



Chair: Jay Doegey, City of Arlington
Vice-Chair: Randy Moravec, City of Addison
Board Member: Steve Massey, City of Allen
Board Member: David Ragsdale, City of Benbrook
Board Member: Odis Dolton, City of Abilene
Board Member: James Zentner, City of Odessa
Board Member: Rod Hogan, City of Plano
Board Member: Mike Foreman, City of Grand Prairie
Board Member: Robert Sparkman, City of The Colony
Secretary-Treasurer: Mary Bunkley, City of Arlington

Oct. 26, 2010

Sen. John Carona
Chairman Senate Committee on Business and Commerce
P.O. Box 12068, Capitol Station
Austin, TX 78711

Sen. Carona:

Thank you again for the opportunity to address the Business and Commerce Committee on Monday. I'm writing this short note to address some of the questions posed during the meeting with regards to electricity prices. I believe it was you who asked how it is possible that reasonable people can come to such different conclusions with regards to the pricing data.

As noted during the Committee meeting, much of the data cited by my organization originates with the United States Energy Information Administration. By way of background, the U.S. EIA is the statistical and analytical agency within the U.S. Department of Energy. It is a non-agenda driven organization and its impartial data is used frequently by the media, scholars, the industry (including the Association of Electric Companies of Texas)¹ and other government agencies (including the Public Utility Commission of Texas).²

The U.S. EIA is essential for these sorts of analyses because the agency calculates pricing data for all states in a consistent manner. In this way, it makes it possible to compare prices between states in an apples-to-apples fashion. How does the U.S. EIA calculate its prices? First, the agency considers how much revenue is generated from the sale of electricity during a given month or year. Second, it divides the revenue by the amount of energy sold. In this way, the agency derives an average kilowatt/hour price for each state. It's important to note that the U.S. EIA considers only electricity *sold*, not simply energy "offers" from electric companies.

Our reliance upon these figures contrasts with those organizations that often employ, for purposes of analyses, un-weighted averages from the powertochoose or the PUC websites. For instance, it appears the Texas Public Policy Foundation³ and some industry groups often use un-weighted figures in their calculations. The problem with not using weighted pricing in one's calculations is that it can lead to conclusions that may bear little resemblance to what people actually pay.

Consider, for example, the following hypothetical case in which there are 10 different electricity offers each priced at 10 cents per kw/h, except for one. This last offer is priced at 15 cents. Now, if one averages these 10 different offers (nine offers at 10 cents, and one at 15 cents), the resulting "average price" is 10.5 cents.

Now consider the same case, but using weights. Say we know that the total electricity sold through all the 10-cent deals was 100,000 kw/h, while the single company selling the 15-cent power sold 1 million kw/h.

¹ http://www.aect.net/documents/2008/20081103_BK_RetailUpdates.pdf

² <http://www.puc.state.tx.us/electric/rates/NCrate/2010/Jan10r.pdf>

³ <http://www.texastribune.org/texas-energy/energy/has-electric-deregulation-helped-or-hurt-texas/>

October 26, 2010

Page 2

Now the calculation becomes very different. If we take into account the *prices actually paid for electricity* — and not simply the offers — the average price becomes 14.5 cents.

This is why, whenever possible and appropriate, our analyses depend upon weighted average figures. By simply averaging the offers on the powertochoose website, without weighting them, one ends up with faulty conclusions. Alternatively, one can cite the lowest-cost offers on the powertochoose website as an example of what's *available* in the market. But it's always important to remember in this case that many Texans in the competitive market — perhaps most of them — cannot avail themselves of these offers at any given time without breaking their existing contracts.

As I mentioned during my testimony, recent data from the United States Energy Information Administration indicate that Texas residential consumers continue paying above the national average. This is based upon the most recent year-to-date pricing data from the agency.⁴ Prices in Texas have dipped slightly below the national average in July, the last month for which there is data. However, it's more effective to get a broader snapshot across several months, as we have in our analysis using year-to-date information.

I also noted on Monday that many of the comparisons we've seen from opposing groups depend upon cherry-picked prices from December 2001. As the chart on page 2 of the attached document illustrates, there was a price spike at that time. This spike was due in large part to extra charges included in residential rates, in anticipation of deregulation. Aside from that price spike, the trend of below-the-national-average prices continued for many years prior to the adoption of the deregulation law. Also, as the chart on page 6 of the attached document illustrates, below-the-national-average prices remained typically the case after implementation of the deregulation law — but only in those areas of Texas outside of deregulation.

One final note. We have seen some analyses that cite, for purposes of comparison, the lowest-cost *variable* offers on the powertochoose website. Citing variable-rate offers in this manner is somewhat problematic, given that the media and even the industry itself have been critical of the dependability of these offers. For example, TXU Energy has warned that “consumers with variable rate plans ... from other electricity providers are subject to rate changes at any time and without advance warning, in the sole discretion of their retailer.”⁵ The *Dallas Morning News*, in a recent online post, also characterized the deals as “pretty much worthless” because of “sometimes unexpected price increases.”⁶

I hope this is useful. Please feel free to call if you have any questions. Thank you again for your leadership on these important issues.

Warmest regards,

R.A. “Jake” Dyer
Policy Analyst
Cities Aggregation Power Project, Inc.

⁴ http://www.eia.doe.gov/cneaf/electricity/epm/epmxmlfile5_6_b.xls

⁵ http://www.txu.com/about/Press_Releases_15167.htm

⁶ <http://energyandenvironmentblog.dallasnews.com/archives/2010/08/variable-rate-energy-plans-pre.html>