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Testimony on SJR 34 from:
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January 30, 2020

Mr. Chairman and members,

My name is Mike Haugh and I am a senior fellow in energy policy with the R Street Institute. R Street is a nonprofit, nonpartisan public policy research organization with a mission to engage in policy research and outreach to promote free markets and limited, effective government. Thank you for allowing me to testify today on this important topic.

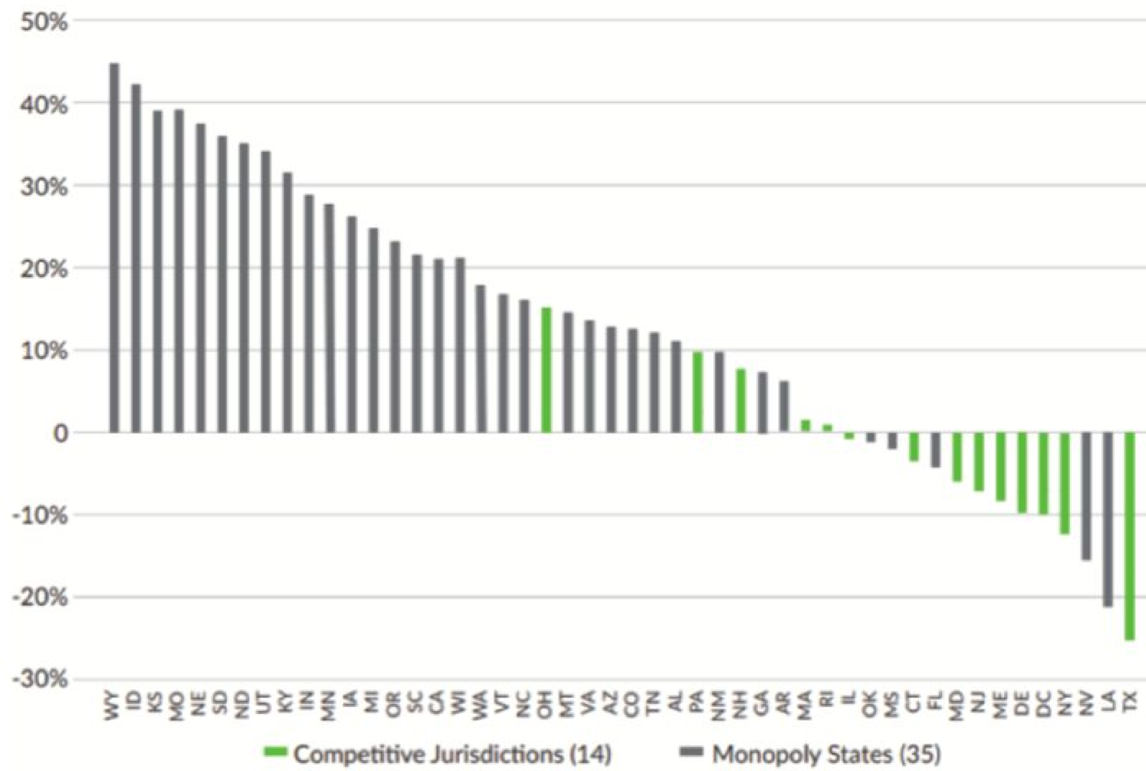
I am here today to testify in support of Senate Joint Resolution 34. Electricity competition is a free-market policy supported by both economic logic and common sense. But more importantly, electricity competition is a tested policy that provides a proven benefit to states, both economically and environmentally.

For the past two decades, roughly a dozen states have operated under a competitive regulatory model. When we compare the performance of those states to those that have stayed with a monopoly model, we find that competition provides electric power that is cheaper and cleaner than that of Missouri's current regulatory structure, yet just as reliable. The experience of these states can and should guide Missouri as it contemplates taking similar steps.

I would like to stress four points in particular:

1. Competition would mean substantial savings for electricity customers. Over the past decade, electricity prices in restructured states have tended to fall or remain stable, while prices in monopoly states have tended to rise. From 2008 to 2016, the weighted-average price of electricity in monopoly states increased 15 percent, while it decreased 8 percent in restructured states.

