

RETAIL POWER CHOICE: MYTHS VS. FACTS

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A lie can travel half way around
the world while the truth is
putting on its shoes.

~ Charles Spurgeon

AZ QUOTES

Introduction

"If we need to keep debating whether competitive electricity markets are beneficial, let's limit the debate to facts and experience, and avoid unsupported conjectures." The Electricity Choice Debate: Conjectures and Refutations by Dr. Phil O'Connor and Jonathan Lesser, *The Electricity Journal*, Vol 27, Issue 7.

Several assertions have been made about competition and customer choice in the retail power industry. Many of these conjectures echo those originally proposed in the time leading up to the restructuring of wholesale and retail electricity markets across the country. Meanwhile, there continues to be limited awareness and more often misinformation among consumers and legislators in the 35 monopoly states about the benefits and success enjoyed by the 14 states/jurisdictions that have retail choice and competition.

There have been many incorrect assumptions about competitive retail power markets since their inception. This has created false claims and misleading statements about the detrimental consequences that would take place if the traditional vertically integrated monopoly model was displaced with the introduction of competition and choice. These have ranged from claims about more volatile end-user prices, inadequate investment in generation assets to financially weak utilities, as well as deterioration in reliability (and many others). Each of these can be shown to be untrue by the empirical evidence because we now have nearly 20-years of data from real-world performance that can be used to compare the competitive and monopoly models side-by-side on several measures.¹

RESA has gathered factual data and information that challenges many of these false assumptions. RESA is sharing the common myths versus facts regarding retail power competition and customer choice.

¹ Our primary reference in addressing these issues are the works of the late Dr. Phil O'Connor who wrote several papers and articles over the years concerning these issues including the topic of "myths and facts about competitive retail markets"

SUMMARY OF MYTHS

GENERAL MYTHS

- **Myth #1:** States/jurisdictions that allow retail energy choice are “deregulated”.
- **Myth #2:** All U.S. customers can choose their retail energy supplier.

MYTHS ABOUT THE FEBRUARY 2021 WINTER STORM URI EVENT

- **Myth #3:** The power outages that occurred in Texas in February of 2021 prove that the competitive retail power market structure is not reliable.
- **Myth #4:** Some residential customers in Texas experienced energy bills in the thousands of dollars after the winter storm of February 2021, which is an indication that the competitive market structure is not sustainable.

MYTHS ABOUT PRICE PERFORMANCE

- **Myth #5:** The difference in prices between utility supplied default service and competitive suppliers within the competitive states/jurisdictions is “proof” that the competitive market has failed.
- **Myth #6:** Prices are higher in the 14 competitive states/jurisdictions than in the 35 monopoly states, therefore, we should not restructure to enable energy choice in monopoly states.
- **Myth #7:** Enabling retail choice over traditional regulated monopoly service will result in higher prices overall.
- **Myth #8:** Enabling retail choice over traditional regulated monopoly service will benefit the larger business customers at the expense of small business and residential customers.
- **Myth #9:** Enabling retail choice over traditional regulated monopoly supply service will cause more volatile prices for customers.

MYTHS ABOUT RELIABILITY

- **Myth #10:** Enabling retail choice over traditional regulated monopoly service will result in a reduction in power service reliability.
- **Myth #11:** Enabling retail choice over traditional regulated monopoly service will result in inadequate investment in generation.
- **Myth #12:** Enabling retail choice over traditional regulated monopoly service will be a detriment to the deployment of renewable generation.

MYTHS ABOUT RISK ASSIGNMENT

- **Myth #13:** Enabling retail choice over traditional regulated monopoly supply service increases future generation investment risks to customers.
- **Myth #14:** Enabling retail choice over traditional regulated monopoly supply service will financially weaken our traditional regulated monopoly utilities.

OTHER MYTHS ABOUT RETAIL POWER CHOICE

- **Myth #15:** Customers are not interested in choosing alternative power suppliers beyond their traditional regulated utility. The utility already has several tariffs available to choose from, therefore we don’t need alternative suppliers.
- **Myth #16:** The competitive supply market failed in 2016 when the City of Chicago’s residential and small commercial customers (approximately 750,000 accounts) returned to utility default service.
- **Myth #17:** A traditional vertically integrated utility that resides in an Regional Transmission Organization (RTO) provides enough competitive benefits to customers such that enabling retail level competition is unnecessary.

GENERAL MYTHS

Myth #1:

States/jurisdictions that allow retail energy choice are “deregulated”.

Fact #1:

The 14 states/jurisdictions that have adopted competition by allowing retail energy suppliers to serve customers are highly regulated.

The term “deregulated” is commonly misused when referring to states/jurisdictions that allow retail choice. Simply stated, the word “deregulated” is not an accurate term to describe a marketplace where customers have a choice of their power supplier. In fact, within the 14 states/jurisdictions that have established retail competition, each has a host of rules and regulations that competitive energy suppliers must follow when communicating with and serving customers. Retail suppliers have stringent parameters set by state commissions that they must operate within. These rules range from enrollment procedures, to how suppliers must communicate with and invoice customers, as well as many state-specific reporting requirements. The truth is the marketplaces that retail energy suppliers operate in are **very highly regulated**.

Additionally, the term “deregulated” may infer that the customer choice marketplace is chaotic and/or without rules or oversight. In fact, the 14 states/jurisdictions that have retail choice and competition have established a set of business practices that protect consumers, while providing a variety of product options for customers to choose from.

There are several other explanatory terms that would be more accurate to describe a retail power marketplace that fosters competition and allows customers to choose their retail supplier; Among these are:

- A retail power market that “Enables Competition”;
 - A “Restructured” retail power market. This means that the generation assets have been moved out from the rate base of the utility and into a competitive business environment; and
 - A retail power market that “Allows Choice of Supplier”.
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Myth #2:

All U.S. customers can choose their retail energy supplier.

Fact #2:

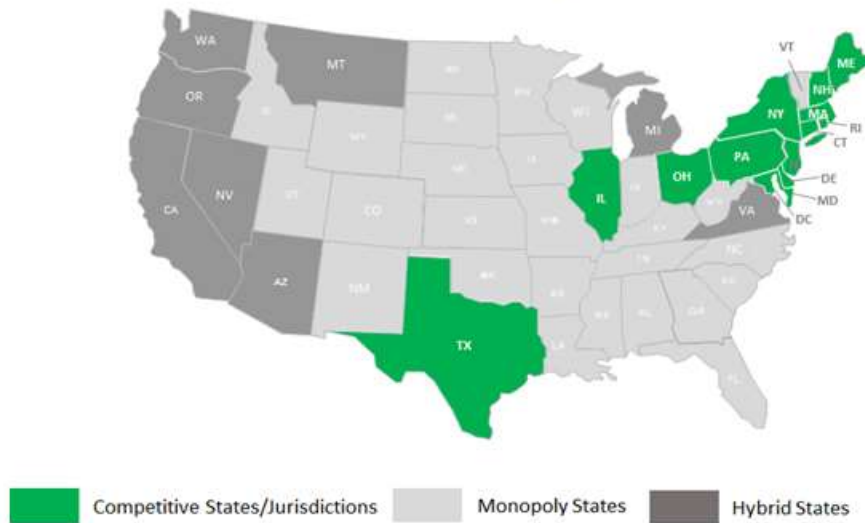
There are only 14 competitive states/jurisdictions that allow customers the ability to choose a retail energy supplier (at least those customers within the investor-owned utilities in these states/jurisdictions).² There are also a handful of other states that have a limited amount of retail customer choice for certain situations. RESA refers to these as “hybrid” states.

