

## Electric Utility Competition – in South Carolina?

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By: Jerry Ellig | January 28, 2019

Retail electric competition has recently become a hot issue in an unexpected place: South Carolina, where I currently live.

Two of the state's major utilities – investor-owned SCE&G (recently purchased by Dominion Energy) and state-owned Santee Cooper – spent \$9 billion on a nuclear plant that will never be finished. In the uproar that followed, Gov. Henry McMaster called for privatization of Santee Cooper, and the state legislature established a commission to study the matter. State Senator Tom Davis, a member of the committee, recently wrote a column arguing that the state should not just privatize that utility monopoly but also open retail electric markets to competition.

On January 16 I had the opportunity to speak about electric utility competition at a public educational forum in Columbia, SC, sponsored by the South Carolina Small Business Chamber of Commerce, the League of Women Voters, and half a dozen other civic groups. An audio record of the 2-hour event is available [here](#).

My presentation addressed three examples of retail electric competition: Texas (widely considered a success), California (widely considered a failure), and instances of direct retail competition between electric utilities that own their own wires.

Texas has created a vibrant retail market where 92 percent of residential electric customers have chosen a competitive supplier. The most recent report on electric competition from the Texas Public Utility Commission indicates that average fixed prices available from competitive suppliers are 10–24 percent below the last regulated rates in 2001 (adjusted for inflation). (The most recent report was released the day before my presentation, so the numbers are slightly different from what you'll see in the PowerPoint.) Customers can choose from hundreds of different products including 100 percent renewable energy, time-of-use pricing, prepaid plans, and contract lengths ranging from one month to 60 months.

California, on the other hand, required utilities to reduce rates substantially even for customers who did not shop around, then mandated that the utilities must buy all their power a day or hour ahead in a state-run wholesale spot market. Skyrocketing wholesale prices in 2000 led to bankruptcy of a major utility,

### In brief...

Research professor Jerry Ellig participated in an educational forum hosted by the South Carolina Small Business Chamber of Commerce to discuss his research on electric utility market competition. This commentary provides a summary of Ellig's presentation, and an overview of the reform ideas presented by his co panelists.

drastic rate increases, and state intervention to purchase power under long-term contracts for resale to customers.

You can listen to my presentation and view the PowerPoint for more extensive discussion of the Texas and California models, as well as empirical studies of towns served by two competing electric companies with their own wires. The panel was moderated by Frank Knapp, president of the South Carolina Small Business Chamber of Commerce.

In addition to opening remarks by Sen. Davis, the panel featured four other individuals with relevant research, government, or private sector experience.

Jim Clarkson, president of Resource Supply Management, explained how competition for large industrial electric customers works in Georgia. Georgia Power opened up access to its electric transmission grid in exchange for investments from co-ops and municipal utilities when it was threatened with bankruptcy after cost overruns at a nuclear plant. As a result, competition to serve new industrial load is fierce. Competition occurs only for new load, unless the winning supplier agrees to a contract that gives the customer the right to switch at some time in the future.

Robert Bussa, a retired managing director from J.P. Morgan Securities who has written extensively about electric market restructuring, discussed electricity competition in Illinois. There, most industrial companies immediately left the utilities to buy power elsewhere, but few retail customers switched suppliers. The state established an agency to buy electricity on behalf of retail customers, but little competition occurred until city and county governments were permitted to aggregate retail customers and negotiate for power. Wisconsin, which separated transmission from generation and then attempted to simulate the results of competitive market pricing through regulation, was less successful.

Michael Maloney, an economics professor emeritus from Clemson University, explained the economic function of bankruptcy in a market economy. Bankruptcy can be a good thing because it signals that something at the bankrupt enterprise needs to change. He also noted that if investors are well diversified, they are protected from bankruptcy risks. As a state-owned entity, Santee Cooper does not have shareholders to bear the nuclear plant losses. Maloney coauthored studies with Katie Grace, a finance professor at Wofford College, estimating the size of the losses Santee Cooper ratepayers may suffer, and a study with Oran Smith, a senior fellow at the Palmetto Promise Institute, explaining how to implement retail electric competition in South Carolina.

Katie Grace offered a back-of-the-envelope estimate of the potential cost savings to South Carolina residential customers from competition. Based on a rate differential of about 15 percent between states with retail competition and states without competition, she suggested the typical retail customers could save about \$271 annually, for total customer savings of more than \$509 million annually. She also suggested that a competitive system for power supply would be more accountable, more efficient, and more likely to invest in renewable energy sources. Grace previously estimated the size of the losses that SCE&G and Santee Cooper ratepayers will bear as a result of the nuclear debacle.

At least some South Carolina policymakers are fed up with the monopoly utility model and are looking for another path. The panel presentations provided a lot of competitive options to chew over.

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