DynamicBusiness

Is Energy Deregulation Working?

by Thomas M. Gibson, CEP

What has happened to the promise of lower costs and savings through deregulation? We were all led to believe that competition in the energy marketplace would lower our monthly natural gas and electric bills, because our local utility companies were the bad guys and they were taking advantage of us for years. If deregulation is working, why have some of us witnessed increases in our monthly energy bills?

Before answering these questions, let's take a look at how energy deregulation got started, where deregulation is today, and where deregulation is headed for in the future!

Energy deregulation evolved as a direct result of the restructuring of the natural gas and electric industry across the country. Energy deregulation provides a way for energy consumers to competitively purchase their natural gas and electric from alternative suppliers other than their local utility companies. Energy deregulation only affects the commodity portion of your monthly natural gas and electric bills. The distribution charges from your local utility company are still regulated by the Public Utility Commission and cannot be competitively shopped under energy deregulation.

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> ***– Thomas M. Gibson***

History of Restructuring and Deregulation

Energy deregulation began in 1986 with the restructuring of the natural gas industry for larger commercial and industrial consumers and continued with the restructuring and the deregulation of the electricity industry in the late 1990's. Initial action by the Federal Government in 1978 allowed non-utility generators to enter the wholesale electric power market. Congress then passed the Energy Policy Act of 1992, which further promoted competition in the bulk power industry. The Federal Energy Regulatory Commission (FERC) was then directed to implement the Energy Policy Act, which in turn provided each state the option of restructuring its electric industry and deregulating.

In 1997, California was the first state to deregulate its electric industry. Unfortunately, the deregulation model they used caused electric prices to skyrocket. Only a few electric consumers saved money in California during this period of time, which included large industrial and commercial companies who were able to negotiate their own contracts with suppliers. In addition to the California deregulation nightmare, the Enron Energy debacle started energy deregulation off on the wrong foot, which in turn slowed down the whole deregulation process in other states.

Energy Deregulation Today

Natural gas is currently deregulated in most states today but is not available in all local utility service areas other than for large commercial and industrial customers. Although cost savings may be realized through alternative natural gas supply contracts at this time, because of high storage levels and moderate weather conditions in many areas of the country, local utility company tariff pricing is as low, or lower than current alternative supplier prices. Available contract opportunities must be researched completely to confirm actual contract cost savings.

Although the situation in California and Enron slowed down electric restructuring/deregulation across the country, 19 states and the District of Columbia currently have some type of restructuring/deregulation in place today. In addition, although the state of Washington is not deregulated it permits industrial customers to choose their electric suppliers. States such as West Virginia, Indiana, Kentucky, and Florida have elected not to deregulate their electric industry to-date because of low energy prices in their states, whereas states such as Pennsylvania, Ohio, Maryland, New York, Massachusetts, Illinois, and Texas have moved forward with electric deregulation in one form or another. Beginning January 1, 2007, Texas has moved to a fully deregulated energy market, tariff options are no longer available, and all electric generation must be purchased from a Retail Electric Provider or an Affiliate Retail Electric Provider.

As the result of an unsuccessful attempt to deregulate electricity in Virginia, the State Legislature in February 2007 passed a bill to re-regulate the electric industry in the state, while mandating stringent rules and regulations for local electric utilities in Virginia to maintain certain price levels.

In an effort to protect consumers during the transition period to full deregulation, many state Public Utility Commissions, including Pennsylvania and Ohio; have implemented special regulations that guarantee electric generation price stability for a specific period of time. Rate freezes; rate caps or rate stabilization programs have ended, or will end, over the next few years in a number of states and utility service areas across the country.

In states where rate protection programs have ended and electric deregulation has proceeded to *"full market price competition,"* opportunities for cost savings vary dramatically between each utility service area. Unfortunately, consumers in a number of states and utility service areas where full market price deregulation of electricity has occurred have experienced significant increases in electric service costs by remaining with their local electric utility company or Provider of Last Resort (POLR) after the rate protection programs have ended.

Examples of this include:

- 70 percent price increase for customers served by the Pike County Electric Company located in Pennsylvania in 2006
- Baltimore Gas & Electric Company customers experienced an increase of 72 percent on July 1, 2006
- Delmarva Power Company customers prices were increased 59 percent beginning on May 1, 2006
- On January 1, 2007, customers of Penn Power Company located in northwestern Pennsylvania witnessed a 57 percent price increase in the cost of their electricity.

Local electric utility companies have stated these increases are the result of not raising their rates for many years and having to sell electricity below current market prices over that period of time. Unfortunately, as rate protection programs expire in many states and utility service areas across the country, electricity price increases like the ones mentioned may be common.

The Future of Energy Deregulation

Energy Deregulation will continue to progress in many states to *"full market price competition"* and is one of the areas mandated by the Energy Policy Act of 2005. The "Standard Market Design" developed by the Federal Energy Regulatory Commission (FERC) continues to provide a set of guidelines for the sale and transmission of electricity across the country and should continue to allow more alternative energy suppliers to enter the marketplace in many utility service areas. Renewable energy resources such as wind power and solar power will eventually impact the energy marketplace and should reduce overall energy costs in the future.

Based upon the current schedule, most electric utility service areas in Pennsylvania and Ohio should be fully deregulated by the end of 2010. The good news is that many utility companies in both states already have made plans that have been approved by the Public Utility Commissions to increase their rates gradually over the next few years instead of one large increase at the end of their rate protection periods. However, lower double-digit rate increases are still expected for those who choose to stay with their local electric utility company or Provider of Last Resort (POLR) in both states. Should energy market prices drop prior to the expiration of rate protection programs, opportunities for cost savings through alternative energy contracts could become available in the near future.

It is important that businesses be proactive today instead of reactive tomorrow to energy deregulation in their specific state or utility service area. Knowing what to expect so that effective planning can be completed is the key to lowering energy costs through energy deregulation.

The promise of cost savings through energy deregulation is still a dream for many of us; however, this promise should be realized in the not too distant future! ▼

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