² Figure 3: [Restructuring Recharged](#)

14 Customer Choice Jurisdictions

Figure 3 of Restructuring Recharged

These 14 jurisdictions (13 states plus Washington DC) each have enabled Retail Choice for Nearly All Customers. These jurisdictions represent nearly 1/3 of all electricity consumption in the continental US



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The 14 competitive states/jurisdictions shown in Figure 3 account for approximately one-third of U.S. electricity power production and consumption. The designation of "competitive state/jurisdiction" as defined by RESA is distinguished by two components:

- 1) The state/jurisdiction enables nearly all classes of customers (at least those behind the major Investor-Owned Utilities (IOUs) in the state) to be able to choose a retail energy supplier without cumbersome restrictions or limitations; and
- 2) The IOUs in these states/jurisdictions have divested all (or nearly all) of their generation assets and are primarily wires-only delivery service companies. Consequently, the generating assets in these states are no longer included in the rate-base of these delivery service utilities and are therefore competing within the wholesale power markets for their own business interests.

Background

Each of the 14 competitive states/jurisdictions proceeded at different speeds and in specific ways during the transition from a monopoly status to a competitive model from 1998 to 2007. By 2007, phase-ins of customer class eligibility and the collection of stranded-cost charges had reached their prescribed end points in most of the restructured (e.g., competitive) states/jurisdictions. This period experienced a cautious, stepwise approach that set the stage for ongoing evolution and growth in competitive retail power markets. Regulations would continue to adapt to this new model.

By 2008, in competitively restructured states/jurisdictions:

- 1) Most utility generation had been divested to unaffiliated firms or devolved to competitive generation affiliates, resulting in nearly half of all productive capacity in the U.S. being owned and operated by a diverse array of non-utility companies;
- 2) Those utilities that had converted over to become wires-only delivery service companies had been compensated for their "stranded" investment in uneconomic generation;
- 3) Large numbers of retail suppliers were offering competitively priced supply;
- 4) Millions of customers, especially in the commercial and industrial classes, had embraced competitive markets and supplier choice;
- 5) About half of the consumption in 2008 was supplied by non-utility suppliers in the competitive states/jurisdictions;
- 6) Default service programs, mainly for residential and small business customers not choosing an alternative supplier, were functioning well, providing competitively priced supply, usually procured by utilities in the market and divorced from traditional rate-of-return price regulation; and

- 7) Billions of dollars in new generation investments were made at a similar pace in both monopoly and competitive states/jurisdictions.

It should be noted that several other states — including California, Michigan, Arizona, Oregon, Nevada, Virginia, Washington, and Montana — allow limited portions of total load to be served competitively at retail, while denying the great majority of customers a choice of supplier. Despite the limited exceptions, these “hybrid” states are regulated largely under the traditional monopoly model and are treated accordingly in the RESA materials.

The ‘Hybrid’ States

Hybrid states are as varied in their approaches to limiting retail customer choice, as are the competitive states/jurisdictions in the details of their market-based programs (perhaps even more so). In all cases, however, there is strong evidence of considerable customer demand for market access that is permitted to be satisfied under the rules. In Michigan, for example, more than twice as much load than the 10% permitted to access choice is enrolled in “queues”. Industrial and commercial customers in Arizona, California, Oregon, and Virginia have eagerly participated in legislative and regulatory proceedings considering expanded market access. In Nevada, the constitutional amendment adopted by a 72% voter majority in the November 2016 election was originally promoted for the ballot by large customers that were dissatisfied with utility and regulatory obstacles to electric retail competition. However, in November 2018 that measure was voted down in large part due to Nevada Energy (a traditional monopoly utility) opposition. Meanwhile, other states are contemplating various forms of competitive markets such as Arizona, Oklahoma, Missouri, Virginia, and Louisiana.

MYTHS ABOUT THE FEBRUARY 2021 WINTER STORM URI EVENTS

Myth #3:

The power outages that occurred in Texas in February of 2021 prove that the competitive retail power market structure is not reliable.

Fact #3:

The Texas power grid failed because of extremely cold temperatures and the duration of those conditions which the state does not usually experience. The cause of most generator outages in February of 2021 are linked to the concurrent effects on generators both directly through equipment failures, as well as indirectly through curtailment of natural gas fuel supply caused by the freezing temperatures. However, these equipment failures had nothing to do with customers having the ability to choose a retail supplier.

In February of 2021, extremely low temperatures across the south led to widespread grid failures resulting in critical shortages of power supply for many customers. Tragically, the death toll resulting from the storm and the ensuing power failures has been estimated to be more than 100 people.

In the aftermath, this event has led critics of the retail choice model to strongly argue that traditional, vertically integrated monopoly utilities are a better, and more reliable framework for consumers. This argument, however, is deeply flawed. Yes, the Texas grid did fail in February of 2021. But just because Texas retail policy allows most of its customers to choose their own supplier it does not mean that a monopolized, non-competitive model would have prevented the outages from happening.

In fact, the generator outages and subsequent “blackouts” experienced in February of 2021 affected both monopoly and restructured jurisdictions, both in Texas and other nearby states. Three transmission grid operators implemented outages across much of the Midwest and the South, two of which are predominantly comprised of generators owned by monopoly utilities. Texas simply received more attention because of the greater number and duration of the customer outages that took place.

However, restructured power markets aren't "deregulated" for reliability purposes. Generation assets, whether in a vertically integrated monopoly utility territory or in an area that allows customer choice, are all regulated from a reliability perspective. National generator reliability standards are developed by the North American Electric Reliability Corporation (NERC) and approved by the Federal Energy Regulatory Commission (FERC) for all generators, irrespective of their region's competitive retail or monopoly status.

Myth #4:

Some residential customers in Texas experienced energy bills in the thousands of dollars after the winter storm of February 2021, which is an indication that the competitive market structure is not sustainable.

Fact #4:

Most residential electric customers in Texas are served by retail electric suppliers under fixed-priced plans which are not tied to the wholesale hourly pricing index and are therefore protected from volatile wholesale prices. Consequently, the prices that most residential customers paid per kWh in Texas during this weather event was unchanged.

A small segment of residential customers in the Texas competitive retail electric market faced extremely high electric bills due to the February 2021 winter storm. These customers had chosen indexed-based pricing plans that were tied directly to the hourly costs in the wholesale power market. These types of pricing plans are often less expensive than traditional-fixed priced plans but have less price stability. Furthermore, based on the many news articles published in the aftermath of the winter storm event and the most current EIA data, it is estimated that less than 1% of Texas residential customers were on hourly-pricing plans.^{3 4 5}

MYTHS ABOUT PRICE PERFORMANCE

Myth 5:

The difference in prices between utility supplied default service and competitive suppliers within the competitive states/jurisdictions is "proof" that the competitive market has failed.

Fact #5A:

Various published studies have shown that the prices paid by residential customers to retail suppliers within the competitive states/jurisdictions have often been higher than what those customers would have paid had they remained on default supply. However, two primary issues exist with these studies:

- 1) These various published studies (e.g., Baldwin⁶, ORMD⁷, etc.) used confidential data from the utilities that can't be corroborated and/or verified by any third party. Additionally, the methodologies used to produce these outcomes, result in an average price paid by all residential customers on competitive retail supply (regardless of product type). For instance, some retail suppliers provide value-**

³ Press Release: [Griddy Energy Files for Chapter 11 Protection](#)

⁴ *Houston Chronicle* Article: [Griddy came to Texas to disrupt the power market, but can it survive being shaken?](#)

⁵ Intelometry Report: ["Beyond Texas - Evaluating Customer Exposure to Energy Price Spikes: A Case Study of Winter Storm Uri, February 2021 Intelometry Report"](#), October 2021, p.21

⁶ [Baldwin Report](#)

⁷ [ORMD Report](#)

added services into their supply products such as increased renewable content and/or fixed price term length which may be more costly. In any case, this average retail price is then compared to a utility's default supply service price over a specific time frame. Numerous issues have been identified with these various studies and have been documented in several of Intelometry's published reports.^{8 9 10}

- 2) To the extent that default service prices have exhibited a tendency to be lower than what retail suppliers are able to offer, is due in large part to a misallocation of cost within the default service tariffs themselves. This cost misallocation has resulted in a subsidy being provided to default supply service to the detriment of supply products offered by retail suppliers. Simply stated, default supply service customers do not pay the full price of electricity under the various default supply service models. This issue has been documented by Frank Lacey¹¹ and others in several studies.

