Retail Choice in Electricity: What Have we Learned in 20 Years?

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After twenty years, retail choice in electricity seems to have delivered only a part of its advertised benefits. This finding was reported to the Energy Policy Seminar by Dr. Mathew Morey of Christensen Associates Energy Consulting, who recently co-authored a study reviewing the U.S. experience over the past twenty years with retail electricity customers being allowed to choose their electricity suppliers.

In the 1990s, the proponents of retail choice in electricity projected that allowing competition to provide electric service to consumers would lead to significant gains in the forms of lower retail prices and innovative products and services. In response to these projections, more than twenty states implemented retail choice programs. Not coincidentally, states with high energy rates were generally more likely to adopt retail price competition, hoping that competition might lead to lower rates.

But have projected gains been realized? Through a review of studies covering a wide range of retail choice issues, Dr. Morey reported, he and his co-author, Dr. Laurence Kirsch, found a very mixed set of outcomes. The impact of retail choice on prices are ambiguous, Morey and Kirsch found, but it is clear that electricity prices remain significantly higher in retail choice states than in traditional states and that changes in the price gap between retail choice and other states have been driven primarily by fuel price fluctuations. There is no apparent overall trend towards a narrowing of the price gap over the twenty years since retail choice adoption.

Looking at other factors besides prices, retail choice appears to promote renewable resources and dynamic pricing programs, Morey explained, but it has a mixed record in promoting demand response and customer satisfaction. Although retail choice may help resource adequacy by extending the market penetration of dynamic pricing programs, it may also exacerbate the resource adequacy problem by materially adding to the financial uncertainties faced by investors in generating resources.

The report recommends that policymakers measure program success in terms of reductions in customers' bills rather than switching rates, encourage real-time pricing, and protect consumers from supplier default and fraud.

Morey spoke as part of the Kennedy School's Energy Policy Seminar Series, which is jointly sponsored by the Energy Technology Innovation Policy research group of the Belfer Center and by the Consortium for Energy Policy Research of the Mossavar-Rahmani Center on Business and Government. The report he discussed is freely available from the Electric Markets Research Foundation, which sponsored the study.