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Texas' deregulated electricity market, explained

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A new report finds Texans with deregulated energy supply pay more for their power. So what the heck is a deregulated energy supply?

Image via Getty

When Texas lawmakers deregulated the state's electricity market, the idea was to make power cheaper for Texans. But more than decade later, the Houston Chronicle reports that Texas consumers pay more in deregulated energy markets. The reasons are complex and even elusive.

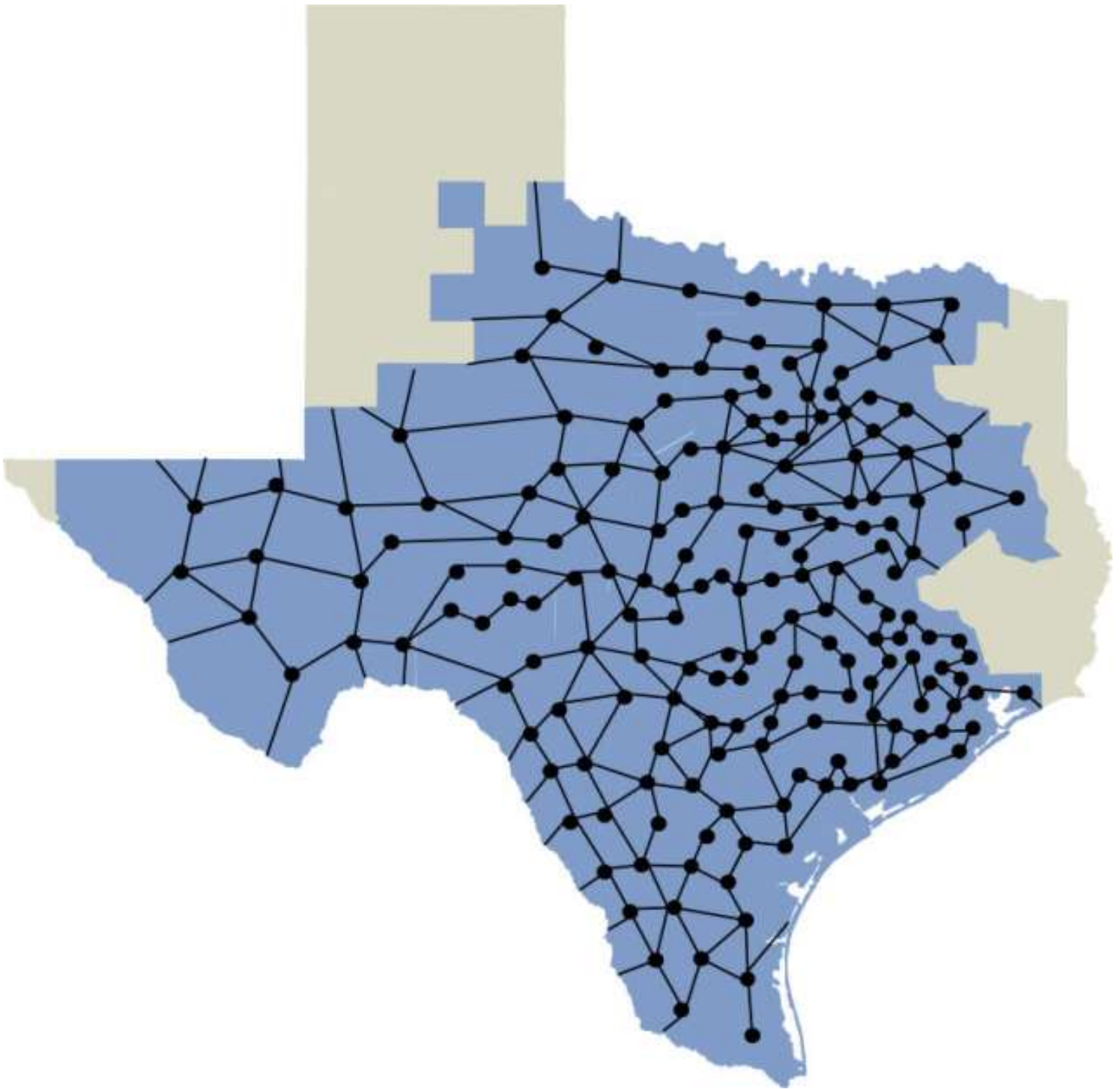
Deregulation came through hundreds of amendments made to the state's [107-page Public Utilities Code](#) in 1999. That legislation, Senate Bill 7, broke apart most of the state's public utilities and fundamentally transformed the way Texans get their power.

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"SB 7 was one of the most important laws ever adopted for the Texas energy market," said R. A. Dyer, a policy analyst at the [Texas Coalition for Affordable Power](#), a nonpartisan group that has tracked the effects of deregulation.

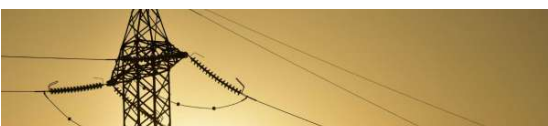
Through most of the 20th century, power in Texas was regulated as a public utility. Texans relied on a single local provider, whether a municipal utility in cities, an investor-owned utility or an electric co-op in rural places. These entities usually owned the power plant, the power lines and the customer service network that helped people plug in. In the Bayou City, that was Houston Lighting & Power.



The U.S. has three independent power grids. One of them is in Texas--the only grid within a single state's boundary. It is managed by the Electric Reliability Council of Texas, ERCOT. Image via ERCOT

Rates were tied by law to the cost of fuel (mostly coal or natural gas).

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BY JORDAN BLUM

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Deregulation, lawmakers hoped, would create a competitive marketplace and lower prices. If customers could choose between rival electric providers, then those providers would become eager to do everything possible to reduce their costs and win more customers.

"Competition in the electric industry will benefit Texans by reducing rates and offering consumers more choices," said Gov. George Bush upon signing deregulation into law.

It happened in two phases, addressing wholesale power in 1995 and everything else in 1999 with SB 7. The old utilities, then monopolies on energy, were each "unbundled" and broken into three companies: generation (power plants), transmission (power lines) and retail (customer service and billing). HL&P split into Reliant Energy, CenterPoint Energy and Texas Genco, now owned by NRG Energy.

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And the market was opened to new players.

"For the first time they allowed retail providers to set up shop and start marketing their power to anyone who wanted to buy from them. That was not permitted before," Dyer said.

So a complex marketplace emerged, with private power generators offering their product for sale to retailers across the state. Only the transmitters remained regulated, because

cities can't have multiple private companies stringing power lines wherever they want.

That marketplace did away with the old system, in which local plants produced power for local consumption. A power retailer in Houston would have to buy electricity wholesale from a power generator somewhere in Texas, and if the best deal the found came from San Angelo, then so it was.

That put new demand on the state's power grid, and the managing entity, the Electric Reliability Council of Texas, drastically evolved its operations.

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The state phased in deregulation in order to allow new competitors. It enforced a price floor on the former monopolies, barring them from charging rock-bottom rates to shut startups out of the industry. Those restrictions faded in 2007, once newcomers had time to get established, and the energy market became deregulated.

The law let municipally-owned utilities and co-ops exempt at will, which is why Austin and San Antonio still have public electric providers.

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