

[Back to regular view](#) • [Print this page](#)

CUB: ComEd's auction stacked against consumers

(<http://www.dailysouthtown.com/business/360110,271BIZ3.article>)

April 27, 2007

By David Kolata

It's never any fun to say, "I told you so." But for two years now, CUB has argued that ComEd's controversial power auction stacks the deck against electric consumers and is fertile ground for market manipulation.

Now, evidence uncovered by Attorney General Lisa Madigan reinforces what we've said all along -- the auction system was designed not to get the lowest price for customers but to get the highest price for ComEd parent company Exelon and other big power suppliers.

According to a complaint the attorney general filed with federal regulators in March, the ComEd auction, conducted last September, resulted in power rates that were 40 percent higher than prices in the wholesale electricity market at the time and double the actual cost of producing the power.

In other words, ComEd would have gotten lower prices for customers if it had abandoned the auction, as CUB and others advocated, and simply negotiated individual contracts with suppliers. Instead, customers got stuck with a massive rate hike.

What explains this huge discrepancy? In a real market, competition is supposed to lower prices. But the auction actually did the reverse, allowing power generators, such as Exelon, to earn far more than they would selling power on the open market.

That's a sweet deal the attorney general contends can only be explained by price fixing.

The details of how this scheme worked are a little sketchy because, so far, the Illinois Commerce Commission has required that all the juicy stuff remain confidential. So while we know which companies could be implicated, the who, what and when are all blacked out.

While the ComEd customers who are paying bloated bills have a right to know the details, it's not hard to guess how the deal might have gone down. We've seen these types of shenanigans before.

If you haven't seen the Oscar-nominated film, "The Smartest Guys in the Room," you should. It gets your blood boiling when it plays audio tapes of Enron traders bragging about all the money they're making from "Grandma Millie" by manipulating energy prices.

While the details of the scheme here in Illinois are unclear, it's clear the auction system itself is ripe for abuse by powerful energy suppliers whose main goal is to jack up profits. In a real market with real competition, that kind of behavior would be kept in check.

But that's not the case in Illinois. We don't have a competitive energy market and it's nonsense to pretend we do. Exelon is the major power supplier for northern Illinois and it holds all the cards. Many of the other so-called "suppliers," such as Morgan Stanley and J.P. Morgan, are pure middlemen who purchase power from companies like Exelon, mark it up and sell it back to consumers.

With that type of market power, it's no wonder that ComEd customers are paying 200 percent more for their power than it costs Exelon to produce it, giving the energy giant close to a \$2 billion annual windfall. That's a massive transfer of wealth from ComEd customers -- who are stuck with the utility whether they like it or not -- to Exelon stockholders.

The mess we're in really shouldn't come as a surprise. When the largest buyer of power, ComEd, is owned by the largest supplier, Exelon, the company has an incentive to charge the highest prices possible because every extra nickel in higher rates goes straight to Exelon's bottom line.

This is the fundamental problem facing Illinois consumers today and only the General Assembly can solve it. But that won't happen if ComEd is allowed to keep pocketing higher rates.

Let's all work together to fix this problem now before the repair bill gets too high.

Citizens Utility Board executive director David Kolata writes a consumer news column. To reach CUB, call (800) 669-5556 or e-mail info@CitizensUtilityBoard.org.

© Copyright 2007 Sun-Times News Group | [Terms of Use](#) and [Privacy Policy](#)