The decline in rates in deregulated states in 1998 and 1999 most likely reflects the effect of mandated rate decreases in retail choice states, but the decline was short-lived as rates began rising again in 2000.

Rates for both deregulated and regulated states increased steadily for the first half of the previous decade, then increased dramatically in deregulated states between 2005 and 2006 as more rate caps came off and natural gas prices increased. Rates in regulated states also increased, though at a slightly slower pace. The decline in natural gas prices has kept rates in deregulated states relatively flat from 2008-2012. Rates in regulated

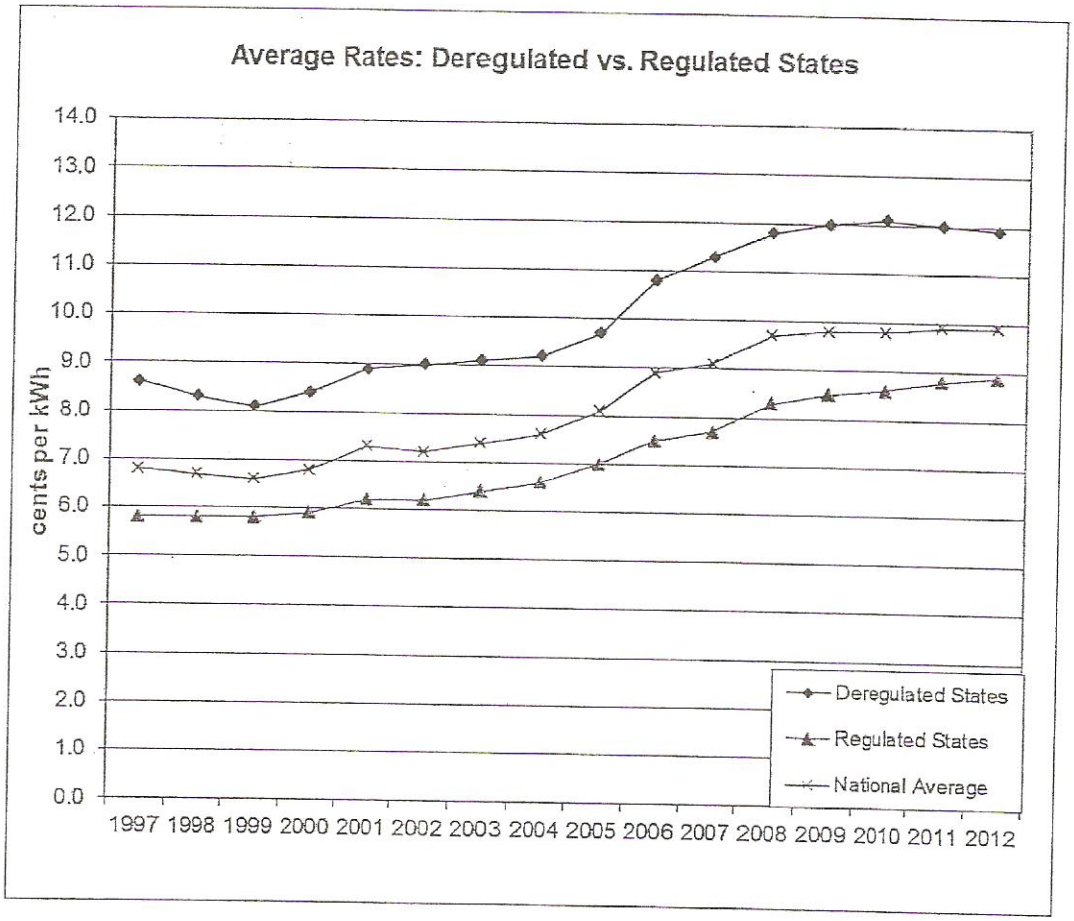
states increased slightly by 0.6 cents during this period, but are still 25 percent below rates in deregulated states.

States that implemented retail choice electric plans were generally high cost states, and the hope was that competition by electric suppliers would result in lower rates. In 1997, the states in the deregulated category had average rates that were 2.8 cents per kWh above rates in the regulated states (8.6 vs. 5.8). Unfortunately, the retail choice experience – complete with the combined effect of divestiture of utility generating assets, and exposure of retail consumers to wholesale rates set in RTO markets – has resulted in an even larger gap in 2012, with deregulated states paying, on average, rates that are 3.0 cents per kWh above rates in regulated states (11.9 vs. 8.9).

Average Revenue per Kilowatt-hour: Deregulated vs. Regulated States
Source: Energy Information Administration, Forms EIA-861 and EIA-826.