Fact #5B:

Despite this unlevel playing field between utility default service and supply made available by competitive suppliers, Intelometry data has shown that there are ample opportunities for residential customers to choose less expensive pricing plans made available by retail suppliers. This data shows there are consistent saving opportunities (compared to default service) made available from retail suppliers in many of the competitive states/jurisdictions.¹²

Fact #5C:

Finally, it must be remembered that within the competitive states/jurisdictions, the default supply service itself is procured and derived from the (now) restructured and competitive generation market that exists within the competitive states/jurisdictions. In these situations, the default supply service in the competitive states/jurisdictions is being improperly conflated with the rate-based tariffs for supply service in the monopoly states. RESA data shows¹³ that all classes of customers (*including residential*) have benefited significantly from having access to competitively procured power (*including default service*) in the competitive states/jurisdictions when compared to the pricing performance that has occurred within the monopoly states.

We've examined this myth from **three perspectives**, each of which significantly discredits it.

The first perspective is that default supply service holds an artificial cost advantage by way of subsidizing costs with utility distribution rates which often enables the distribution utilities in the competitive states/jurisdictions to price this supply at levels significantly lower than the supply prices that can be offered by retail suppliers. Specifically, distribution utilities do not properly allocate the non-commodity costs associated with the function of providing default supply service to customers in their default service rates. This anti-competitive cost allocation practice has resulted in the ongoing market dominance of default supply service in most, if not all, of the competitive states/jurisdictions. Specifically, several studies by Frank Lacey and others have shown that the default supply rates in several competitive states are subsidized to a level ranging from \$6.70/MWh to \$23.50/MWh. To address this, Lacey has recommended that:

- 1) Distribution utilities that maintain default supply service should identify all costs that are attributable to providing that service;

⁸ Intelometry Report: [Comments on Massachusetts AGO Report](#)

⁹ Press Release: [Retail Energy Supply Association Issues Report Finding Massachusetts Residents Can Save 9% or More with Electric Choice](#)

¹⁰ Press Release: [New Analysis Reveals Flaws in Recent Maryland OPC and The Abell Foundation Reports on Retail Energy Market Independent Study Finds Electric Suppliers Could Have Saved Maryland Consumers More Than \\$203 Million in 2018](#)

¹¹ Frank Lacey: [Default Service Pricing: Lacey Direct Testimony](#); [Peterson Direct Testimony](#)

¹² Intelometry Report: [The Value of Retail Electric Choice to Residential Customers in Massachusetts](#)

¹³ Figure 11: [Restructuring Recharged](#) (this Figure shown on Myth/Fact #7)

- 2) Distribution utilities should assign or allocate the costs incurred to operate the default service supply function and collect those costs from its customers on the energy supply portion of those default supply customers' utility invoices; and
- 3) This cost allocation should be trued-up over time as customers migrate back and forth between retail suppliers and default supply service to protect distribution utilities from under-collection of their revenue requirements.

The second perspective is that despite an unlevel playing field, retail suppliers *can* often save customers money compared to default service when a customer selects the best plan in their area. For example, in the recent study referenced above in Fact 5B, if all Massachusetts residential customers took advantage of the lowest competitive supply offer from 2018 - 2020, and remained on that offer for the offer term, they would have saved more than \$500M! This figure represents an approximate 9% savings over utility default supply rates for the period. Intelometry has also prepared numerous other studies in other competitive states/jurisdictions in which retail suppliers have made offers to customers that are priced lower than default service and has found similar results.

The third perspective is the realization that the nature of utility provided default service is often misunderstood or mischaracterized as the equivalent of traditional utility "rate-of-return" tariffed service under the monopoly model that the utility provided prior to restructuring. Assuming the two supply methods are the same is inaccurate. Many stakeholders improperly conflate default supply service in the competitive states/jurisdictions, with rate based tariffed supply service in the monopoly states. Here are the differences:

- 1) In the monopoly states, the utility's supply service is based on state approved tariffs which allocate the costs of the utility's generation fleet, generation purchases and an approved rate-of-return. By contrast, the wires-only utilities in the competitive states/jurisdictions incur cost associated with the *procurement* of supply for default service customers by making purchases in the competitive wholesale market. These costs primarily determine the default service rate.¹⁴
- 2) Customers eligible for default service in the competitive states/jurisdictions are generally free to switch from the utility default service and to choose service from a competitive supplier; and
- 3) Wires-only utilities that provide default supply service to non-choosing residential and small business customers generally do not allocate the proper amount of costs (in the providing of default supply service) into the default service rate. Nor do they typically earn a profit from providing the market-priced default supply. This often creates an unlevel playing field between the supply that retail suppliers offer and the default supply that the wires-only utilities make available in the competitive states/jurisdictions.

Default supply service is itself a competitively procured retail supply "product" made available only in the competitive states/jurisdictions. The monopoly states do not have this "product". In fact, most monopoly state tariffs do not distinguish between those costs that *could be* procured in a competitive market structure (e.g., energy and capacity costs) and those that would remain a regulated monopoly (e.g., transmission and distribution costs). Consequently, it is difficult and sometimes not possible to compare energy prices across competitive and monopoly states/jurisdictions. Comparisons of electricity costs across states often compare total bill costs for customers (which includes delivery services). However, delivery service rates are unrelated to competitive energy market prices and may increase or decrease for a variety of non market-based reasons. The resulting contrast is a comparison of total costs driven by one regulatory/political paradigm, coupled with market forces on other components; this is then compared to total costs driven by an entirely regulated process.

Therefore, when people see that retail suppliers have charged more than default supply service (in a given time period in one of the competitive states/jurisdictions) this should be recognized as an issue and addressed as noted above. However, it is not evidence that the competitive market has failed to deliver value to customers.

Additionally, because monopoly states do not have default supply service (since they are not restructured) it would be inaccurate to say that the competitive markets have failed when we compare default service to retail supplier offerings. This is because equating default supply service from the distribution utilities in the competitive states/jurisdictions to the rate based tariffed supply service that was previously in place within the competitive states is not the same product as default service itself.

¹⁴ **Note:** Default supply service is procured/derived from the same competitive wholesale market as supply purchase by retail suppliers for their customers.

In summary, competition and choice have produced many positive results that far outweigh the challenges that remain (and should be addressed). The RESA/O'Connor materials that compare the performance of the competitive states/jurisdictions to the monopoly states are replete with ample evidence of this.¹⁵ This does not mean we shouldn't try to find a solution to address the difference in cost between default supply service and those prices provided by retail suppliers in the competitive states/jurisdictions. However, abolishing, disabling or not allowing competitive markets to exist will ultimately not serve customers well and will deny them the benefits of choice and competition.

Myth #6:

Prices are higher in the 14 competitive states/jurisdictions than in the 35 monopoly states, therefore, we should not restructure to enable energy choice in monopoly states.

Fact #6:

The 14 competitive states/jurisdictions originally began as monopoly states which started with relatively higher rates (prices). While the current weighted average price in the competitive states/jurisdictions is less than 0.5¢ per kWh higher than the 35 monopoly states, this represents a significant change since 2008 when the price difference was more than 6X this amount.