Figure 1: State Ranking – All Sector Percentage Price Change, 2008-2016



SOURCE: Philip R. O'Connor, "Restructuring Recharged," Retail Energy Supply Association, April 2017. https://www.resausa.org/sites/default/files/RESA_Restructuring_Recharged_White%20Paper_0.pdf.

These lower prices have translated into billions of dollars in cost-savings for electricity consumers. In fact, a joint report by the Illinois Chamber of Commerce, the Illinois Manufacturers' Association, the Illinois Retail Merchants Association and the Illinois Business Roundtable notes that electricity restructuring resulted in $37 billion in consumer savings from 1998 to 2013.[1] Similarly, a study by researchers from Cleveland State University and Ohio State University found that since 2011, restructuring in Ohio has led to $15 billion in consumer savings.[2]

It is not surprising that competition would deliver lower prices. Whether it be car dealerships or washing machine vendors, businesses often try to attract customers by offering better prices than those of their competitors. There are features of Missouri's current regulatory model, though, that would make a move to competition particularly likely to lower costs.

Currently in Missouri, utility rates are set based on what is needed for the utility to recover its costs, plus a percentage return on investment. This means that, paradoxically, the more a utility spends, the more it

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[1] Illinois Chamber of Commerce et al., *Electricity & Natural Gas Customer Choice in Illinois—A Model for Effective Public Policy Solutions*, February 2014, pp. 1–2.
[2] Andrew R. Thomas et al., "Electricity Customer Choice in Ohio: How Competition Has Outperformed Traditional Monopoly Regulation," *Urban Publications*, November 2016, p. 1.

makes—even if that spending is wasteful. Utilities therefore have an incentive to invest in large, costly projects even if those same projects would not make sense in an open market.

I should stress that I am not blaming utilities here; they are simply responding rationally to the incentive structure that the government has put in place.

2. Competition would help make the grid more efficient and reliable. The past decade has seen major changes in the energy market, with new technologies across the board and, for some fuel sources, falling prices. More changes are on the way, particularly in distributed generation and demand response. Competition has helped to ease these transitions and has added flexibility and resiliency to the grid.

Utilities in competitive markets have been quicker to adapt to these changes and innovate. Monopoly utilities, by contrast, have often sought to stymie these developments or ignore these changes because they are insulated from competitive pressures. Monopoly jurisdictions, for example, typically have excess reserves far beyond what experts believe is the economically efficient level. This waste costs ratepayers money.

Opponents of competition often cite California's ill-fated attempt at electricity restructuring in the 1990s and raise the specter of blackouts. This is somewhat ironic given California's more recent experience last year with widespread blackouts under a regulated system. In any event, it is important to note that the California Energy Crisis was the result of a unique set of circumstances, including poor market design and deficient regulatory oversight.[3] Congress and the FERC rectified this in the mid-to-late 2000s, including creating an Office of Enforcement. For example, RTOs now employ market monitors who use automatic market power mitigation in real time, while FERC enforcement staff scrutinize transactions after the fact and carry stiff penalties for violators. As the 20-year anniversary of the California Energy Crisis approaches, it should no longer be used as a boogeyman to argue against markets.

3. Electricity competition would also help make Missouri more attractive to businesses. Many large companies—from Walmart and General Motors Corp. to technology companies like Amazon and Microsoft—have adopted internal sustainability goals that require the purchase of renewable energy. In fact, corporate renewable energy procurement was roughly six times higher between 2015 and 2016 than in the late 2000s and early 2010s.[4] The availability of retail choice can be a critical factor for corporations in deciding where to locate, particularly for the technology industry and other large institutional buyers of renewable energy. Yet monopoly utilities have often been slow to respond to this demand and have offered green options that do not appeal to many consumers.

For all of these reasons, it makes sense to let Missouri citizens vote on whether they should join the 15 other states that have already embraced competition. I would be happy to answer any questions.

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[3] See Darren Bush and Carrie Mayne, "In (Reluctant) Defense of Enron: Why Bad Regulation is to Blame for California's Power Woes (Or Why Antitrust Law Fails to Protect Against Market Power When the Market Rules Encourage Its Use)," *Oregon Law Review* 83 (2004), p. 204.

[4] Bloomberg New Energy Finance, "2017 Sustainable Energy America Factbook," 2017, p. 39.