Rio Grande Electric Cooperative, Inc.

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A Message From The General Manager/CEO

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"It's not deregulation. . .
it's re-regulation."

Deregulation, retail choice, or re-regulation of the electric utility industry continues to fall short of the promise. The promise is that electric energy will be less expensive if sold on the open market like toasters, shoes and clothing. Unfortunately, at its core, such a notion is flawed, for a number of reasons. If you don't think I am right, ask some residential consumers that have made the transition to a Retail Electric Provider (REP).

I recently received a copy of back-to-back monthly bills from a consumer that made the transition from Central Power and Light (CPL), to First Choice, the REP arm of an Investor-Owned Utility known as Texas New Mexico Power Company (TNP). Consumption, while served by the incumbent provider, CPL, was slightly higher, but the cost of energy was almost $20 less expensive than the bill received from First Choice for the very next month of energy purchases.

You see, what the consumer didn't know is there are additional charges that go along with the choice of a new supplier. These charges - *incumbent utility stranded investment, system benefit fund and transmission delivery costs*, accounted for most of the additional cost of electric energy. These additional costs represent the expense associated with changing an industry that has operated one way, for most of the last hundred years, to a new way of doing business. Its not deregulation, its re-regulation. By the way, if you are ever interested in testing the veracity of what I am saying, give me a call and I'll be glad to provide you with a copy of the bills I just described.

Well, that's the result - but what is the problem? In my mind, there are two fairly fundamental problems that every consumer needs to recognize. First, electric energy can't be stored; it must be created and consumed in the same instant. Consequently, you can't purchase extra electric energy when prices are low and store it for use when prices are high. In order for a free market to work, consumers must have the ability to hedge their exposure to high prices, but that can't happen when the commodity can't be stored.

The second problem revolves around a process known as "price signals". Companies and consumers in a free market regularly send price signals to each other. Toaster distributors send consumers a price signal by marketing their product at a particular price. Consumers send a price signal back by not purchasing the toaster if they feel the price does not match their need. But, in a free electric energy market, you don't know the cost of energy until after you have consumed the product and, therefore, can not respond to price signals. Limiting usage in a month when the price for energy is going to be high is out of the question. And, as I have already mentioned—you can't store energy when it is cheap and use it when the cost is expensive.

When it comes down to it, if the commodity is of the type and importance that electric energy is, then regulation is probably the best way to accomplish the lowest price, not a free market. Here at Rio Grande Electric Cooperative, we have made the choice to wait and see if the market develops before we expose you to the risks associated with participation in the market. We have made the **Smart Choice** when it comes to retail choice, but our real hope is that, as you read about what is going on in these changing times, you will agree that we are your ***Smart Choice*** electric provider.