Some critics of retail competition point to higher-than-average prices of electricity service in most of the 14 competitive states/jurisdictions than in many of the monopoly states. However, this ignores the reality that for decades prior to the introduction of choice, most of the current 14 competitive states/jurisdictions had higher than average prices than did the current group of 35 monopoly states. These price differences prevailed in an era of nearly identical regulatory models in every state. The challenge, therefore, is not to explain differences in nominal price levels, but to explain the substantial differences in *directionality* of electricity price trends that have become evident between choice states/jurisdictions and the monopoly states.

The more important statistic to note is the measurement of *comparative price-performance* between the two groups since the form of regulation was changed from a regulated monopoly to a competitive model. With that perspective, it is notable that the price difference between the competitive states/jurisdictions and the monopoly states for all customers has narrowed considerably from 3.1¢ per kWh in 2008, to 0.42¢ per kWh according to the 2020 EIA data!

Based on this same EIA data, the weighted average price in the 35 monopoly states is 10.47¢ per kWh. This represents an *increase* of 21.1% since 2008. Meanwhile, in the 14 competitive states/jurisdictions, the weighted average price resides at 10.89¢ per kWh. This represents a *decrease* of 7.4% over this same time frame.¹⁶

¹⁵ RESA: [Phil O'Connor Thought Leadership](#)

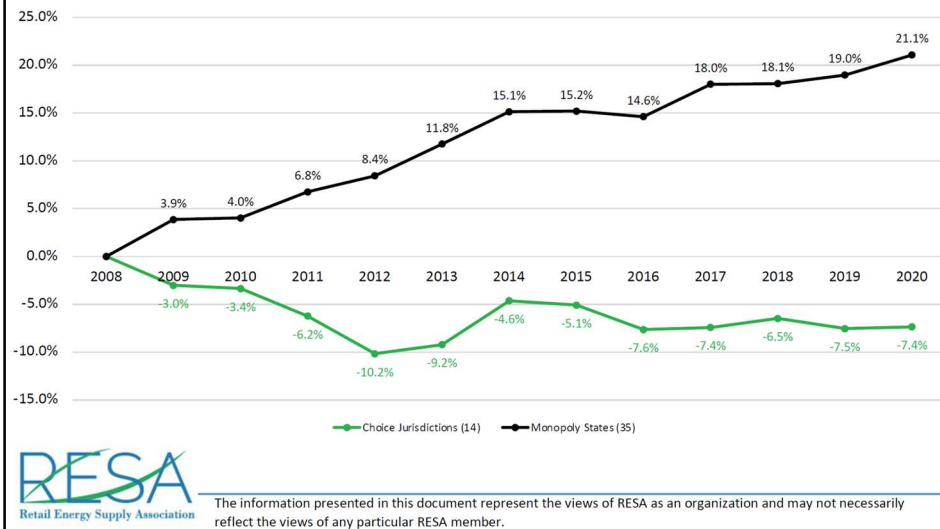
¹⁶ Figure 10: [Restructuring Recharged Updates \(originally published in June 2020\)](#)

All-Sector Weighted Average Percentage Price Change, Choice vs. Monopoly States, 2008-2020

% Price Change – 28.5% Spread

Figure 10 of Restructuring Recharged

Source: EIA-861M



Myth #7:

Enabling retail choice over traditional regulated monopoly service will result in higher prices overall.

Fact #7:

History shows the opposite to be true. All sectors of customers in the 14 competitive states/jurisdictions have benefited significantly from a price perspective compared to their counterparts in the 35 traditional monopoly states.

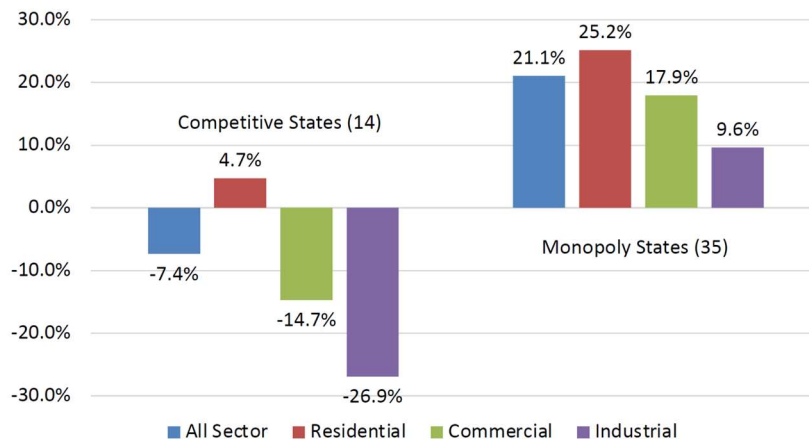
A common fear tactic often used by opponents of retail choice claims that removing price regulation will lead to higher prices for customers. In reality, the 14 competitive states/jurisdictions have enjoyed superior price performance compared to customers in the 35 monopoly states. EIA data between 2008-2020 shows customers in all-sectors have seen an *increase* in cost of 21.1% in the monopoly states, as compared to a 7.4% price *decrease* in the competitive states/jurisdictions.¹⁷

¹⁷ Figure 11 of [Restructuring Recharged](#)

Nominal Weighted Average Percentage Price Change by Customer Class, Choice vs. Monopoly States, 2008-2020

Figure 11 of Restructuring Recharged

Source: EIA-861M



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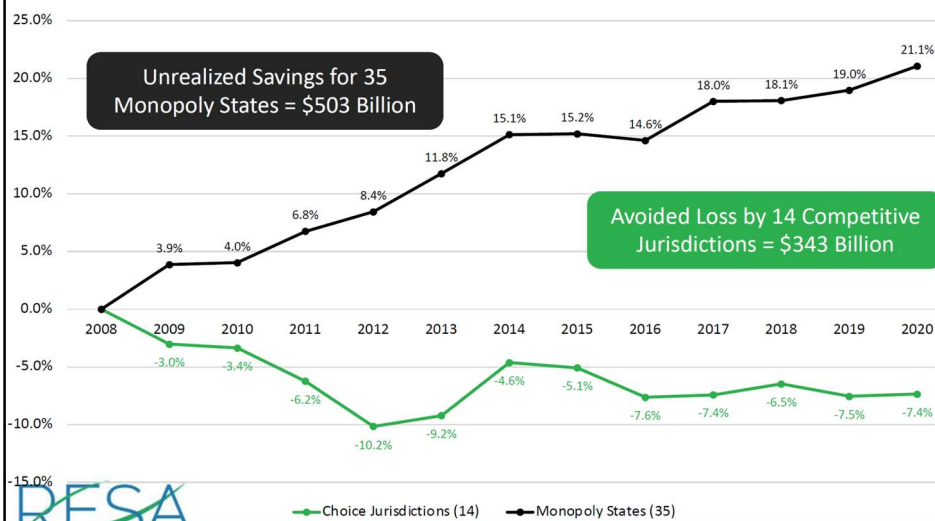
This translates to a projected customer savings in the competitive states/jurisdictions of more than **\$343B** during this time period, compared to what these customers would have paid if they followed the same price-performance as experienced in the monopoly states.¹⁸

All-Sector Weighted Average Percentage Price Change, Choice vs. Monopoly States, 2008-2020

% Price Change – 28.5% Spread

Figure 2 of The Great Divergence

Source: EIA-861M



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¹⁸ **Figure 2:** [The Great Divergence](#)

Myth #8:

Enabling retail choice over traditional regulated monopoly service will benefit the larger business customers at the expense of small business and residential customers.

Fact #8:

A price-performance benefit has been experienced by all customer groups, albeit it, at different levels in the 14 competitive states/jurisdictions. The EIA data shows that non-residential customers have realized *more* benefits from a price-performance perspective than residential customers have once retail choice and competition were introduced. At the same time, residential customers have also received *significant benefits* from a price-performance perspective compared to how they have fared in the 35 traditionally monopoly states.

