

# Lessons on Electric Deregulation

## Why it Sometimes Falls Short of its Goals

Deregulation is a compelling concept. By reducing or eliminating government restrictions and regulations, it promises to lower prices, spur competition, increase innovation, and expand consumer choices. Unfortunately, while these promises make sense in theory, they don't always deliver in practice. For example, deregulating Michigan's electricity markets in the late 1990s and early 2000s did not produce hoped-for results. We did, however, learn some valuable lessons here and in other states that should be considered as conversations about deregulation resurface in Michigan and across the nation.

### Lesson 1: There is little evidence that deregulation reduces rates.

Reducing rates is the primary reason deregulation is most often pursued. PSC's research, however, shows that the states that had the highest energy rates in 2000 continue to have the highest rates in 2017, regardless of their market structure. Interestingly, of the ten states with the highest electricity rates today, four are regulated and six are deregulated—demonstrating that how energy is governed does not matter as much as other factors.

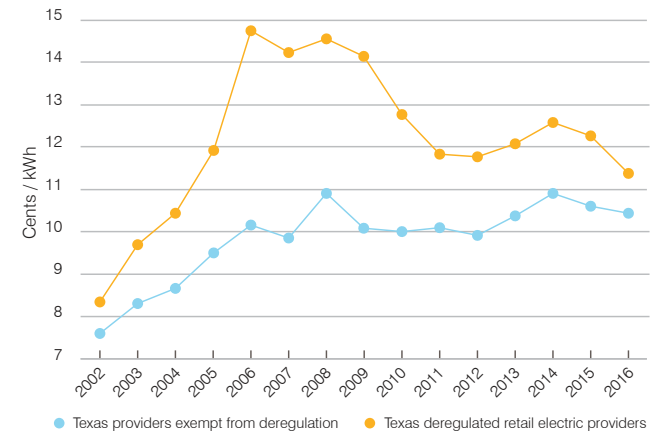
	2000 Rank	2017 Rank
Hawaii	7	1
Alaska	1	2
Connecticut	3	3
Massachusetts	8	4
Rhode Island	4	5
New Hampshire	5	6
California	9	7
New York	2	8
Vermont	10	9
New Jersey	6	10

■ Deregulated State

Source: U.S. Energy Information Administration, November 6, 2017. Average Retail Price of Electricity to Ultimate Customers: By Sector, by State, by Provider (Back to 1990). Accessed May 3, 2018. [https://www.eia.gov/electricity/data/state/avgprice\\_annual.xlsx](https://www.eia.gov/electricity/data/state/avgprice_annual.xlsx)

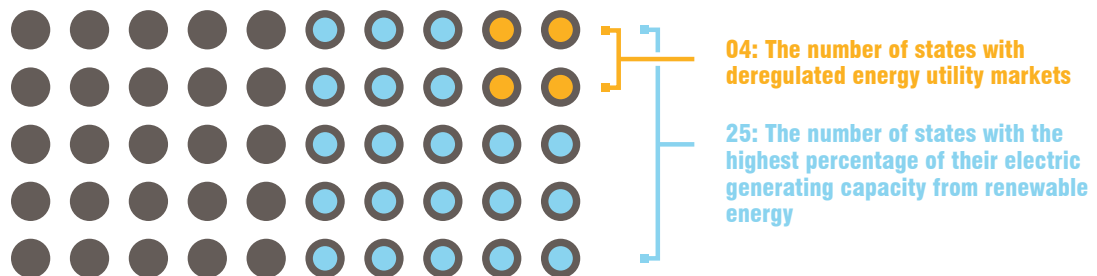
### Lesson 2: Deregulation can, in fact, lead to increased price volatility.

In Texas, where most of the state is deregulated, PSC's research shows that not only have prices in deregulated areas been higher than those in traditionally regulated areas, they also have been more volatile, suggesting that deregulation does not, in and of itself, create consistency in cost savings.



