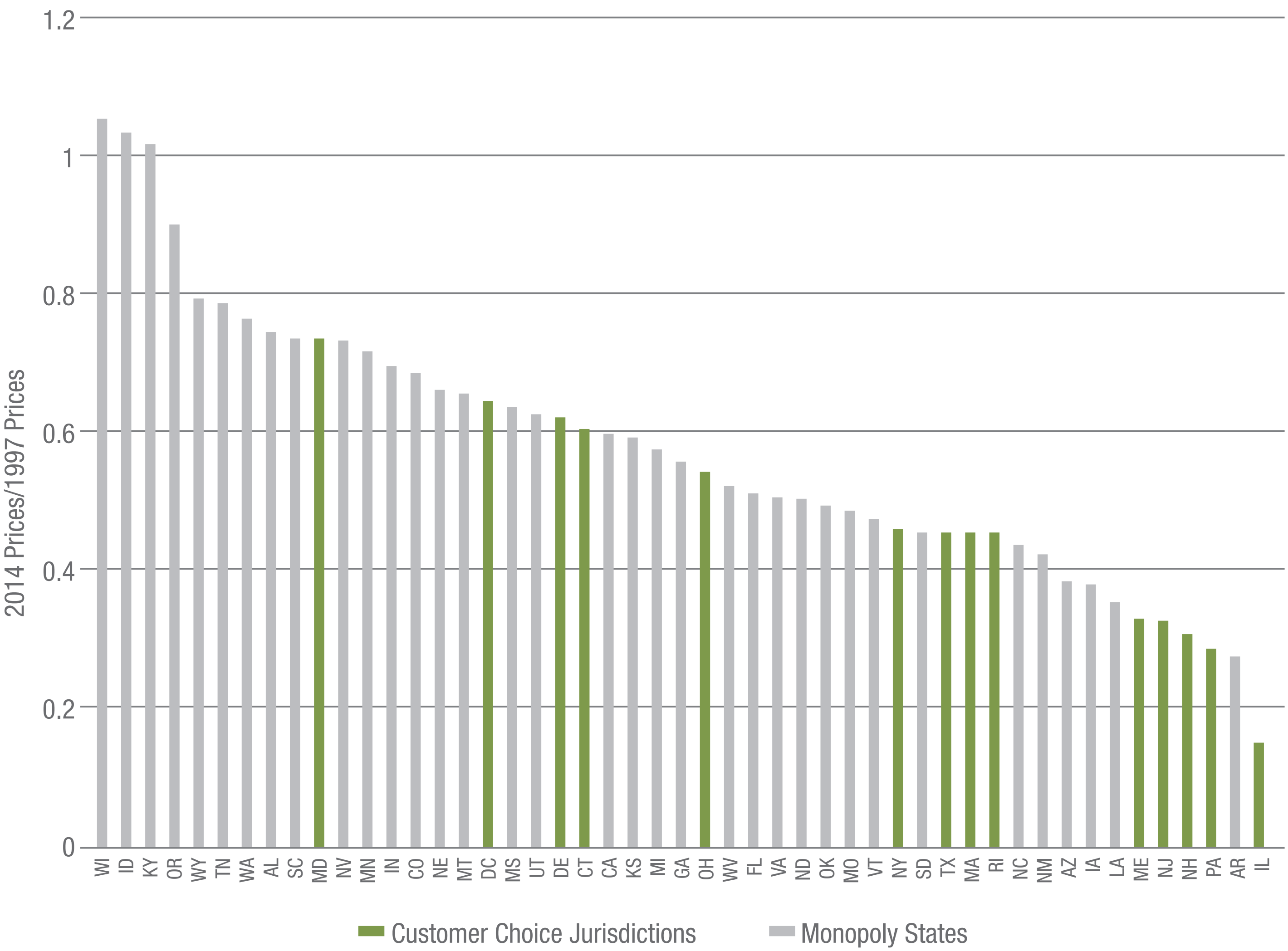
FIGURE 10 : RANKING OF % INCREASE IN NOMINAL ALL-SECTOR AVERAGE PRICE 1997–2014



Price Signals: Competitive Retail Prices Respond to Market Conditions

In addition to moderating disadvantageous upward price trends, another price goal of electricity competition was to remedy traditional regulation's inability to set generation prices that reflected supply and demand realities.[17] The price data confirm that competition has met this second goal as well.

Monopoly advocates often argue that competitive prices that reflect economic conditions disadvantage consumers and that electricity prices should instead be set administratively. Competitive electricity markets provide price signals through multi-year forward pricing and in real-time or other short-term prices. In marked contrast, traditional monopoly regulation administratively sets essentially backward looking prices based primarily on sunk costs and intra-class uniform pricing. Economics and market realities drive competitive pricing; regulatory accounting and pricing principles established in far different conditions many decades ago drive monopoly regulation.

Competition opponents also assert that market-responsive price signals in the Customer Choice Jurisdictions would yield more volatile monthly retail prices compared to prices under traditional monopoly regulation. Actual experience also shows this assertion to be unfounded.[18]

The central problem with the traditional model of monopoly electricity pricing in a future characterized by low growth is that it inevitably results in higher per unit prices on shrinking sales volumes in order to cover fixed generation costs. This is the conundrum at the heart of