

“A horse never runs so fast as when he has other horses to catch up and outpace.”

-Ovid

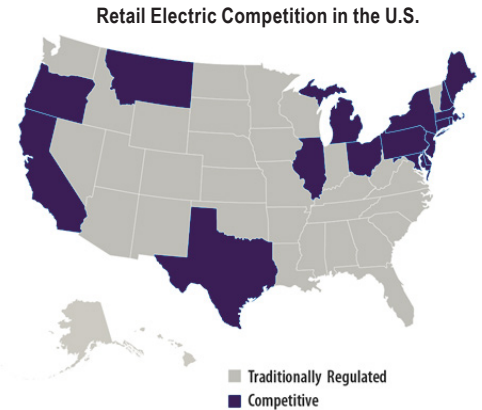
WHAT IS ELECTRIC COMPETITION?

Electric competition, also known as electric restructuring, is the structuring of an electric market within a jurisdiction to use a competitive framework instead of the traditional monopoly cost-of-service framework. Generally, in a competitive framework, the generation, wholesale, and retail functions are structured competitively while the delivery function (transmission and distribution) keeps a monopoly structure.

WHERE ARE RESTRUCTURED ELECTRIC MARKETS?

There are restructured electric markets around the globe, including in Europe, Canada and the U.S. Competitive electric markets have proven to be a viable and reliable method to provide electric service while also ushering in competitive benefits (see *A Little Competition In Your Soul*).

In the U.S., full retail electric choice exists in 14 competitive U.S. jurisdictions⁽¹⁾ where nearly all commercial and industrial (C&I) and residential customers have the right to choose a competitive retail electricity supplier and buy their power at competitive market-based prices. Five other states⁽²⁾ operate limited retail choice programs, which cap the amount of C&I load that can participate.



WHAT IS ELECTRIC COMPETITION?

Electricity markets have both wholesale and retail components. Wholesale markets involve the generation and sale of electricity at wholesale prices among market stakeholders. Usually, those stakeholders will resell the wholesale electricity at retail to consumers. In restructured markets, market stakeholders are competitive entities and not guaranteed a rate-of-return like their monopoly market counterparts. The key difference is in a competitive wholesale market, bad business investments are borne primarily by the business entity that made the investment and not passed through to the customer. In a monopoly structure, bad business investments can still remain on the books of the utility and the costs passed through to captive rate-paying customers. Competitive wholesale markets tend to also encourage operational efficiency among competing generators, resulting in lower prices and more efficient generation facilities.

Takeaway: Competitive Wholesale Brings Lower Prices & Efficient Generation

¹ Maine, New Hampshire, Massachusetts, Rhode Island, Connecticut, New Jersey, New York, Delaware, Pennsylvania, Maryland, Ohio, Illinois, Texas and the District of Columbia. Source: Retail Electric Suppliers Association

² Virginia, Michigan, Montana, Oregon and California. Source: Retail Electric Suppliers Association

WHAT IS A COMPETITIVE RETAIL MARKET?

A competitive retail market is like any other competitive retail market, except instead of shopping for a computer, car, cell phone or internet service, or any other products, the consumer shops for electricity. Competitive retail electricity markets allow consumers to choose between competitive retail suppliers instead of being required to receive their electric service from a single monopoly provider. In restructured retail markets, it is not uncommon to have dozens of retail suppliers competing for business and hundreds of retail offers to choose from. Most important, retail competition provides the customer, not a monopoly utility or state regulatory commission, with the power to choose what matters most for them. Choice is at the heart of the value of electric competition. In areas where competition has been fully embraced, customers have:



- **Choice** of how their electricity is generated, including renewables.
- **Choice** of which competitive electricity supplier they want, whether it's the lowest cost, available 24-7-365, or offers free electricity during certain hours or days.
- **Choice** of the level of convenience and control for their electricity service

Takeaway: Competitive Retail Brings Choice & Innovation

WHAT SHOULD RESTRUCTURING LOOK LIKE?

There is no single model for electric restructuring. Each jurisdiction that has implemented retail choice has done so in a slightly differently. However, there are a few basic precepts that result in successful restructured markets:

100%

Deciding & Committing Competitive Electricity Market Model

The first step of any initiative is to make the determination to do it but once that decision is made there needs to be commitment to it so that market stakeholders and participants can have assurances that their participation is not in vain.



Ensure Transition Mechanisms are Transitory

Transition mechanisms, like a default regulated rate, are helpful in moving from a fully rate-regulated-monopoly provision of service to a competitive model. However, competition is severely hindered when transitory mechanisms become a permanent facet of the market. Transitory mechanisms must be allowed to expire if competition is to move forward.



Establish Appropriate Customer Protections

A competitive market provides consumers choice, but also dangers. It is critical to establish appropriate customer protections with effective enforcement to punish bad actors and to protect those customers most at-risk and address bad actors undermine the market.



Unbundle Competitive Services From Regulated Utilities

While traditional, rate-regulated utilities have a role to play in the transmission and distribution of electricity, they must be transitioned out of the competitive parts of the market to truly unleash the value of competition. Both the generation and retail aspects of traditional utilities should be either sold or spun off into separate entities. Customers should not be "owned" by the utility. Only when the competitive entities fully own the risks and rewards of participation in the market can competition flourish.



Educate, Educate, Educate!

While competition is part of the everyday experience in many areas, shopping for electricity is not a common practice for most consumers. Consumer education on how to shop, how to read an electric bill, what to look for in a plan, and how to measure the performance of retail suppliers are all critical to transitioning to a fully competitive market and moving electric competition forward.