	Deregulated States	Regulated States	National
	(in cents per kilowatt-hour)		
1997	8.6	5.8	6.8
1998	8.3	5.8	6.7
1999	8.1	5.8	6.6
2000	8.4	5.9	6.8
2001	8.9	6.2	7.3
2002	9.0	6.2	7.2
2003	9.1	6.4	7.4
2004	9.2	6.6	7.6
2005	9.7	7.0	8.1
2006	10.8	7.5	8.9
2007	11.3	7.7	9.1
2008	11.8	8.3	9.7
2009	12.0	8.5	9.8
2010	12.1	8.6	9.8
2011	12.0	8.8	9.9
2012	11.9	8.9	9.9
Difference, in cents per kilowatt-hour			
1997-2012	3.3	3.1	3.1

Notes: Deregulated states include: CA,CT,DC,DE,IL,MA,MD,ME,MI,MT,NH,NJ,NY,OH,PA,RI
Regulated states include all other states except for Texas.
Texas is included in the National average.

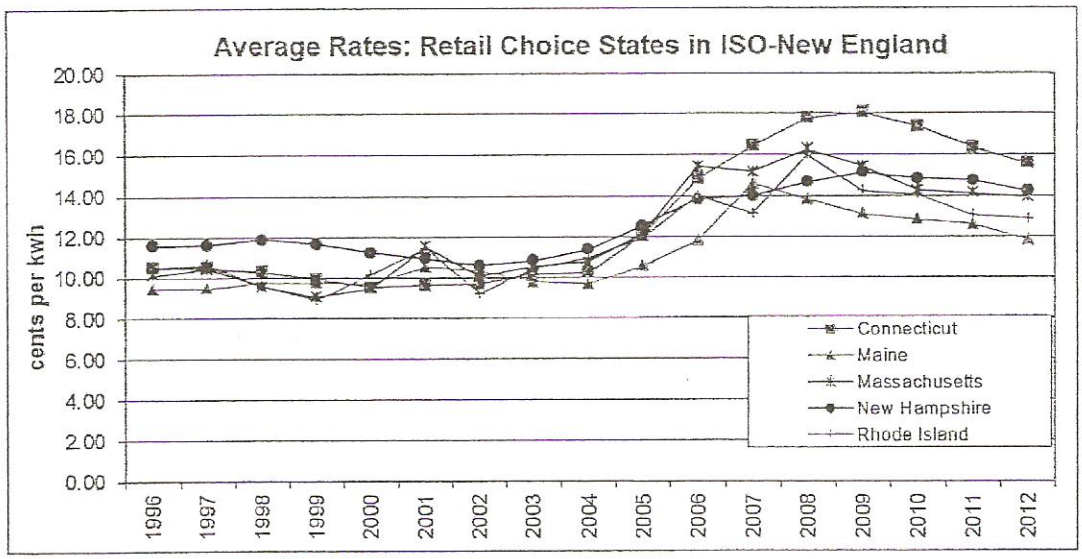

Average Rates: Deregulated vs. Regulated States
cents per kWh
14.0
13.0
12.0
11.0
10.0
9.0
8.0
7.0
6.0
5.0
4.0
3.0
2.0
1.0
0.0
1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012
Deregulated States
Regulated States
National Average

Data for Individual States

Five of the 15 states in the deregulated category are located in the footprint of the New England RTO (known as ISO-New England). The table below shows that rates for all five states were already well above the national average in 1997. Over the 15-year period, both Connecticut and Massachusetts experienced rate increases significantly above the national average. The graph shows that rates in these New England states have declined over the last three to four years. This is most likely a result of steep drops in natural gas prices, as the New England region relies heavily on natural gas for generation.