Opponents of customer choice and competitive markets often believe that residential, small businesses and non-profit customers (e.g., schools) are at a disadvantage when retail choice is introduced. The assertion is that commercial and industrial (C&I) customers will reap the benefits of competitive markets as suppliers “cherry pick” larger customers, leaving smaller customers to experience an increase in cost. From a monopoly revenue requirement perspective, this is a viable concern. In a traditional monopoly model a revenue requirement is established and these costs are allocated across the various rate “classes” (customers). Simply stated, under the monopoly model if one customer class pays a dollar less, then a different customer class will need to pay a dollar more.

However, competitive energy markets do not operate like this because the generation assets are not in the rate-base of the utilities. Consequently, when we examine the EIA data from 2008-2020, we find that all customers have benefited from a price perspective at varying levels.

While it’s true that non-residential customers have benefited *more* than residential customers within competitive states/jurisdictions, residential customers *have also* benefited significantly. In fact, the data shows residential customers in the 14 competitive states/jurisdictions have experienced a price increase of 4.7% since 2008. In contrast, residential customers in the 35 monopoly states have experienced a price increase of 25.2% during that same time period.

As far as the differences seen by C&I customers under the two different regulatory models is concerned, the data indicates an even greater disparity in price-performance between the two types of regulatory models. Specifically, commercial customers in the 14 competitive states/jurisdictions have experienced a price *decrease* of 14.7% since 2008. In contrast, commercial customers in the 35 monopoly states have experienced a price *increase* of 17.9% during that same time period. That’s a difference in price-performance of 32.6% for the commercial customer group. Meanwhile, industrial customers in the 14 competitive states/jurisdictions have experienced a price *decrease* of 26.9% since 2008. In contrast, industrial customers in the 35 monopoly states have experienced a price *increase* of 9.6% during that same time period. That’s a difference in price-performance of 36.5% for the industrial customer group.¹⁹

¹⁹ **Figure 11:** [Restructuring Recharged](#) (Figure shown on Myth#7/Fact#7)

Myth #9:

Enabling retail choice over traditional regulated monopoly supply service will cause more volatile prices for customers.

Fact #9:

Data from the EIA does not support this claim. RESA has compiled the retail month-to-month price volatility for residential customers in both the 14 competitive states/jurisdictions and in the 35 monopoly states and compared them side-by-side over different time periods. RESA found that residential prices in competitive states/jurisdictions have been somewhat *less* volatile than that same measure in the monopoly states.

Wholesale electric energy prices on the daily/hourly level are established in the generation markets run by Independent System Operators (ISOs). These wholesale hourly prices can be volatile over a 24-hour period. The reason is caused by power plants with different technologies and fuel costs being brought on- or off-line in response to weather-related events and/or due to rising and falling customer demand. Seasonal wholesale prices can vary as well. Critics of competitive retail markets often claim that *retail customer* prices under a restructured market are more volatile than under traditional monopoly regulation. However, critics make a basic mistake when they compare the relevance of wholesale and retail market prices.

Most retail customers in the competitive states/jurisdictions that have chosen a retail supplier (whether C&I or residential) arrange for competitive contracts with *fixed* prices for all or a substantial portion of their supply. Additionally, a customer in a competitive choice market can enter into multi-year supply contracts with its chosen retail supplier. This type of fixed-price arrangement is typically more “fixed” in nature than a traditional utility tariff which often include various fuel cost adjustments and/or other “riders” that pass-through various supply cost components that change regularly.

Regarding residential price volatility, RESA’s research shows that from 2008-2016, residential prices in competitive states/jurisdictions have been somewhat *less* volatile than that same measure in the monopoly states from both a weighted and unweighted average perspective. That is likely because most customers, especially residential, choose simple fixed-price supply contracts from their retail suppliers in the competitive states/jurisdictions. This contributes to a dampening of the volatility month-to-month, compared to the same measure of the volatility in the monopoly states. In the end, the data simply does not support claims of systematically greater retail customer month-to-month price volatility in competitive states/jurisdictions than occurs in the monopoly states.²⁰

TABLE 5: RETAIL PRICE VOLATILITY MATRIX 1997 - 2016

Average Residential Monthly Price Volatility			
	Residential	Unweighted	Weighted
1997-2016	Competitive	3.48%	2.91%
	Monopoly	3.18%	3.09%
1997-2007	Competitive	3.92%	3.32%
	Monopoly	3.24%	3.05%
2008-2016	Competitive	3.03%	2.39%
	Monopoly	3.11%	3.14%

²⁰ **Table 5:** Retail Price Volatility Matrix, [Restructuring Recharged](#), Phil O’Connor, April 2017

MYTHS ABOUT RELIABILITY

Myth #10:

Enabling retail choice over traditional regulated monopoly service will result in a reduction in power service reliability.

Fact #10:

The reliability metrics from the Energy Information Administration (EIA) do not support this assertion. When we examine the data side-by-side, the 35 monopoly states do not demonstrate superior reliability metrics than those in 14 competitive states/ jurisdictions.

There is no evidence or data to support the argument that vertically integrated utilities that operate as a monopoly from a generation perspective have improved reliability statistics in comparison to utilities that are wires-only entities and enable customer choice. RESA obtained the standard reliability metrics as measured and published by the EIA and grouped the data into two categories:

- 1) Utilities in states that enable retail choice in their jurisdictions; and
- 2) Those utilities in states that do not.

RESA then created a weighted-average for each reliability metric by grouping and by year, then compared these reliability metrics side-by-side. Upon examination of this data, it is clear that reliability has not been adversely affected in competitive states/jurisdictions.²¹

In the 14 competitive states/jurisdictions, regardless of where a customer procures their energy, the distribution utility is still responsible for the system infrastructure and the delivery of power including outage restoration. Further, there is no discrimination between how customers are treated (or in response times) when interacting with the distribution utility based on a customer's choice of supplier.

Myth #11:

Enabling retail choice over traditional regulated monopoly service will result in inadequate investment in generation.

Fact #11:

The evidence indicates that investments in generation assets in the 14 competitive states/jurisdictions are on par with those made in the 35 monopoly states.

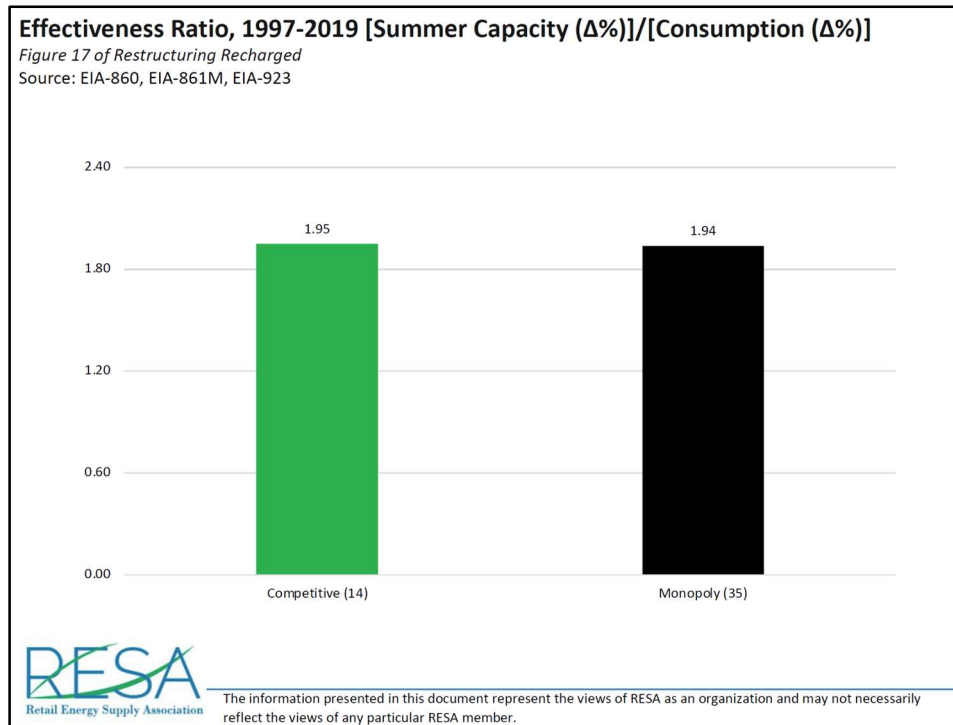
Both monopoly states and competitive states/jurisdictions have added significant generation capacity since 1997. In both groups the proportion of capacity added is nearly double the percentage increase in electricity consumption over this period. RESA's whitepaper *Restructuring Recharged*²² has defined this measure as the "Generation Effectiveness" ratio. This measure represents the extent to which generating capacity additions have kept pace with consumption in a region. The "Generation Effectiveness" ratio measures the percentage growth in generating capacity to the percentage change in consumption over the same time period.

