

Competitive Electricity Markets Drive Efficiencies, Save Customers \$15 Billion

by Gary L. Hunt

(NAPSA)—With all the turmoil in the world's energy markets today, including the high energy costs in the United States, it's gratifying to know that there is one area of the energy economy that has good news for the American consumer: competitive electricity markets.

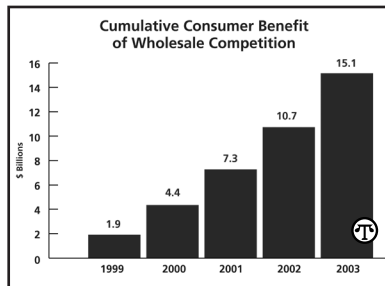


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There's a shared belief in America that competition delivers benefits and efficiencies—from supermarkets cutting prices to a favorite coffee shop offering up a new and unique blend, companies everywhere are competing for your business. Competition drives our economy, spurs innovation and lowers costs. This trait also extends to the electricity industry.

Since Congress enacted the Energy Policy Act of 1992, competition in the electricity industry has evolved and, today, produces significant cost savings and efficiencies throughout the country. The new federal energy law enacted in August 2005 will allow these benefits to continue as companies work to increase supplies, moderate demand and utilize the most efficient and technologically advanced methods for saving energy in their operations.

A group of 10 prominent electricity suppliers approached my team at Global Energy Advisors to conduct an independent study about the competitive power supply market to determine if customers had benefited from competition. Our study found that the competitive forces saved consumers in eastern



North America more than \$15 billion from 1999 through 2003. Further, there were dramatic improvements in power plant efficiencies and performance nationwide.

More likely than not, the power plant serving your town or city is operating more efficiently and in a more environmentally friendly manner than it was 10 to 15 years ago. Competition served as the catalyst for these dramatic improvements. After the 1992 law passed, new competitive power supply companies were formed that purchased older power plants or built new plants, and they competed with each other to own and operate the most efficient plants. Other operators of traditional utility power plants soon followed suit and also implemented more efficient practices.

To determine if competitive forces resulted in cost-savings, we looked at two different situations—the actual costs of competitive electricity markets in eastern North America and the actual costs that would have been incurred in the same region without competitive markets.

By using our electricity market simulation software and independent price forecasting to compare the two scenarios, we found that competitive markets produced

\$15.1 billion in customer savings. The main source of these savings came from significantly reduced operating expenses, which include fuel costs, operations and maintenance costs, depreciation and taxes.

By conducting several analyses of the North American power plant fleet, we also found that competitive forces are driving the nation's power plant operators to evaluate their procedures and make improvements. Basically, many of the oldest power plants that utilities had sold to the competitive power operators were being transformed into more efficient performing plants. This is like taking your Dad's old Oldsmobile and turning it into a hot rod. Our study showed dramatic reductions in operations and maintenance practices and costs for those power plants, as well as large gains in electricity production. This increase in production, from 1995 to 2004, was enough electricity to supply power to more than 35 million residential households.

As demonstrated in our study, competitive market forces have changed the way existing power plants are operated and built, producing substantial improvements in efficiency and cost savings. So, the next time you drive by the power plant in your area, you can be sure that competition is working and is pushing that plant to be more efficient and economical in the electricity it produces for your community.

Gary L. Hunt is president of Global Energy Advisors. The Global Energy study can be accessed at www.globalenergy.com/competitivepower.