'One-way' rate-making hurts power customers

By JAY DOEGEY
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What if our taxes were increased every time a single state agency saw its expenses go up? The Texas Department of Transportation needs more money? Raise taxes! Prisons over budget? Raise taxes!

Texans wouldn't stand for such a knee-jerk, unreasoned budgetary response. We don't elect our leaders to willy-nilly raise taxes every time the state builds a new highway. Instead, we expect them to scrub the state budget, from top to bottom, and then to balance both savings and expenditures for all agencies. If a single state agency legitimately requires more money, then we rightfully expect our leaders to first look for offsetting savings — or to order belt-tightening — before rushing off to raise our taxes.

And yet it's just this sort of fiscally irresponsible thinking that utility officials are peddling as good policy when it comes to setting electric rates. Known as "streamlined" or "one-way" rate-making, the utility proposals would allow the companies to seek rate increases without considering the totality of revenues and expenditures. The proposals are known as one-way rate-making because they work in only one way: against ratepayers.

Big electric companies have lined up behind the concept, which is currently the topic of debate among some lawmakers and at the Public Utility Commission of Texas. In filings at that agency, American Electric Power, CenterPoint Energy and Entergy all encourage the change. By contrast, consumer groups uniformly oppose it — even those consumer organizations that represent big business. This is because they know it can only work against them.

How would one-way rate-making operate in practice?

Under one proposal from American Electric Power, the company could seek permission to surcharge its customers when it spends more money on its electric distribution system. But the proposed regulatory scheme would not allow the PUC to simultaneously consider offsetting savings from elsewhere within the utility or to consider the increased revenues that typically accompany new infrastructure investments.

Nor would the proposal allow consumers to take advantage of the same mechanism to seek rate refunds when the situation is reversed. The PUC would eventually take all utility revenues and expenditures into account during a more complete rate proceeding, but that might not occur for years. In the meantime, consumers would get stuck paying inflated rates, and the utilities could benefit from excess profits. And because of inefficiencies inherent with one-way rate-making, it's very unlikely consumers would ever be made whole.

The argument from utilities is that such a change would allow the PUC to do more for less: "Customers would benefit from the cost savings associated with streamlined regulation," American Electric states in a document filed at the agency. But no actual consumer group makes this claim. Instead, consumer groups see one-way rate-making as a potential hit to consumers' pocketbooks and a potential drag on business.

Another claim made by utilities is that one-way rate-making would add efficiency to their operations. That's because it would reduce so-called "regulatory lag," which is that period between when a utility makes infrastructure investments and when it would receive reimbursement for those investments through rate increases.

But leading economists say this interpretation of "regulatory lag" is incorrect. They say that, far from being a bad thing, regulatory lag actually encourages utility efficiency. This is because utilities always will seek to check their expenditures during the lag period. "Freezing rates for the period of the lag imposes penalties for inefficiencies … and offers rewards for (the) opposite," writes Alfred Kahn, a leading regulatory economist. Such efficiencies disappear if utilities know they can rapidly raise rates every time they increase their infrastructure spending.

Also keep in mind that electric consumers already face a bewildering array of extra charges. All told, for example, costs associated with advanced meters, new transmission lines for wind developers and storm recovery expenditures will easily exceed $5 billion over time. Electric and gas regulators also have adopted one-way rate-making in other contexts, which likewise has increased home bills while simultaneously padding the bottom line for utilities. That's why energy companies keep pushing this bad idea and why consumer groups, rightfully, are alarmed.

We don't expect state leaders to arbitrarily raise our taxes. Why should we expect any different when it comes to utility rates?

Doegey is the chairman of the Cities Aggregation Power Project, a coalition of 97 municipal consumers of electricity in the Texas power market.

Comments

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Deregulation Jolts Texas Electric Bills

By REBECCA SMITH

Texas had some of the cheapest power rates in the country when it zapped most of the state's electric regulations six years ago, convinced that rollicking competition would drive prices even lower.

This summer, electricity there is some of the nation's priciest.

Power costs are rising in the rest of the U.S., but everything is bigger in Texas: On a hot day in May, wholesale prices rose briefly to more than $4 a kilowatt hour -- about 40 times the national average.

"We could end up doubling last year's power prices," says Dan Jones, who monitors the market for the Texas Public Utility Commission to make sure it functions efficiently and is free of manipulation. A Texan shopping for electricity today typically would be quoted a price between 13 and 27 cents a kilowatt hour; the national average is between nine and 10 cents.

Beset by a combination of soaring natural-gas prices for power generators and congested transmission lines that weren't designed to accommodate the new freewheeling market, officials are struggling to figure out what can be done to bring prices back down in a state that consumes more electricity than any other.

"Are my constituents going to be screaming bloody murder in August?" state Rep. Will Hartnett, whose district includes parts of North Dallas, asked at a recent legislative hearing on the electricity market. "I'm worried about what's about to hit us."

