

Daily Southtown

Naperville exposes ComEd's flawed auction

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The city of Naperville is known for a lot of things—spacious housing, good schools, award-winning libraries. And, come January 1, lower electric rates.

The DuPage County suburb made news recently when it negotiated a lower price for electricity for its residents than ComEd obtained through its controversial power auction. Naperville, which has a municipal utility, was able to lock in power for the next four years at a price of 6 cents per kilowatt-hour. ComEd's auction settled at a price of 6.4 cents for just 18 months.

It might not seem like a big deal, but the price difference is worth hundreds of millions of dollars and, come January, a lot of ComEd customers may be wishing they lived in Naperville.

That a town of 136,000 residents could negotiate a better price than ComEd, with its 3 million customers, defies all known economic theories. In a competitive market, the big guys with the most buying power are supposed to have the lowest prices. That's why people flock to the Walmarts, Targets and Costcos of the world—because their enormous customer base allows them to get better prices and undercut the competition.

That's not to say the Naperville price is any bargain, but there's no excuse for ComEd's prices to be higher. In fact, given the utility's size, it should be able to get a much lower rate.

Imagine if your corner grocery store got a better price for milk than Walmart. Customers would abandon the big retailer in droves. But we can't abandon ComEd. We're stuck with the company whether we like it or not and that's precisely why the utility thinks it can get away with a 26 percent rate hike next year.

And that's the fundamental problem with ComEd's

“reverse auction.” It creates the illusion of competition where none exists. Despite an almost decade-long transition to a competitive market, today there isn't a single alternative electric company for residential customers and small businesses to switch to.

Of course, that's fine with ComEd. The company and other auction backers argue that customers don't need to switch utilities to benefit from competition. They claim the auction takes advantage of competition at the wholesale level to get the best price for consumers.

But our friends in Naperville put that argument to rest. Through direct negotiations with suppliers—power generators that probably also bid in ComEd's auction—the city obtained a better price for consumers than the giant utility did. That's because as a municipal utility, Naperville's only goal is to get the lowest price for its residents. No one in city government benefits from higher electricity rates.

But when the market's largest buyer, ComEd, just happens to be owned by the largest supplier, Exelon, the incentives are all out of whack. Rather than getting the best deal for consumers, the auction system actually gives ComEd a perverse incentive to pay more for power, because every nickel in higher rates goes straight to Exelon's already hefty returns.

And just how profitable is Exelon these days? Since 1997, when Illinois electric rates were reduced and frozen, the company's profits have quadrupled. It's got a record share price and posted record earnings of over \$2 billion last year.

With customers paying 6.4 cents per kilowatt-hour for electricity and Exelon's cost of producing power at about 2 cents—along with a captive customer base that has no choice but to pay the outrageous prices—the company stands to reap close to \$2 billion annually in windfall profits. It's a sweet deal that companies like Walmart and Costco, who actually have to compete in the marketplace, can only dream of.

And Exelon's exorbitant profits will continue into the future even if the current rate freeze is extended.

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In fact, according to one recent study, the company would remain wildly profitable even with a small rate reduction.

That's why extending the rate freeze makes so much sense and why CUB is mounting a statewide grassroots campaign, the "Don't Get Shocked Action Campaign," to convince lawmakers to pass the measure, HB 5766, in the November veto session. Consumers are still reeling from record prices at the pump and exorbitant natural gas bills so blocking a

big hike in electric bills would be a welcome reprieve.

But extension of the rate freeze is about more than just giving consumers a break—albeit a much-needed one. It's about acknowledging we don't have a competitive electricity market in Illinois—so let's stop pretending we do. And it's about giving our state time to come up with a comprehensive energy policy that will benefit consumers, not just ComEd and Exelon's bottom line.