State Average Customer Rates, in cents per kWh

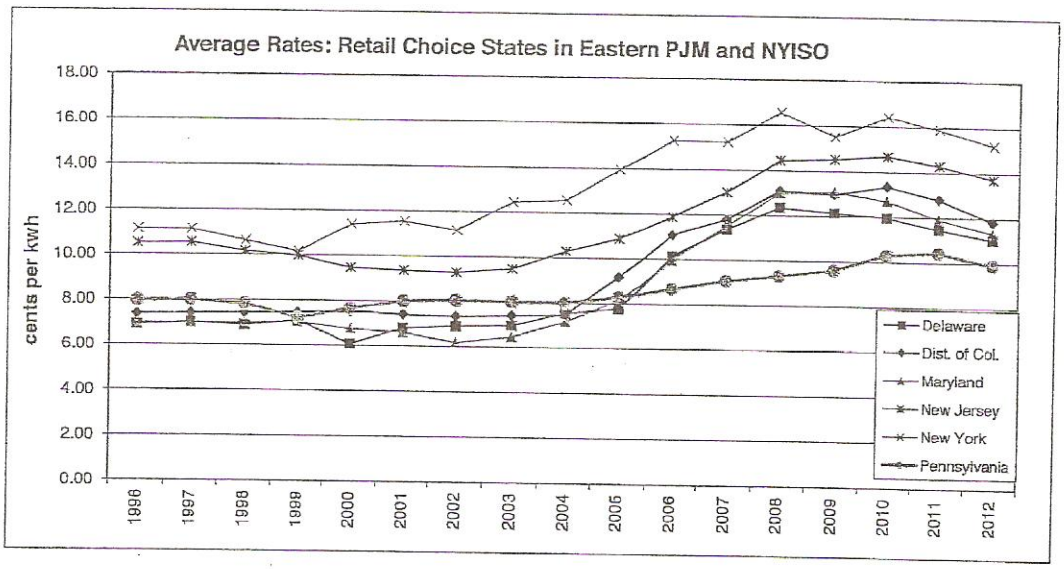
	1997	2012	Difference
ISO - New England			
Connecticut	10.5	15.6	5.1
Maine	9.5	11.8	2.3
Massachusetts	10.4	13.9	3.5
New Hampshire	11.6	14.2	2.6
Rhode Island	10.7	12.9	2.2
National Average	6.8	9.9	3.1



Four retail choice states and the District of Columbia are in the PJM RTO, and the state of New York comprises the New York RTO (known as NYISO). The table below shows that retail rates in all jurisdictions except Pennsylvania increased more than the national average between 1997 and 2012. Most Pennsylvania customers were still subject to rate caps until 2011. Rates for this state increased slightly as the rate caps came off in 2010 and 2011.

State Average Customer Rates, in cents per kWh

	1997	2012	Difference
Eastern PJM and NYISO			
Delaware	7.0	11.1	4.1
District of Columbia	7.4	11.8	4.4
Maryland	7.0	11.3	4.3
New Jersey	10.5	13.7	3.2
Pennsylvania	8.0	9.9	1.9
New York	11.1	15.2	4.1
National Average	6.8	9.9	3.1



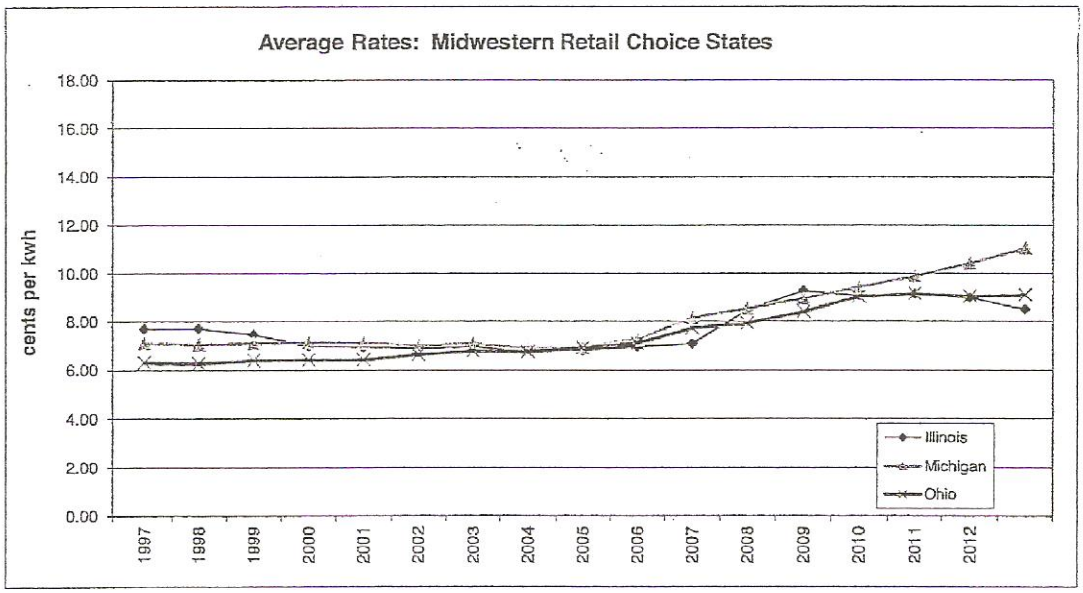
Utilities in the three retail choice states in the Midwest operate in both PJM and the Midwest ISO (MISO). Commonwealth Edison, which serves over 60 percent of the load in Illinois, is in PJM, while the rest of the Illinois utilities, almost all of Michigan, and the northern half of Ohio are in MISO. Rates in Illinois were subject to a rate cap through 2006. The state used an auction process to establish the 2007 rate, and because the results were so high, subsequently negotiated a refund settlement with the largest utilities. The settlement was authorized by a 2007 law that also established the Illinois Power Authority to procure power for the state's IOUs.

