

# New England Electric Restructuring Roundtable

## The Future of Residential Retail Choice



October 12, 2018

# How do you measure the success of restructuring?

**AG – “Savings versus default service”**

**No! Default service didn’t even exist in 1997**

**Goal of the Act: Savings versus continuation of the status quo!**

Electricity prices would have been HIGHER had Massachusetts continued under a vertically integrated monopoly structure... And there’s proof!

# Massachusetts has done better than non-restructured states

A 2017 study by Dr. Philip O'Connor demonstrated that between 2008 and 2016, real residential retail prices in states with competitive electricity markets increased 1% while real prices increased by 18% in states with only regulated monopolies. **Other studies have shown similar results.** <sup>1, 2, 3</sup>

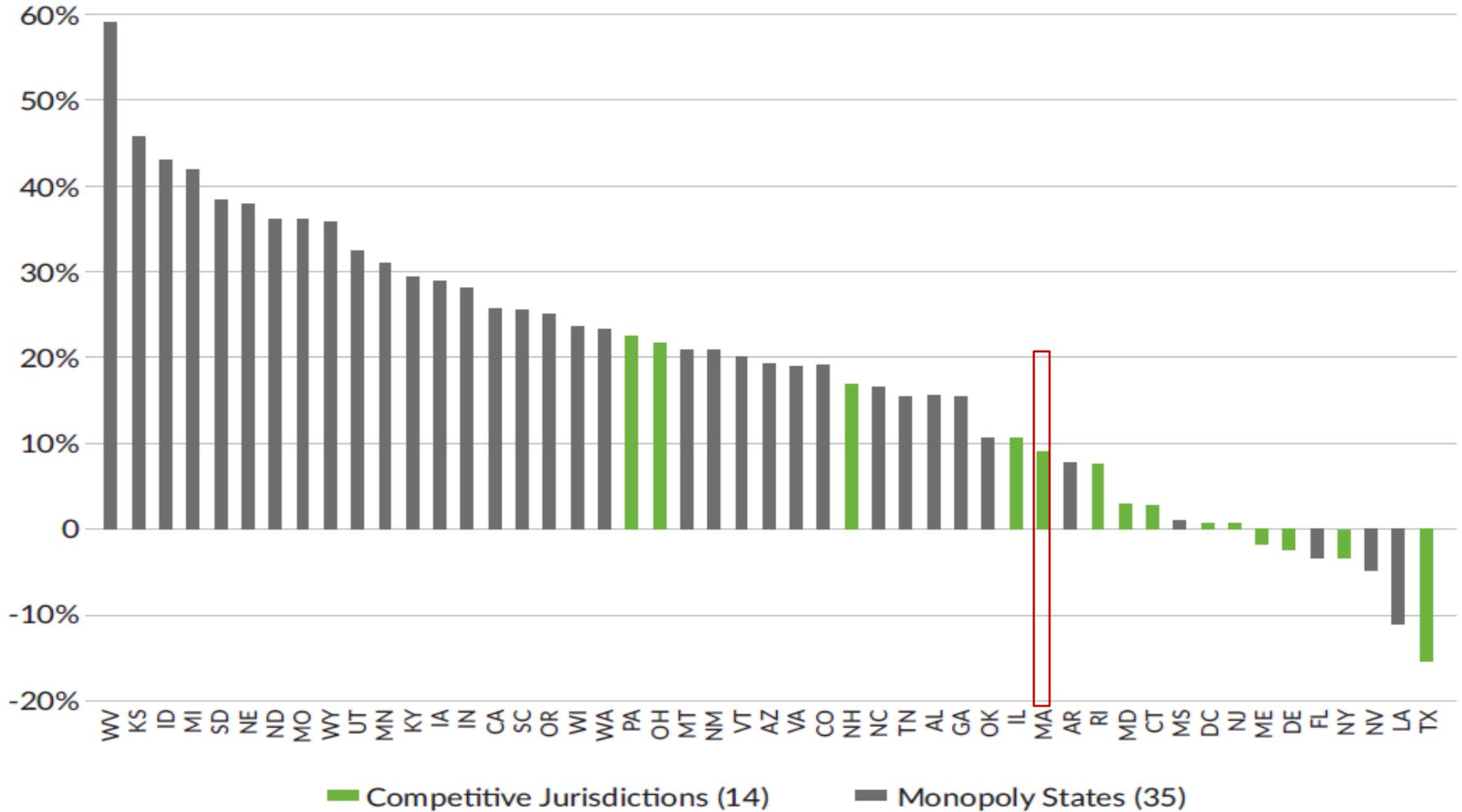
- **Massachusetts was a relative high performer in his analysis, with residential prices increasing only 9%.**

<sup>1</sup> Philip O'Connor, Restructuring Recharged: The Superior Performance of Competitive Electricity Markets 2008-2016, April 2017, p. 18-19.

