



# TESTIMONY

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## HOUSE BILL 2742 AND RETAIL ELECTRICITY COMPETITION

*By Corianna Baier\**

**Testimony before the Missouri House Emerging Issues Committee on House Bill 2742**

Thank you for the opportunity to testify. My name is Corianna Baier, and I am a senior policy analyst for the Show-Me Institute, a nonprofit, nonpartisan, Missouri-based think tank that advances sensible, well-researched, free market solutions to state policy issues. The ideas presented here are my own and are offered in consideration of House Bill 2742.<sup>1</sup>

HB 2742 would allow customers of Missouri's electric utilities to choose their electric service providers. Commercial- and industrial-class customers would be allowed to make a choice starting June 1, 2023, and residential-class customers starting June 1, 2026. Missouri's electricity markets are currently monopolized, meaning all customers have only one option for their electric service provider.

Our state's monopoly model has not been serving Missourians well of late. Between 2008 and 2020, Missouri's average retail electricity price has risen 17 percent when adjusted for inflation, which is the fourth-fastest rate in the nation. While Missouri's current average electricity price is around the national average, as recently as 2008 it was the sixth lowest. The average monopolized customer nationwide saw inflation-adjusted prices rise 1 percent.<sup>2</sup>

In contrast, in states that allow retail electric competition average inflation-adjusted prices have decreased by 17 percent from 2008 to 2020. Commercial and industrial customers benefitted the most, due to certain electric load characteristics (such as being large buyers of electricity and providing a consistent load regardless of time of day).<sup>3</sup> Ultimately, each

\* Jakob Puckett, former policy analyst at the Show-Me Institute, contributed significantly to this testimony.

customer class in competitive markets saw prices decrease by at least 15 percent relative to the average monopolized customer nationwide.<sup>4</sup>

After fully matured competitive retail electricity markets emerged in 2008, customers in states that allow competition have clearly benefitted in ways that monopolized customers, especially Missourians, have not.

Customers in competitive markets experience benefits beyond just prices. Such customers are much more likely than monopolized customers to have access to innovative pricing, products, and services.<sup>5</sup> These innovations range from fixed-price, multi-year contracts negotiated directly with electric suppliers to distributed energy resources (small generating sources located at the site of the end-use customer) and demand-response programs (compensation for large electricity users in exchange for agreeing *not* to use electricity at times of peak demand to help balance supply and demand) to real-time pricing (varying electric rates throughout the day to reflect changes in system-wide electric demand). The energy industry is in a period of technological change, and competitive markets offer greater flexibility for responding to industry and market developments than monopolized markets do. For example, when the advent of hydraulic fracturing led to significantly lower natural gas prices over the last decade, customers in competitive markets experienced the benefits of low gas prices sooner than monopolized customers did.<sup>6</sup>

Opponents of electric competition often invoke Texas's winter storm blackouts in February of 2021 as a failure of retail customer choice. However, these blackouts had nothing to do with the fact that Texans can choose their electricity suppliers.

During Texas's 2021 winter storm, nearly half of Texas's peak winter generating capacity was rendered unusable for two days. Frozen gas wellhead equipment constrained fuel delivery, and power plants not adequately weatherized for record-cold temperatures failed to produce power. Because the gas-delivery system depends on electricity to function, the lack of power caused a snowball effect, leading to wider power outages.<sup>7</sup> Additionally, the regional electric grid that serves most of Texas (ERCOT) is not connected to the

grids of other states, meaning importing electricity from other states was not an option.

None of these factors would have been different if Texans had not been able to choose their electric service providers. A simple comparison between the fully competitive and fully monopolized parts of Texas makes this point.<sup>†</sup> A study from the Baker Institute at Rice University found that electric generation subject to competition outperformed monopolized generation during the storm.<sup>8</sup> Competitive areas experienced fewer outages as a percentage of total generating capacity than monopolized generation. The study concluded that “in general, the resource entities that remained fully regulated performed less well.”<sup>9</sup>

A study by Guy Sharfman and Jeffrey Merola examining wider Midwest effects of the winter storm, reached similar conclusions. After examining retail electricity and natural gas price impacts on the states hit by the winter storm, the study noted:

the power and natural gas spikes caused by Winter Storm Uri were the result of a disruption in the physical supply of natural gas and power and not due to the existence of competitive retail energy markets, which are only found in three out of the fifteen states impacted by the storm.<sup>10</sup>

Opponents of competitive electric markets point to Texas customers who received surprise electric bills of several thousands of dollars in the aftermath of the 2021 winter storm as an argument against allowing competition. The Sharfman and Merola study, however, analyzed the plans and rates of Texas's retail electric customers and determined that customers receiving those eye-popping bills were outliers and that such sticker-shock was not an inevitable consequence of allowing retail competition. The customers who received those bills were enrolled in wholesale market-indexed price plans. These plans closely track fuel and commodity prices and are thus more vulnerable to market volatility, which was heightened by the fuel supply disruptions during the winter storm. Less than half of one percent of residential customers were enrolled in wholesale-indexed pricing plans.<sup>11</sup> Due

<sup>†</sup> While the vast majority of Texans can choose their electric service provider, the monopoly model still operates in some regions of Texas. Additionally, not all areas of Texas are part of the ERCOT grid, and thus were able to import electricity from less-affected areas in different states.

to state forgiveness programs and other alternatives, those customers will likely never have to pay those bills.<sup>12</sup> Moreover, the Texas legislature subsequently outlawed wholesale-indexed pricing plans after the winter storm.<sup>13</sup> The study also found that approximately 75 percent of electricity customers in Texas took service on fixed-price plans that shielded them from high prices. The remaining 24 to 25 percent of customers on variable-priced plans saw a pass-through of only 1 percent of the gross wholesale price increases, resulting in their rates increasing approximately 21 percent for the month of the storm.<sup>14</sup>

Accordingly, Texas's 2021 winter storm blackouts may be a good argument against wholesale-pricing plans, but they are not a good argument against Missouri allowing residents and businesses to choose their electric service providers.

Electric competition has benefitted residents and businesses in states where it has been implemented. Customers in competitive markets have seen their prices fall compared to monopolized customers, and both customers and electric service providers have easier access to innovative technologies and market practices. Lawmakers should consider the positive aspects of allowing competition in Missouri's retail electricity market when debating HB 2742. Competition in electricity provision in Missouri can benefit consumers throughout the state.

## NOTES

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