Unlike IOUs in most retail choice states, Michigan utilities did not sell their generating assets, and as a consequence, only depend on wholesale power markets for a portion of their customers' power needs. Under the terms of a 2008 law, participation in retail choice programs is capped at ten percent of an IOU's retail sales.

Until recently, Ohio utilities had been subject to transition rate regulation. IOUs were required to offer customers a rate approved by the Public Utilities Commission of Ohio (PUCO) under a cost-plus-based electricity plan. Beginning in 2012 a large share of IOU load was bid at competitive auctions, and a majority of customers had switched to alternative suppliers. Because a large portion of Ohio ratepayers are now directly exposed to wholesale market prices, as of 2012 Ohio is considered a deregulated state.

State Average Customer Rates, in cents per kWh

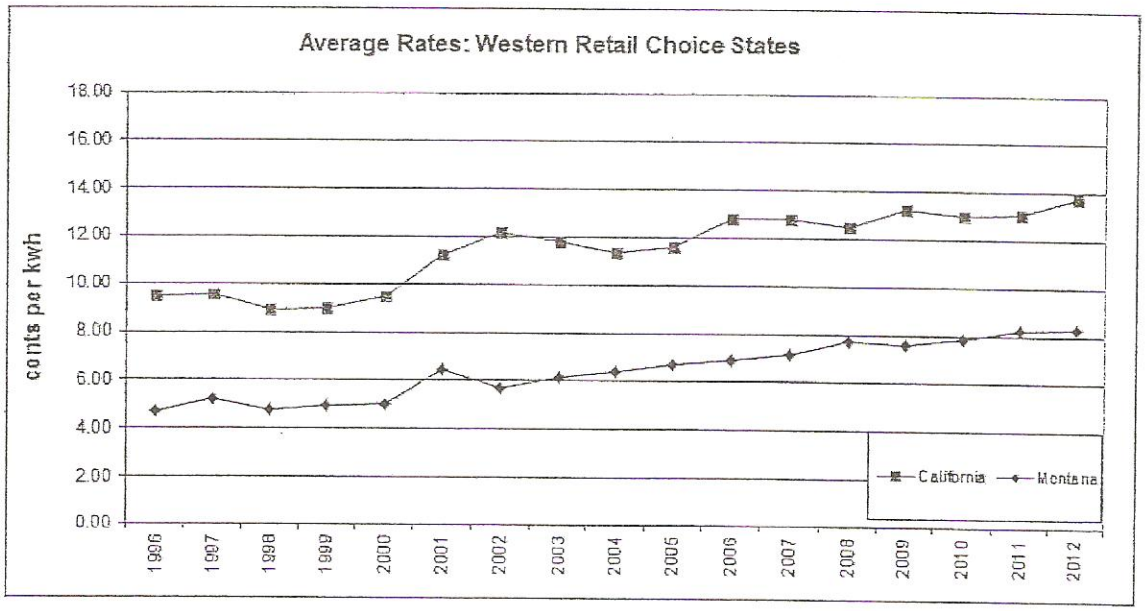
	1997	2012	Difference
Midwest			
Illinois	7.7	8.5	0.8
Michigan	7.0	11.0	4.0
Ohio	6.3	9.1	2.8
National Average	6.8	9.9	3.1



Only two western states implemented retail choice: California, which comprises the California ISO, and Montana. Both states currently have very limited retail choice programs. Average rates in California have increased more than the national average, while rates in Montana have increased exactly at the national average.

Following the California energy crisis in 2000-2001, retail choice was suspended in California, and the only customers that could choose their providers were those who were on retail choice plans at the time of the suspension. An October 2009 law allowed retail choice for commercial and industrial customers up to the level achieved prior to the suspension of retail choice, and in April 2010, the state Public Utilities Commission set the level at 11 percent of total retail sales.

Montana is the only retail choice state not entirely in an RTO, but the state's IOU sold off all of its generation, so the utility must purchase power in wholesale power markets, including RTO-operated markets. Montana enacted a law in 2007 to end retail choice for all but large customers with more than 5 megawatts of load and those customers on retail choice plans as of October 2007.

State Average Customer Rates, in cents per kWh

	1997	2012	Difference
Western States			
California	9.5	13.8	4.3
Montana	5.2	8.3	3.1
National Average	6.8	9.9	3.1