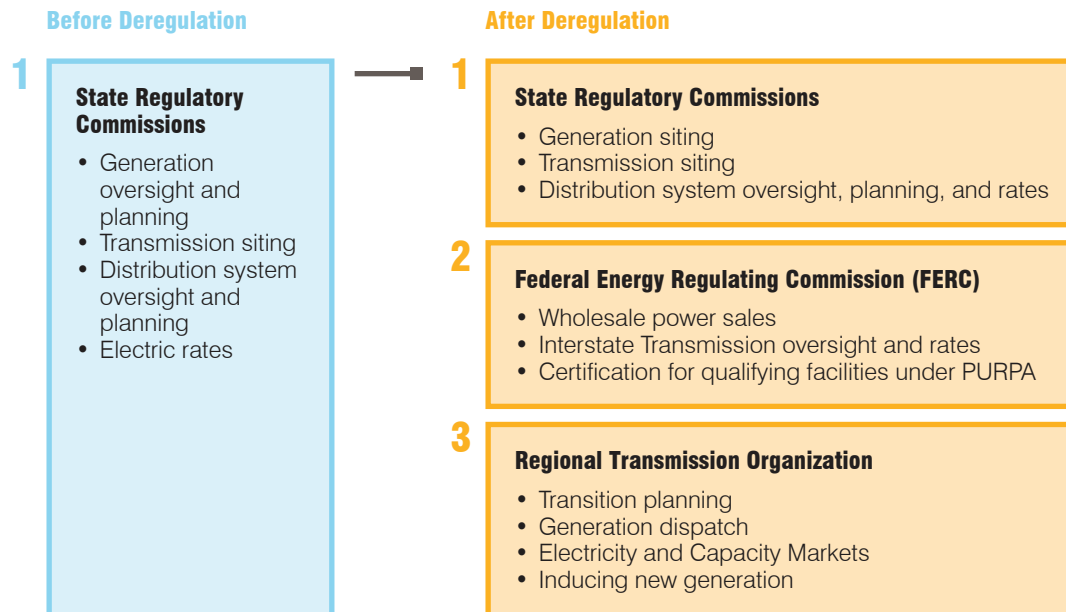
### Lesson 3: Deregulation doesn't necessarily lead to innovation in energy alternatives.

Some people believe deregulation will lead to innovation, particularly in terms of increasing the use of renewable energy. However, when PSC reviewed the current renewable energy capacity for all 50 states, it found that, of the 25 with the highest percentage of electric generating capacity coming from renewable energy (one example of an alternative), only four are deregulated, indicating that policies other than deregulation may be spurring innovation.



## Lesson 4: Deregulation usually doesn't eliminate rules and restrictions; it merely shifts control from one body to another, and sometimes many others.

New Jersey is a prime example of how deregulation shifts utility oversight from state control alone to state, regional, and federal control, resulting in more governing bodies rather than fewer (a fairly typical occurrence in deregulated states). Since deregulating, New Jersey has tried to reassert some control over generation capacity planning, but its legislative efforts have been struck down by the courts. As a result, the state has had to rely on regional entities for generation planning.



## Overall, the results of deregulating energy markets are mixed at best.

PSC's research on the impact of restructuring energy markets indicates that the promises of deregulation have mostly been unfulfilled. States with the highest utility rates prior to deregulation still have the highest utility rates, regardless of market structure. Furthermore, deregulation often leads to price volatility, increases both the complexity of regulation as well as the number and level of government agencies involved in regulation, and there is little evidence that deregulation leads to innovation in energy alternatives. Perhaps most important, PSC has also found that ensuring the reliability of the electric supply—that is, that the lights turn on every time a person hits a switch—can be a considerable challenge under deregulation.

For more information, go to [www.publicsectorconsultants.com/energy](http://www.publicsectorconsultants.com/energy)

## Why Does This Matter?

Deregulation is an extremely complex issue. It takes most people years to understand the intricacies of the electric market and to appreciate the intended—and unintended—consequences of different energy-related policy decisions. Therefore, our ask is simple—going forward, try to resist jumping to easy or purely ideological conclusions; instead, join us in digging deeper into the issue to understand what is truly best in the short-, medium-, and long-term for energy policy in Michigan.

## About Us

Public Sector Consultants (PSC) has conducted considerable research on the impact of restructuring the energy market in many states (Michigan, Illinois, New Jersey, Ohio, Montana, and Texas) and for many clients, representing different and parts of energy market. Our goal is simple—to use our research to provide policymakers and other vested stakeholders with the facts they need to make thoughtful, informed decisions. We believe strongly that, Michiganders deserve fair energy policies that are based on sound research, best practices, and real-life experience.