

# ***POLICY BRIEF***

An electronic publication of  
The Allegheny Institute for Public Policy

---

**July 11, 2001**

**Volume 1, Number 18**

---

## **Energy Headlines You Are Not Seeing**

A few headlines you are not reading in the mainstream media.

***“ Gasoline prices from the refiner below 1980, 1981, or 1982 levels”***

***“ Average residential electric rates in 1999, 2000 lowest since 1992”***

***“ Natural gas prices predicted to move lower”***

***“ Pennsylvania’s electric choice program ranked best in nation”***

You won’t see these headlines despite the fact that they are true and certainly newsworthy. For example, retail gasoline prices, on average, have never come close, even in the nation’s traditionally most expensive markets, to the \$3 per gallon predicted for this summer as recently as April. Instead prices in most areas are below year earlier levels.

And, according to the US Department of Energy, the average per kilowatt-hour cost of residential electricity in 1999 and 2000 was lower than any year since 1992. It’s doubtful that you’ll read a news story reporting DOE data that shows total electricity costs at retail in 2000 were the lowest in a decade, and in real dollars (adjusted for inflation) the least expensive since 1973.

According to industry analysts natural gas prices for 2001 are now predicted to be lower than last year’s and for 2002 are expected to be lower than in 1997.

Finally, it is certain you won’t read a story reporting that the Center for the Advancement of Energy Markets has ranked Pennsylvania’s electric choice program as far and away the best in the nation in making progress toward consumer choice.

These headlines and stories won’t appear because the mainstream media in general is not interested in balanced reporting where energy prices are concerned. Much of the major news media and liberal politicians seem to be intent on undermining the free market as the final and most effective arbiter of supply and demand, despite the fact that market forces generate the best outcomes for the greatest number of consumers.

Let’s focus on electricity choice. Groups who claim that they work in the interest of the consumer, including the Foundation for Taxpayer and Consumer Rights, seemingly abhor the idea of choice for consumers and taxpayers. They feel that cheap electricity, with zero environmental effect and zero profit, is an entitlement. "Electricity is a commodity that is

essential to our economic lifeblood", stated Harvey Rosenfield, president of the aforementioned foundation, and therefore "should be safeguarded from free market economics of supply and demand." Obviously, Mr. Rosenfield believes that consumers would be better off with a state-run system that "protects" electricity users. Maybe he could show us one that has worked well.

Some recent headlines you might have seen, however, portrayed the Pennsylvania experience, which many outside observers consider the best model of consumer choice for electricity, as faltering. Why? It has been reported that the number of residential, commercial, and industrial customers that are buying electricity from a company other than their incumbent provider fell by 25 percent from April to July. Despite the fact that 591,596 customers (11 percent) have switched to an alternative supplier, critics suggest the electric choice program is foundering.

But it is important to look beyond these numbers. The truth is that prior to 1997, customers had no ability to choose their electricity provider. Now, all of the state's 5.2 million accounts can purchase electricity from a competitive provider; if they decide to remain with their incumbent provider, are they making a choice? Yes. Are average Pennsylvanians paying less for electricity, whether or not they switched to a competitor, under competition than they did under regulation? Yes, quite a bit less.

Liberals continually judge deregulation based on unrealistic premises, including the idea that deregulation must lead to lower prices for everyone in order to be a success. And, deregulation must create more jobs or, at a minimum, maintain the status quo so far as employment is concerned. In other words, deregulation must come without any risk whatever to workers and consumers and, of course, politicians.

We would suggest that deregulation must be judged more sensibly, and by more important standards: Are consumers better off? Have consumer choices increased? Is valuable innovation encouraged?

Consumers are better off with more choices concerning suppliers of a good or service. They clearly benefit whenever the price of the commodity declines as the result of new market entrants. Over time, however, deregulation can only work if producers also have choice—to both enter and to leave the market. Innovation in the market place is strongly encouraged by competition. Without it, current market participants are lulled into a dedication to the status quo. But there's no guarantee that new market entrants are the best suppliers in the long run. Should existing market participants innovate faster, reduce costs and become more efficient, it is entirely possible—and desirable—that they will drive the new entrants to seek other endeavors that generate a better return on scarce capital. That is the essence of economic freedom

Too bad the mainstream media can't or won't recognize that.

---

**Paul Stifflemire, Senior Policy Analyst**

**Eric Montarti, Research Associate**

---

*Policy Briefs may be reprinted without permission so long as proper attribution is given.*

Allegheny Institute for Public Policy  
835 Western Avenue\* Suite 300\* Pittsburgh PA 15233  
Phone (412) 231-6020 \* Fax (412) 231-6037  
E-mail: [aipp@alleghenyinstitute.org](mailto:aipp@alleghenyinstitute.org)