Competitive electricity market fails to materialize

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Consumer Talk
By Marty Cohen

Hot summers always mean high electric bills. But a decade ago, it was even worse for Illinois consumers, who suffered from some of the highest electric rates in the nation.

In 1997, the Legislature ended that unfortunate distinction by passing a law to "restructure" the state's electricity industry and introduce competition and consumer choice.

A deal was struck with ComEd: In exchange for a 20 percent residential rate cut — the largest rate reduction ever seen — the company would face minimal regulation during a nine-year "transition period." If they could operate much more efficiently, every nickel saved through cost cuts would mean a nickel in higher profits.

The change at ComEd was immediate and seemingly miraculous. Its nuclear power plants, which had operated miserably when customers were paying for every cost overrun, began to run like Ferraris instead of jalopies. The bloated utility bureaucracy shrunk like Oprah on a new diet. And after giving up the largest rate cut in history, ComEd's profits began to climb.

In short, they proved what we consumer advocates had been saying was true: ComEd had been squandering customers' money for decades. And state regulators let them get away with it.

Fast forward to today: Electricity rates have stayed down and service reliability has improved. And ComEd keeps on smiling all the way to the bank. Now merged into Exelon, the company has seen its stock price quadruple and its profits hit new records.

But the vaunted competitive electricity market has failed to materialize. Not a single residential customer is buying power from a non-utility seller. None of the states around Illinois have jumped into the deregulation pool with us — no surprise, given the market meltdown that occurred in California and the price hikes seen elsewhere.

The failure of markets to develop, not to mention the massive fraud and market manipulation by the likes of Enron, has shown that creating real competition for electricity isn't easy. It requires a healthy dose of regulation to protect consumers. And it takes a long time.

Meanwhile, despite all the money ComEd is making, it's cooking up an unwelcome surprise for consumers when the "transition" expires at the end of next year — a big fat rate hike, perhaps 20 percent or more, just for starters, courtesy of a power supply auction they've proposed to the ICC. ComEd acknowledges the likelihood of a billion-dollar rate hike but denies responsibility.

"We won't make any money on the auction," ComEd says. But what it doesn't mention is that the higher the "market" prices go, the more money will be made by Exelon, which now owns all those deregulated nuclear power plants. Without any limit on how high the rates go. Exelon's profits will soar along with consumers' bills.

Something's not right here. That's why CUB has joined with Attorney General Lisa Madigan and Cook County State's Attorney Dick Devine to try to switch the transition train to a different track.

Because without a change in direction, we're rolling right back into the bad old days of skyrocketing electric rates.

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