

# Improving RTO-Operated Wholesale Electricity Markets: Recommendations for Market Reforms

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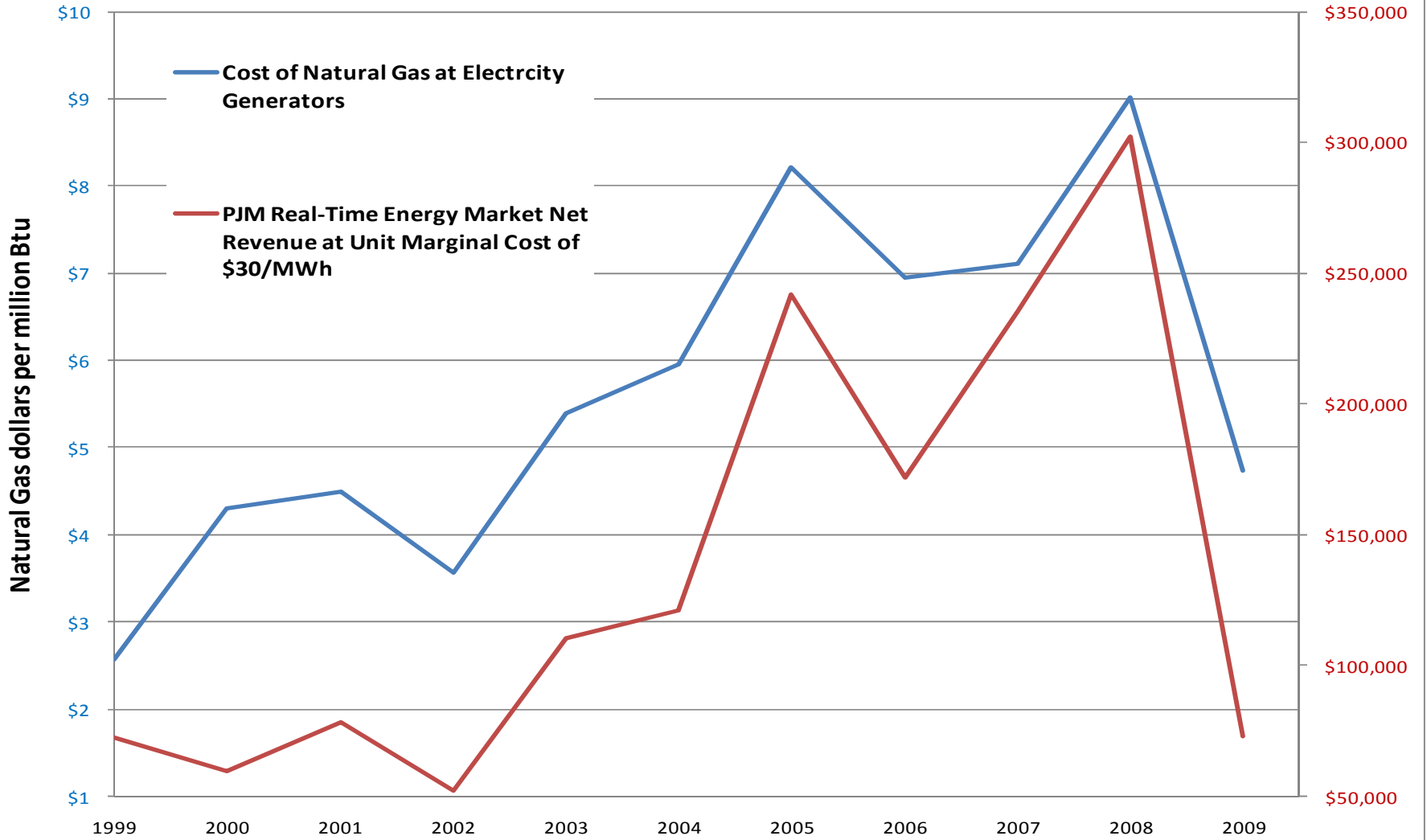
**Average Retail Price of Household Electricity in Rate-Regulated States and Deregulated States  
Without Rate Caps (cents/kWh)**

<b>Residential Customers</b>	2002	2003	2004	2005	2006	2007	2008	2009	Jan-Sept '10	Average Annual Growth from 2002
38 Rate-Regulated States	7.7	7.9	8.1	8.4	9.1	9.3	10.0	10.3	10.5	+4.2%
12 Deregulated States Without Rate Caps in 2010	10.3	10.8	11.1	12.1	13.8	14.1	14.9	14.7	14.5	+5.1%
Difference between rate-regulated and deregulated states	+34%	+37%	+37%	+43%	+52%	+50%	+48%	+42%	+38%	

Note: The 12 deregulated states are CA, CT, DE, MA, MD, ME, MT, NH, NJ, NY, RI, TX and DC. Deregulated OH and PA are included with regulated states due to existing price caps - although beginning January 2011 all PA price caps have been lifted.

Source: Calculations based on U.S. Energy Information Administration data [www.eia.doe.gov/cneaf/electricity/page/eia826.html](http://www.eia.doe.gov/cneaf/electricity/page/eia826.html)

## PJM Generator Net Revenue Follows Natural Gas Fuel Costs



SOURCES: 2009 State of the Market Report for PJM, Volume II, Table 3-1, <http://pjm.com/documents/reports/state-of-market-reports/2009-state-of-market-report.aspx>; Electric Power Annual 2009, Table ES1, [www.eia.gov/FTPROOT/electricity/034809.pdf](http://www.eia.gov/FTPROOT/electricity/034809.pdf)

## Cost of Service Markets Reflect Average of All Generator Costs Deregulated Markets Reflect Marginal, or Highest Generator Costs

- "Customers in States with competitive retail markets for electricity experience the effects of changes in natural gas prices more rapidly than customers in States with regulated markets, because competitive prices are determined by the marginal cost of energy, and natural-gas-fired plants, with their higher operating costs, often set hourly marginal prices."

*Annual Energy Outlook 2008, [www.eia.doe.gov/oiaf/archive/aeo08/electricity.html](http://www.eia.doe.gov/oiaf/archive/aeo08/electricity.html)*

- The price bid by the generator supplying the last megawatt of power to meet demand sets the price paid to all generators in the market. This clearing price is often determined by natural gas prices.
- Also, many power auctions are dominated by a small handful of generators, often the unregulated affiliates of distributional utilities.
- Warren Buffett, Chairman & CEO of Berkshire Hathaway, said that "most of deregulation was a mistake" because "generators have a clear incentive to reduce power reserves." The last thing they want is excess capacity; they want "power supplies to be tight."

# The Unjust & Unreasonable RTO Frankenstein

- RTOs are not explicitly authorized by Congress, and are not firmly under FERC control. FERC has outsourced front-line “just and reasonable” enforcement of electric rates to these "voluntary" markets, repealing essential consumer protections in the process.

# Public Citizen's Requests

## FERC Must Open a Full Investigation Into Allegations That Electric Rates in Organized Markets are Unjust & Unreasonable

– 41 Groups Asked FERC to Do This in December '07 FERC Docket AD07-7, <http://elibrary.ferc.gov/idmws/common/opennat.asp?fileID=11530312>

- Organizations representing household consumers must have full and equal representation in RTO governance
- Establish an Office of Consumer Advocate with Intervener Funding at FERC
  - 16 USC § 825q-1 – “Office of Public Participation”
  - HR 2454, 111<sup>th</sup> Congress, Sec. 198 “Office of Consumer Advocacy”