<sup>2</sup> Agustin Ros, "An Econometric Assessment of Electricity Demand in the United States Using Utility-Specific Panel Data and the Impact of Retail Competition on Prices," *The Energy Journal*, Vol. 38, No. 4, 2017.

<sup>3</sup> Peter Hartley, Kenneth Medlock, and Olivera Jankovska, *Electricity Reform and Retail Pricing in Texas*, June 2017.

State Ranking – Residential Price Percentage Change 2008-2016



# Default Service is the wrong yardstick

If the market has been a success why do so many think it's a failure? **Default service is an improper comparison.**

## Default service was never meant to serve a majority of residential customers

- Legislature and Department expected transition to competitive suppliers during seven-year standard offer term

## Market rules continually replenish Default Service

- New and moving customers go to default
- Not required by statute; included in restructuring plans

## Default rate excludes costs needed to support the service

- No “indirect retail costs” – DTE -2-40-B
- Wholesale costs and “direct retail costs” only – DTE 03-88
- **Retail components of default service shielded from competition**

# Where to now?

## We must choose between **monopoly** and real competition

- If residential electricity market is a natural monopoly, then send it all back to the utilities, no exceptions.
- If it's not, only choice is to fix the flaws in the market that keep it from working as well for residential customers as it does for C&I customers.
  - Draw a roadmap with clear landmarks and ways of measuring success before moving on to the next destination.

### What **not** to do

- Destroy the market while pretending you're not (e.g., with price caps)
- Just make it more unpleasant to buy and harder to sell
- **DON'T STAY STUCK IN THE MIDDLE!**

# The Monopoly Option

- Is residential electricity a natural monopoly?
  - The wholesale market works
  - The C&I market works
  - The municipal aggregation market works
- How can something be a natural monopoly only when sold to certain customers through certain channels?
- Treating it like a natural monopoly when it's not is risky
  - Eliminates critical participants from emerging markets for:
    - Behind the meter renewables and other DG
    - Storage resources
    - Electric vehicles
    - Behavioral demand response
  - Protects parts of utility that should be subject to competition
  - **Short-run versus long-run cost error**

# A Trip to Uncharted Territory

	No residential retail competition	Competition and utility service	Pure residential retail competition
2/3 <sup>rd</sup> + non-utility generation	<b>Uncharted Territory</b> <ul style="list-style-type: none"> <li>• Price Change: ?</li> <li>• MA without residential competition</li> </ul>	<b>Hybrid Markets</b> <ul style="list-style-type: none"> <li>• Price Change: +7%</li> <li>• CT, DC, DE, IL, MD, ME, NH, NJ, NY, OH, PA, RI</li> </ul>	<b>The Texas Model</b> <ul style="list-style-type: none"> <li>• Price Change: -15%</li> <li>• TX</li> </ul>
1/3 <sup>rd</sup> to 2/3 <sup>rd</sup> non-utility generation	<b>Some Wholesale Restructuring</b> <ul style="list-style-type: none"> <li>• Price Change: +17%</li> <li>• ID, LA, MT, OK, VT</li> </ul>	<b>The California Way</b> <ul style="list-style-type: none"> <li>• Price Change: +26%</li> <li>• CA (Municipal Aggregation)</li> </ul>	
Less than 1/3 <sup>rd</sup> non-utility generation	<b>Vertical Integration</b> <ul style="list-style-type: none"> <li>• Price Change: +26%</li> <li>• AL, AR, AZ, CO, FL, GA, IA, IN, KS, KY, MI, MN, MO, MS, NC, ND, NE, NM, NV, OR, SC, SD, TN, VA, WA, WI, WV, WY</li> </ul>		



Based on 2017 O'Connor study for 2008-2016 period

# Roadmap to robust competition



# North America's largest competitive retail energy supplier of electricity, natural gas, and home and business energy-related services

- More than 4,000 employees
- Over 4 million home and business customers
- Over 1,100 professional technicians serving millions of homes every year
- In 50 U.S. states, plus D.C. and 8 provinces in Canada

