

## **ECONOMISTS: “WELL FUNCTIONING COMPETITIVE ELECTRICITY MARKETS YIELD THE GREATEST BENEFITS TO CONSUMERS”**

“Last June, eight highly regarded economists wrote an open letter to policymakers highlighting the benefits of well-constructed competitive electricity markets. In their letter, they noted billions of dollars in savings to consumers, the important shift of risk from consumers to suppliers, and the environmental benefits resulting from increased efficiencies, improved regional dispatch and more investment in emissions controls. Most importantly, they noted that rising rates are due to rising fuel costs, and are not limited to restructured markets. They stand behind competitive markets.”

*EPSA President and CEO John E. Shelk*

### **Excerpts from the Economists’ Letter**

#### **Economists Stand Behind Strength of Competition**

- “Among economists, it is almost universally accepted that well functioning competitive electricity markets yield the greatest benefits to consumers in terms of price, investment and innovation especially when regulated alternatives are no longer warranted.”

#### **Rising Fuel Costs Driving Rate Increases Across the Country**

- “...despite currently high electricity prices in many regions, driven by very high fuel input costs used to generate electricity, we are confident that well structured markets and robust competition are providing substantial benefits to electricity consumers. More importantly, these benefits will increase over time if an effective restructuring process and competitive market implementation program continue to receive support from policymakers.
- “Unfortunately, recent reports have blamed rising electricity prices on industry restructuring. These reports fail to identify the primary cause of today’s rising electricity prices --- dramatic increases in fuel costs at a time when retail rate freezes introduced as a transition to competition have come to an end.”

#### **Rate Increases Not Limited to Competitive Markets**

- “While there has been considerable publicity about sharp increases in electricity prices in restructured states such as Maryland and Delaware, where long-term retail rate freezes are expiring, we would point out that, during 2000-2005, regulated rates increased by 47% in Oklahoma and, since 2000, by 43% in Colorado, just to give two examples. No state, regulated or restructured, will ultimately escape the burden of the higher generation fuel prices we are experiencing now.”

## Risk Shift to Suppliers Yield “Huge” Benefits for Consumers

- “...properly structured, competitive markets shift the risk of bad business and investment decisions away from consumers by having the shareholders of competitive suppliers, and not electricity customers, bear those risks.”
- “The shifting of risks from customers to suppliers in a competitive market is a huge benefit for consumers in the long run since wiser investment choices and better cost control incentives will lead to more efficient outcomes.”

## Consumers Save Billions in “Real Dollars” From Competition

- “...restructured electricity markets are an efficient and reliable way to allocate resources, and there is growing evidence and convincing studies that show that consumers have saved billions of dollars in energy costs as a result of competitive markets when compared to the traditional regulation in effect before competition was implemented. The savings from competition are real dollars in the pockets of consumers ... .”

## Competitive Markets Yield Key Environmental Benefits

- ...“restructuring and competition have brought significant environmental benefits, with reduced emissions resulting from increased operating efficiencies, improved regional dispatch of generating resources, and the use of market signals to stimulate increased investment in transmission, emission control technology, highly fuel-efficient new generation and renewables.”

Source: *June 26, 2006 Open Letter to Policymakers, Paul L. Joskow, Alfred E. Kahn, William W. Hogan, Peter Cramton, Howard J. Axelrod, Vernon L. Smith, David W. DeRamus, Ph.D., Gary L. Hunt*