

## Perry Sioshansi's Letter from America State of retail electricity markets

### There is plenty of room for expansion.

The Distributed Energy Financial Group (DEFG) released its annual baseline assessment of choice in Canada and the US (ABACCUS), an [update](#) of the North American retail electricity markets in January 2014, and as usual it is a good read.

While not much typically happens from year to year, the authors claim that there is increasing interest in a number of states to open markets to retail competition, gradually and cautiously.

According to Nat Treadway, a managing partner at DEFG and the lead author of the ABACCUS report, "recent growth has occurred in states such as Illinois that rely on municipal aggregation to introduce retail competition". "Anyone familiar with retail electricity markets understands that municipal aggregation results in increased customer awareness and lowers costs."

According to the latest ABACCUS report, some 17.2mn households in North America, out of an estimated 48mn who are eligible to do so, have chosen a retail supplier of their choice.

While both numbers are growing as new markets open or are extended, they are small relative to the size of the competitive retail market in the EU, theoretically around 510mn. The corresponding number for Australia and New Zealand combined is around 20mn.

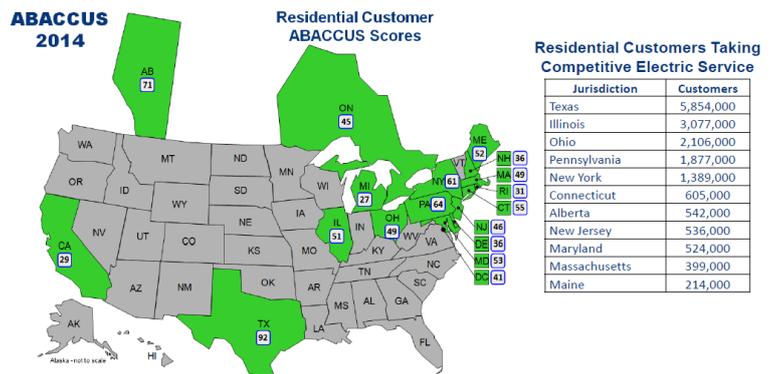
As in the past ratings, Texas comes on top with 52 retail electricity providers (REPs) offering 322 products, everything from different percentages of renewables, stable pricing, prepaid electricity, and a variety of customised offerings appealing to particular market segments.

Not surprisingly, Texas also has the highest switching rates, both in commercial and residential segments.

The latest report identifies the design, implementation and phase-out of the default service as the single most important factor in determining the ultimate success of a retail market. Texas has ranked consistently highest in North America and among the best globally, in part, due to its initial price to beat offer. The price to beat, which applied to incumbent retailers, was introduced in 2002 when the market opened and phased-out in 2006 by which time competing retailers had established a significant presence in the market originally exclusively served by incumbents.

Texas market succeeded because it learned from the mistakes of others, including California, which failed miserably in 2000-01.

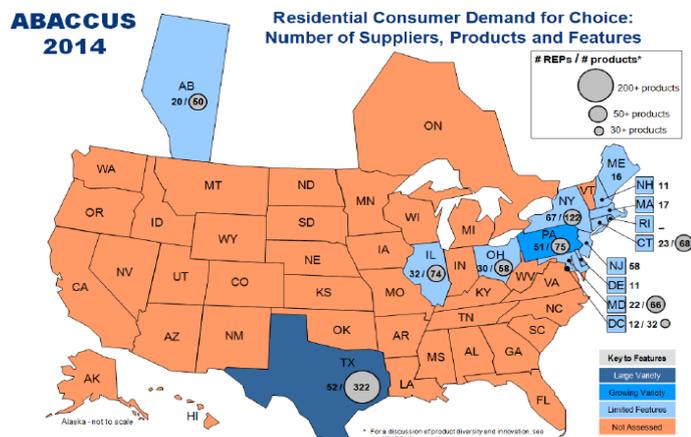
### More shoppers



Number in each state represents a relative score with 100 being the best  
Source: DEFG

### More to choose from in Texas

**First fig for each state is # of retailers; the second # of products offered**



Source: DEFG

Vertical integration was eliminated prior to market opening; transmission was functionally unbundled from generation and competitive energy services were unbundled from distribution services. On 1 January 2002 when the market opened, nearly 7mn accounts were moved from the regulated utilities to the affiliated retailers, all within the competitive market, but on a 5-year, regulated price to beat rate.

Treadway, who has been following developments in North American retail markets since inception, said, "Experience shows that there are many paths to successful retail electricity competition in North America."

He believes other states can learn from the Texas experience, where consumers enjoy a myriad of products and services offered in the fiercely competitive residential market. He encourages regulators in other states to "pick and choose the best practices and make your state's competitive electric market as good as it can be."

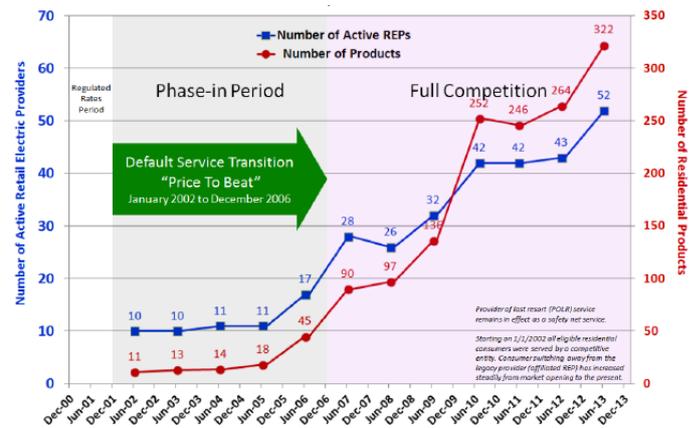
**Perry Sioshansi is a specialist in electricity sector restructuring, and he has been actively involved in discussions in a number of developed, developing and transition economies.**

**He is founder and president of Menlo Energy Economics and is the editor and publisher of EEnergy Informer, from which we have sourced this article, and which we commend.**

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**Default service matters**



Source: DEFG




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