Competitive Electricity Markets: Separating Myth from Fact

EPSA 25 YEARS
COMPETITIVE ENERGY SOLUTIONS

MYTH: ***Competitive markets are unregulated.***

FACT: Competitive power markets are well regulated and subject to oversight by the Federal Energy Regulatory Commission (FERC), the U.S. Environmental Protection Agency (EPA), the U.S. Securities and Exchange Commission, state utility commissions and other regulators. Any prices received by power producers are subject to FERC approval to ensure that competitive rates are just and reasonable.

MYTH: ***Competitive markets rely heavily on fossil fuels.***

FACT: Emissions of carbon dioxide from power plants have fallen 60 percent in New England and 39 percent in the PJM footprint since utilities stopped owning these facilities. Market pressures have played a significant role in the retirement of higher emitting, higher cost resources like coal that were replaced by lower cost, lower emitting resources all to the benefit of consumers. Competitive regions account for almost 80% of all utility-scale renewable generation capacity (Energy Choice Coalition, 2021).

MYTH: ***Competitive markets are less reliable.***

FACT: With the introduction of competition in the 1990s, competitive generators immediately began to reduce power plant outages and invest in reliability-enhancing innovations that have continued to this day. Research from the R Street Institute found that states like Louisiana saw better reliability when they joined an organized market.

MYTH: ***Competitive markets cost more for consumers.***

FACT: Myriad factors contribute to power prices, particularly as they are reflected on ratepayer bills. Utility bills include factors like transmission and distribution, which are generally not subject to competitive forces even in restructured power markets. Wholesale power prices in restructured markets have consistently trended down, at times reaching record lows, since the creation of those markets. In the 13-state PJM Interconnection market, for instance, customers save an estimated $3.2 to $4 billion annually through lower costs, the integration of more efficient resources and higher reliability. Competitive power producers also do not have a guaranteed rate of return, unlike monopoly utilities.

MYTH: ***Competitive markets benefit the most expensive energy resources.***

FACT: The claim that competitive markets somehow make all resources cost the same is misguided. The entire competitive market structure is built around the notion that power generators should compete to offer the best price that balances supply and demand. Competitive generators allow resources like wind, solar, nuclear, and gas to all compete to be the least cost resource, while monopoly utilities get paid regardless of how efficiently they run due to the guaranteed recovery they are granted from their regulators, which is paid by captive customers.

Competitive Wholesale Electricity Markets Nationwide

More than 20 years ago, competitive wholesale electricity markets were established in many parts of the U.S. to help reduce power generation costs, increase competition and provide choice for consumers. Since then, these markets have consistently driven innovation, enhanced efficiency and reduced costs. This new competitive era replaced an inflexible, vertically-integrated utility model that was costly and failed to advance the power sector.

As competitive power suppliers, EPSA members have since delivered substantial economic benefits to consumers and businesses – by quickly adapting and investing in cleaner, lower-cost, efficient resources needed to support a reliable grid. In addition to natural gas, geothermal, and wind and solar resources, EPSA members own and operate the state's largest battery storage projects to support renewable growth, totaling more than 12,600 MW of generation capacity.