Specifically, Figure 17 from *Restructuring Recharged* demonstrates that both groups of states/jurisdictions added capacity at comparable "Generation Effectiveness" ratios of a little less than two times the increase in MWh consumption over this time period. Within the competitive jurisdictions, this has been achieved without

²¹ [RESA Reliability Metrics](#)

²² **Original White Paper:** [Restructuring Recharged](#)

adding generation assets into the utility's rate base nor by asking ratepayers to take on the risk of these generation investments.²³



Myth #12:

Enabling retail choice over traditional regulated monopoly service will be a detriment to the deployment of renewable generation.

Fact #12:

The proportion of renewable generation in the 14 competitive states/ jurisdictions has kept pace with the 35 monopoly states. The big difference lies in the fact that the competitive states/jurisdictions have built their renewable generation without placing the cost for these assets into the rate-base of the utilities with a guaranteed rate of return.

The data shows that financial markets have demonstrated a willingness to invest billions of dollars in equity and low-cost debt for non-utility renewable generation, contradicting the claim that only a regulated monopoly with a guaranteed rate of return could attract capital at favorable rates for renewable generation. Additionally, customers, especially commercial and industrial customers within the 14 competitive states/jurisdictions, have the flexibility to adjust their contract terms and prices regarding renewable generation content in order to take advantage of market based renewable solutions. This level of flexibility is generally unavailable in the monopoly states which are usually governed by restrictive tariffs and riders/rate riders. To support this reasoning, we need only to the data which shows that wind and solar generation production is roughly equivalent in the 14 competitive states/jurisdictions (8.8%) and in the 35 monopoly states (9%).²⁴

Additionally, while the proportion of coal generated power generation has diminished in both groups, the pace of decline in generation produced by coal within the competitive states/jurisdictions has declined more rapidly. Specifically, as of 2019, the percentage of coal production in the competitive states/jurisdictions has declined

²³ **Figure 17:** [Restructuring Recharged Updates \(originally published in June 2020\)](#)

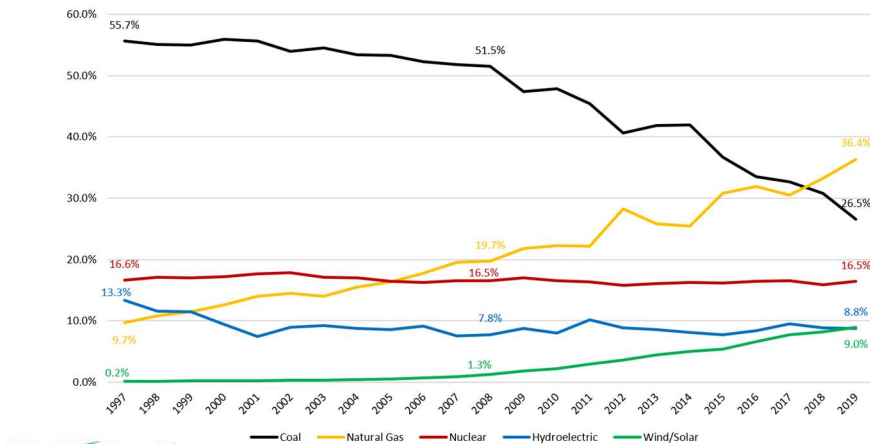
²⁴ **Figures 10 & 11:** [The Great Divergence Updated Charts 2020](#)

to 17.1% and resides at 26.5% in the monopoly states. In a similar fashion, the competitive states/jurisdictions have also demonstrated their ability to lower emissions more rapidly than have the monopoly states. Specifically, from 2008 – 2018 (the latest data available), CO₂ emissions in the monopoly states declined 7.3 percent on average, while emissions declined 12.1 percent in the competitive states/jurisdictions.²⁵

Generation Percentages by Energy Type in the 35 Monopoly States, 1997-2019

Figure 11 of The Great Divergence

Source: EIA-861M

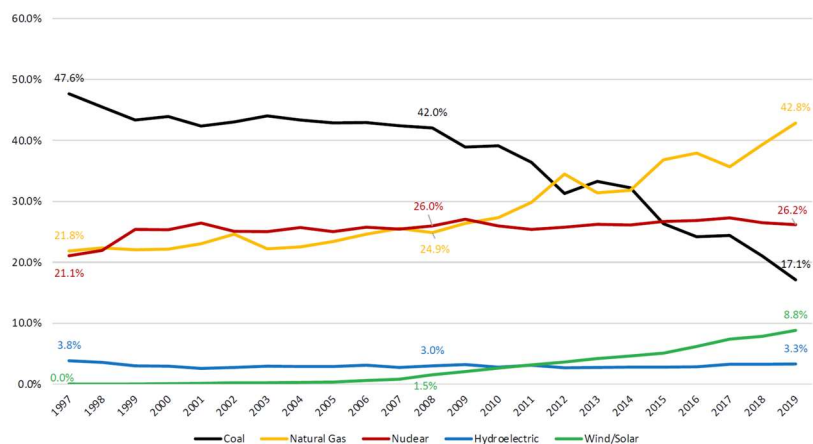


The information presented in this document represent the views of RESA as an organization and may not necessarily reflect the views of any particular RESA member.

Generation Percentages by Energy Type in the 14 Competitive States/Jurisdictions, 1997-2019

Figure 10 of The Great Divergence

Source: EIA-861M



The information presented in this document represent the views of RESA as an organization and may not necessarily reflect the views of any particular RESA member.

²⁵ **AFFORDABLE AND RELIABLE** [Creating competitive electricity markets to deliver consumers affordable, reliable, and low-emission electricity](#); PRI, Wayne Winegarden, September, 2021, p. 28

MYTHS ABOUT RISK ASSIGNMENT

Myth #13:

Enabling retail choice over traditional regulated monopoly supply service increases future generation investment risks to customers.

Fact #13:

It is within the monopoly states where customers face the greatest financial risks regarding generation investment decisions, not in the 14 competitive states/jurisdictions.

The issue here is about who owns the generation and who assumes the financial risks? One of the key differences between a traditional monopoly utility model and a restructured market that provides choice, resides in the ownership of the generation assets. Under a monopoly model, the financial risk of generation assets (e.g., technology, fuel choice, etc.) are placed on the ratepayers (e.g., customers) themselves. In contrast, in a competitive market the financial risks of generation ownership are on the businesses that own the generation assets, not the customer.

In a monopoly model the *utility* is responsible for building the generation assets and placing the capital costs for such into the utility rate-base. At this point, if the investment is deemed prudent by the state regulators, the utility will earn a commission-approved, rate-of-return on this rate-base. This will be collected from the rates/tariffs the monopoly utilities will charge customers. In the end, under the monopoly model the customers assume the financial risk for the investment choices made primarily by the monopoly utility for building and operating of the generation assets.

