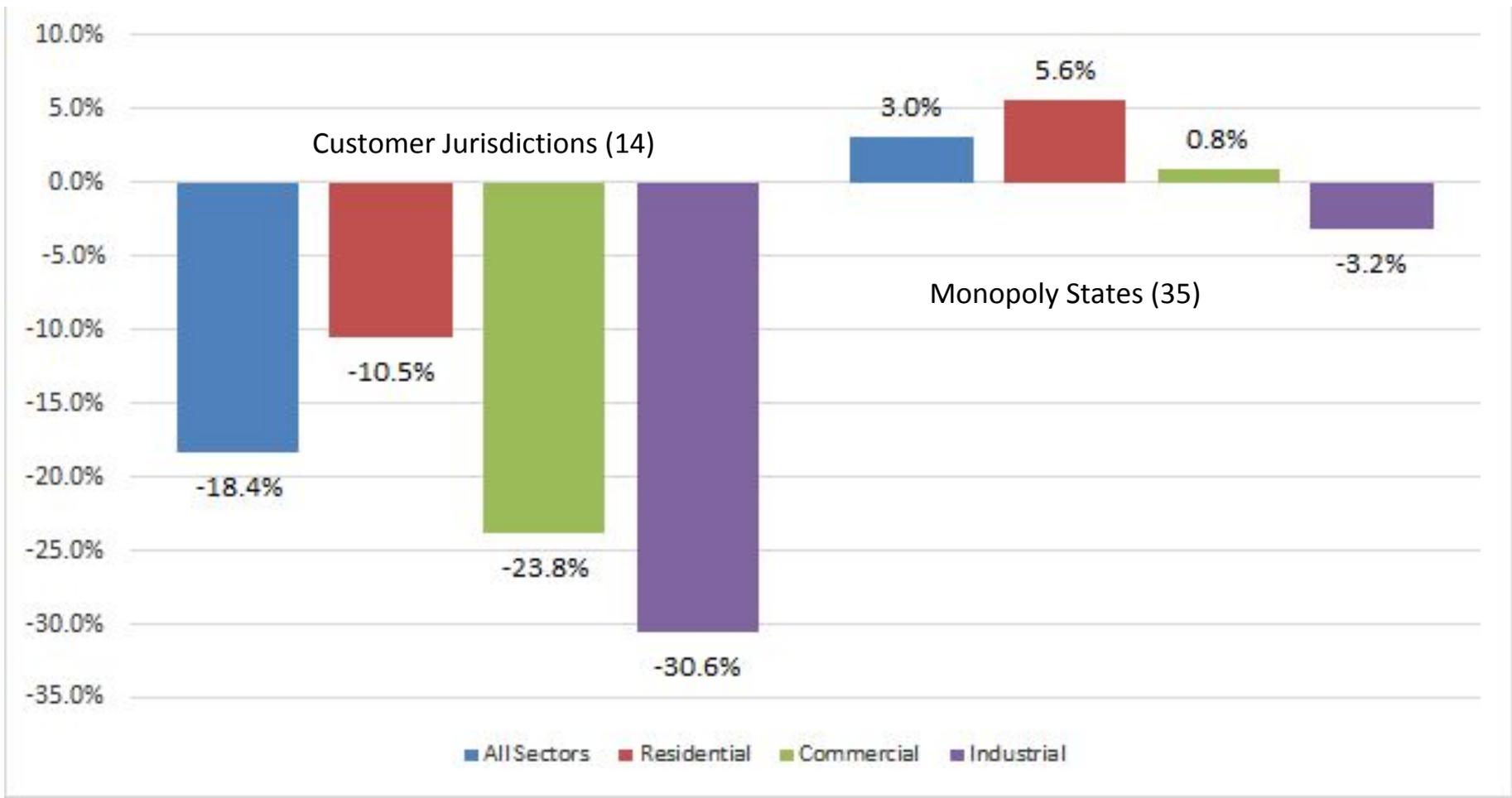# Inflation-Adjusted Weighted Average Percentage Price Change by Customer Class, Competitive vs. Monopoly States, 2008-2018

Source: EIA-861M

Price Trend Divergence in the Flat-Load Era
Figure 12 (page 18) of Restructuring Recharged (April 2017)
Updated through CY2018

The difference in risk allocation between monopoly and competitive regimes is being manifested most clearly in the divergent electricity price trends during the flat-load era since 2008. This figure shows the aggregate inflation-adjusted percentage changes in weighted average prices of delivered supply for the groups of 14 competitive jurisdictions and the 35 monopoly states from 2008 through 2018. It also shows stunningly different price trends in the competitive jurisdictions compared to the monopoly states from 2008 through 2018. The inflation-adjusted weighted average prices in the group of 35 monopoly states have risen inexorably. By contrast, in the 14 competitive markets, residential, commercial, and industrial inflation-adjusted weighted average prices have trended significantly downward.

Advocates for the monopoly model sometimes promote the notion that residential, small-business and non-profit customers such as schools are disadvantaged by choice. The assertion is that large commercial and industrial customers will reap the bulk of the benefits and that competitive suppliers will "cherry pick." Opponents of retail choice argue that allowing large customers to leave utility service will necessarily drive up costs for the remaining customers. In a monopoly state with a commission-approved revenue requirement, that may be true. However, the data show that prices for residential customers in competitive retail markets have been on a favorable track alongside the benefits that have accrued to C&I customers (all customers benefit, although the non-residential customers benefit more). While percentage changes in price differ among the customer classes in both the monopoly and choice states, this is due in part to the greater volumes and more constant demand characteristics of larger customers. Additionally, the costs of delivery services allocable to residential and small business customers constitute a greater share of total price.

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Continued…

The divergence in price trends between the group of states that have incorporated competitive markets and the group that has remained under monopoly regulation is neither accidental nor aberrational. It is a function of entirely different public policies that prescribe quite different ways in which supply prices are set and risks are borne. Traditional regulation sets supply prices on the basis of past capital investment and current costs of operation, with little regard for the actual economic value of the product. In competitive markets, supply prices are set by the dynamics of supply and demand. The problem for consumers served by monopoly utilities in the flat-load era is not merely one of poor risk allocation. Traditional regulation necessarily sends inaccurate price signals. Because traditional rate setting is in great part retrospective, prices will tend to be set too high in periods of surplus in order to recover investment in power plants that are producing less power than anticipated. Similarly, traditional regulation distorts price signals, including setting prices too low in periods of impending shortage and too high in periods of surplus. This upside-down pricing is resulting in rising prices in monopoly states at the same time customers are restraining their electricity consumption from the grid. In choice jurisdictions, all customers have a clear line of sight to the economic value of electricity in wholesale markets. Price signals constitute some of the most valuable information for all stakeholders in a market. Accurate and timely price signals elicit efficient consumer and investor decisions. Poor price information encourages inefficient behavior.

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