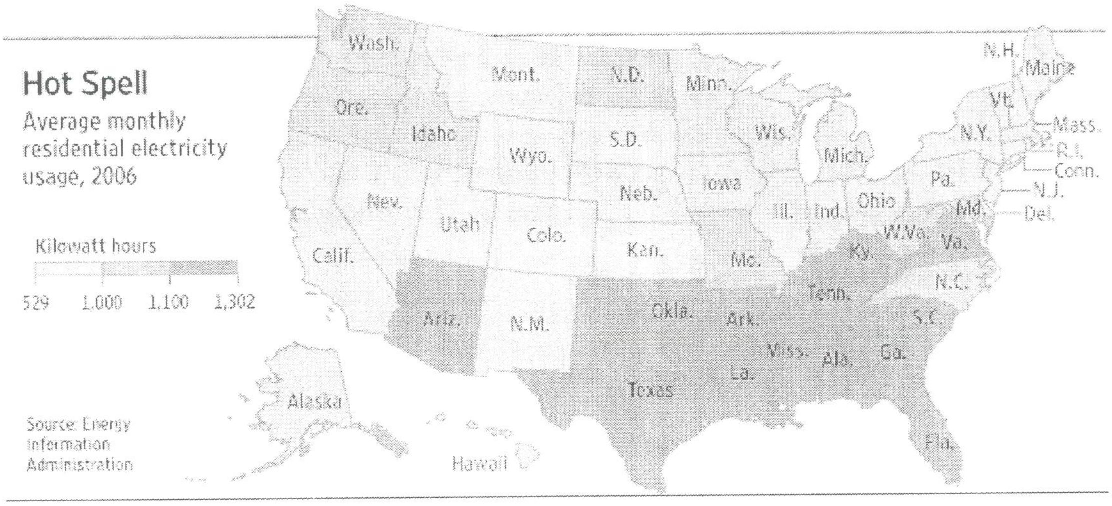
Prices in Texas have risen since the industry was freed from regulation, but these recent increases have been quite a shock for America's most audacious experiment in deregulating electric power. Five retail companies that sell electricity to homeowners and small-businesspeople have failed. That has left customers facing unexpectedly high bills when they are quietly and seamlessly switched to other, more-expensive retailers.

Large corporations that buy electricity wholesale from power plants haven't fared any better. A state that once touted its plentiful power sources to energy-intensive industries such as chemical plants and refineries is now seeing "manufacturers look at Georgia and Alabama and see prices that are half what we're paying in Texas," says Tony Bennett, chairman of the Texas Association of Manufacturers.

Still, there is little momentum for big changes. Many Texas officials believe that their system -- lots of elbow room and few binding rules -- will work out best for consumers in the long run. "The system is working the way it is supposed to work," says state Rep. Phil King, the Republican from Weatherford who is chairman of the House Regulated Industries Committee.

As the nation grapples with the fallout from soaring energy prices, Texas's deregulation roller-coaster offers an example of how a well-intentioned policy can reap unintended consequences. Structuring electricity markets to

Larry Kelly, chief operating officer for retailer Texas Power L.P., says that spot-market prices have spiked so much that he raised his prices to between 18 cents and 22 cents a kilowatt hour for electricity, up from about 12 cents last year.



Some retailers report they've had difficulty finding suppliers willing to sign long-term deals to sell them power, raising suspicions that generating companies may be intentionally forcing retailers to get supplies through the expensive daily auction. Generating companies deny this, and Mr. Jones, the utility commission's market monitor, says he's looking into the matter.

Already, high spot-market prices have pushed five electricity retailers, serving about 45,000 customers, into default. More defaults are possible because many retailers are small companies working on thin margins. When retailers go under, customers' lights stay on as their accounts are switched automatically to "providers of last resort" -- nearly always with higher rates. Many customers don't find out about it until their next bill.

'A Lot of Middlemen'

John Dreese, an aeronautical engineer in Fort Worth, heard his power supplier, National Power Co., had gone bust in May and began shopping for a replacement. Before he could ink a deal, he was automatically switched to TXU Energy, a unit of Energy Future Holdings Corp. of Dallas, formerly TXU Corp. His price jumped 71% overnight, to 18.8 cents a kilowatt hour from 11 cents.

"No way was I going to pay that," says Mr. Dreese. He was able to shop the market and switch to another retailer for 13.3 cents a kilowatt hour.

Mr. Dreese says he lived in California during its energy crisis and has a sense of déjà vu. "I don't think the promise of deregulation can ever be reached," he says. "You just add a lot of middlemen."

Like homeowners unaware of the risks of an adjustable-rate mortgage, some consumers didn't realize how wildly their bills could vary if they chose plans tied to the market. Steve Schwantes, a Round Rock resident who was laid off last winter from his job as a finance manager at Dell Inc., just got his June utility bill and expected it to be similar to his May bill for $189. Instead, it was $488.

"I was completely shocked," he says. His electricity provider raised its prices twice in a single billing cycle, jacking up his cost by 47% to 18.7 cents a kilowatt hour. Hot weather meant he used more electricity to cool his two-story home. He's now closing off part of the house and has found a cheaper plan.

Large customers aren't immune to making bad bets in the deregulated marketplace. Alcoa Inc. got into trouble at its Rockdale aluminum smelter when a nearby power plant it had been relying on began breaking down. The provider, Luminant, a unit of Energy Future Holdings, offered power from other sources but at 16 cents a