History is replete with many examples of costly investment decisions made by monopoly utilities (and/or utility commissions overseeing such decisions) in which the *customers themselves* have been burdened with the costs associated with less-than-optimal decision-making with respect to the building of and/or the operating of generation assets. Many state commissioners have complained about the intrinsic inaccuracies and error-prone results that are inherent in the Integrated Resource Planning (IRP) procedures deployed in the monopoly states when making these decisions. Unfortunately, the financial risks of these decisions in a monopoly model fall directly on the customers themselves.

Alternatively, under a competitive/restructured model, the utilities are removed from the generation build/ownership role. Consequently, the utilities in the restructured states are “wires-only” entities and do not own generation assets nor have any generation assets in the rate-base. The responsibility for building and operating generation assets in the restructured jurisdictions is placed upon the marketplace (e.g., non-utility generation owners and operators, sometimes called Independent Power Producers, or IPPs). IPPs hold the financial risks and rewards of owning and operating the generation facilities in the restructured jurisdictions. In this case, should a generation asset be closed in a restructured jurisdiction (for example, due to changing market conditions or technology disruption), the financial impact falls on *the investors* of that IPP, not on the customers. In these cases, there is no impact to the ratepayers (customers) because the generation assets are **not** held in the utility rate-base.

At the same time, the generation assets in restructured states/jurisdictions typically operate more efficiently because they are dependent on returns from the marketplace. In contrast, generation assets in monopoly states under regulation, receive their investment, plus a rate-of-return regardless of the performance of the generation assets. The efficiencies gained by generation facilities in competitive markets produce not only economic gains, but environmental ones too. *In the end, it is within the monopoly states that the customers face the greatest financial risks regarding generation build decisions, not in the competitive jurisdictions.*

Myth #14:

Enabling retail choice over traditional regulated monopoly supply service will financially weaken our traditional regulated monopoly utilities.

Fact #14:

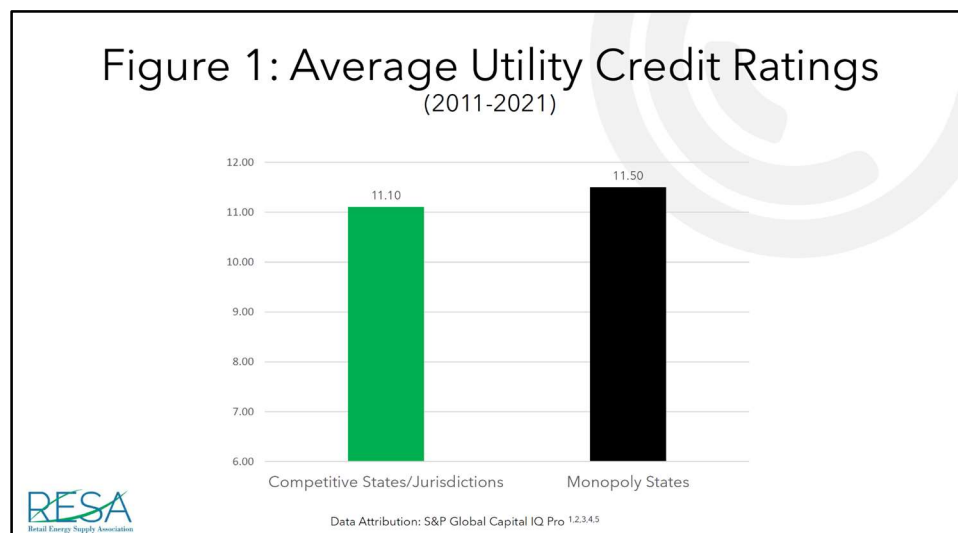
The historic evidence from the 14 restructured states/jurisdictions does not support this claim. Specifically, the data shows that in the restructured markets (formerly vertically integrated utilities) both the credit ratings and returns on equity have been substantially equal to those utilities that have remained vertically integrated entities in the 35 monopoly states (albeit at times as smaller companies' post-divestiture of generation assets).

There is no evidence to support the argument that utilities that operate monopolistically from a generation perspective have achieved significantly better credit ratings and/or returns on equity than those utilities that are wires-only entities -- thus enabling customer choice. RESA obtained the most recent credit ratings and returns on equity (ROE) figures from the S&P Global MI database and grouped the data into two categories:

- 1) Utilities in states/jurisdictions that enable retail choice; and
- 2) Those utilities in states that do not.

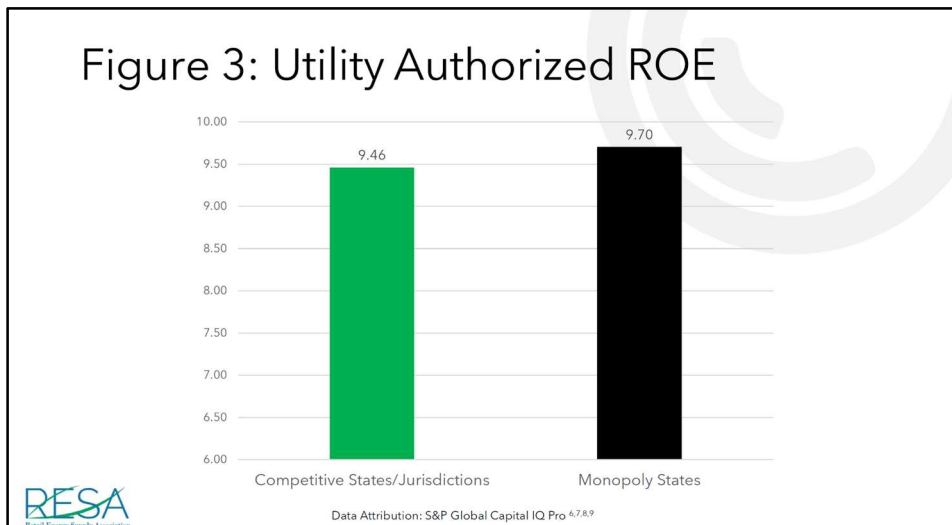
From there, RESA created an average for each state and category, then compared these two metrics (credit rating and ROE) side-by-side. Upon examination of this data, it is clear that both credit rating and returns on equity are nearly identical across both categories.

Specifically, from 2011-2021, the utilities in the competitive states/jurisdictions have exhibited an average credit rating of slightly higher than S&P's BBB+ rating. Meanwhile, the utilities in the monopoly states have exhibited an average credit rating that falls halfway between S&P's BBB+ and A-. During the same time period, the utilities in the 14 competitive states/jurisdictions have shown an average authorized ROE of 9.46%. Meanwhile, the utilities in the monopoly states have exhibited an average authorized ROE of 9.70%.²⁶



²⁶ **FIGURES 1 & 3:** [Utility Financial Health Figures & Methodology](#)

Figure 3: Utility Authorized ROE



OTHER MYTHS ABOUT RETAIL POWER CHOICE

Myth #15:

Customers are not interested in choosing alternative power suppliers beyond their traditional regulated utility. The utility already has several tariffs available to choose from, therefore we don't need alternative suppliers.

Fact #15:

The switching statistics within the 14 competitive states/jurisdictions indicate that when given a choice, the majority of the customer's load has moved to product offerings provided by retail suppliers over the utility's tariffed default service.

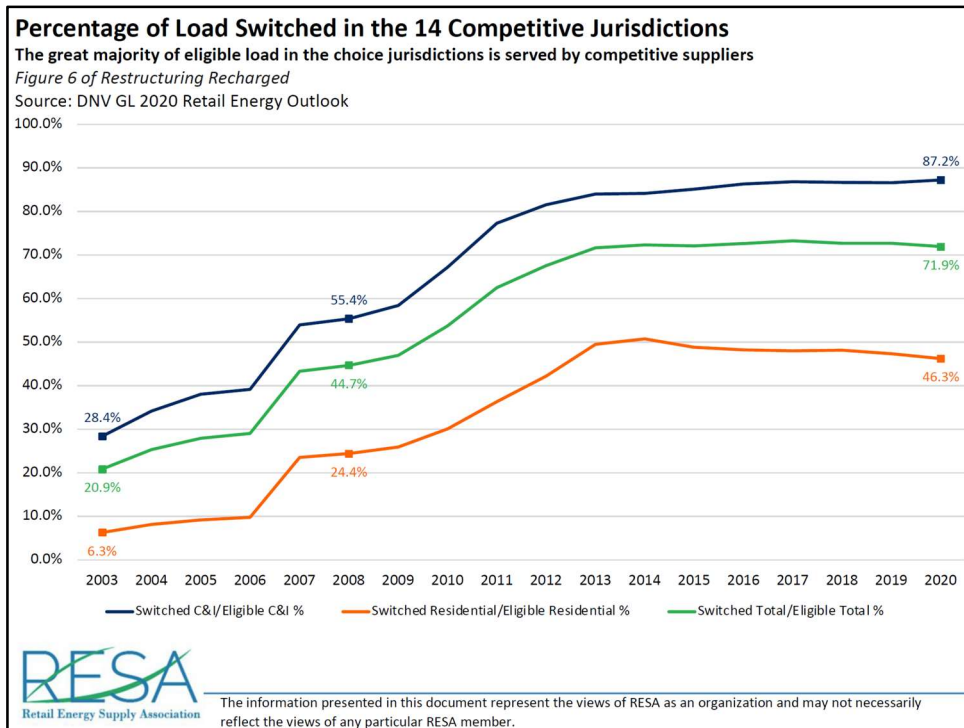
Consumers in the competitive states/jurisdictions are responding similarly to the way customers did when they had a choice for their natural gas, long distance carrier (via landlines), transportation (e.g., airlines, trucking) when these industries were initially opened to competition and innovation.

Commercial and industrial customers have embraced the opportunity to do business with competitive retail electricity suppliers. Within the 14 competitive states/jurisdictions, the most recent data shows 87% of eligible, non-residential consumption has chosen a competitive retail supplier. On the residential customer side, a little less than half of their consumption has chosen the same. Overall, nearly 72% of all consumption today is served by non-utility suppliers within the jurisdictions that allow it.

At the same time, it is important to recognize that most of the remaining load in the 14 competitive states/jurisdictions, (the remaining 28% of the total eligible load in those markets), is served with market-based supply that is procured from the competitive wholesale market by wires utilities acting as default service providers. "Rate of return" ratemaking for generation and supply is a thing of the past in competitive retail jurisdictions.²⁷

²⁷ **Figure 6: Restructuring Recharged** [Percentage of Load Switched in the 14 Competitive Jurisdictions](#)

Additionally, Ragnar Research conducted a national scientific poll in 2020. It confirmed that 74% of Americans want a choice in the energy supplier.²⁸ Currently, only 14 states/jurisdictions offer consumers a right to choose (or 28%), while three-quarters of Americans want a choice; clearly there is a disconnect.



Myth #16:

The competitive supply market failed in 2016 when the City of Chicago's residential and small commercial customers (approximately 750,000 accounts) returned to utility default service.

Fact #16:

In November 2012, Chicago voters approved a referendum authorizing the city to seek a competitive retail supplier to serve residential and small business customers in a municipal aggregation program so they could lower electric power supply costs for Chicago customers. Shortly thereafter, the city entered into a contract with a competitive retail supplier for approximately three years. In 2015, the city elected not to renew the retail supplier's contract because at that time the utility default service rate was lower than the price that the retail supplier was able to offer. This situation does not constitute a failure of the competitive market, rather it demonstrates the city was able to make an informed decision both times.²⁹

A major competitive retail supplier in Illinois was awarded the City of Chicago's municipal aggregation contract for power supply in late 2012. Subsequently, during the first quarter of 2013 the retail supplier began supplying approximately 750,000 residential and small commercial customers. The city did not renew the contract in 2015 when the forward market price of power no longer enabled the competitive retail supplier the ability to price themselves lower than the default service then available from the local utility. At that point, the retail supplier returned these customer accounts back to utility default service. Some critics of retail competition point to this

²⁸ Ragnar Research Poll: [Survey of Americans Finds 74% of Consumers Want to Select Their Own Energy Supplier | RESA](#)

²⁹ OLR Research Report: [Chicago Electric Aggregation Initiative](#)

transition back and forth -- between default service and a competitive supplier and back again -- as a "failure" of the competitive retail market.³⁰

In fact, this sequence of events should be considered a success for three reasons:

- 1) Because the customers (or the Chicago City Council on the customer's behalf) made an informed decision by selecting the lowest available price from the market on both occasions;
- 2) Through this program the City of Chicago was able to customize features that aligned with its own community objectives. These included a choice of supply mix that excluded coal generation, and the provision of income to Chicago-based MWBE firms; and
- 3) The switching process itself was also a success because of the relatively seamless transition which occurred when approximately 750,000 customer accounts were transferred to the retail supplier initially and back to the incumbent utility once the contracts had expired.

Myth #17:

A traditional vertically integrated utility that resides in an Regional Transmission Organization (RTO) provides enough competitive benefits at the end-use customer level such that enabling retail competition is unnecessary.

Fact #17:

Organized wholesale power markets have clearly demonstrated their merits to both market participants and ultimately to end-use customers over time. However, without the additional layer of retail competition, end-use customers miss out on several incremental benefits that only retail customer choice can provide.

There are several incremental benefits that customers realize when retail competition is added to those provided by inclusion in a wholesale market RTO:

First of all, a retail choice market creates numerous additional market participants into the mix, which increases the competitive forces within the market. For instance, since the retail suppliers will each be competing with each other to obtain the lowest prices in order to win the end-use customer's business, they in turn will be demanding that wholesale market entities lower their prices in order to encourage them to purchase their wholesale requirements from them.

Secondly, a retail choice market has much more product and service flexibility than does a vertically integrated monopoly utility. A traditional monopoly utility may be a participant in an ISO, but their rates and services are still governed by one-size-fits-all style of tariffs and rate riders. Each of these in turn are designed to provide the utility with cost recovery and a commission approved rate of return. Competitive suppliers on the other hand are incented to win the customers business by providing the innovative products and solutions that customers expect.

Example 1: By contrast, in a competitive retail market, a customer can select a new contract term before their current contract expires, (either with their current retail supplier or a new one). This allows the customer a time window to watch forward pricing to take advantage of market fluctuations driven by the weather events and/or other market variables. Customers have more control over the timing of their energy agreements.

Example 2: Also, in contrast to the vertically integrated utility model, competitive suppliers can offer customers much more versatility in their renewable energy procurements. These innovative products help customers achieve a variety of sustainability goals, up to and including direct off take from specific resources. Customers have more control over the components included in their energy agreements.

³⁰ **Press Release:** [Chicago Mayor Emanuel Announces Integrys Energy Services as Winner of Municipal Aggregation Contract](#)

Thirdly, in a retail choice market, there is a separation between the wires/delivery services and the generation asset ownership. Generation assets are no longer placed in the utility's rate-base in a retail choice market and consequently, are no longer putting the rate-payers/customers at risk for stranded cost incursion. In these cases, a wires-only utility might still be responsible for obtaining default supply service for those customers who do not proactively choose a retail supplier, but that wires-only utility will now be obtaining that supply from a *competitive* wholesale market rather than relying on their generation assets and/or long term PPAs as the cost structure as they once did pre-restructuring.