

PERSONAL FINANCE

Cranky Consumer / By Rebecca Smith

A Test of the Results of Electricity Deregulation

DEREGULATION OF THE electricity market in the U.S. is often held up as a boon for consumers, a way to shake up monopoly utilities and sharply lower rates for residential customers. So are consumers reaping the benefits yet?

So far, some 18 states have deregulated their residential electricity markets, using the same approach: They have retained control of the energy delivery, or "wires," side of the business, but have removed restrictions on who could generate and sell the electricity.

But stirring up competition has turned out to be much tougher than states expected, mainly because erratic wholesale electricity prices have pushed up retail rates as well. On top of that, a credit crunch has thinned the pool of competitors.

As a result, instead of moving deeper into deregulation, some states like Arizona and Montana are retreating from it. In Montana, the state now requires that residential customers buy power through a regulated utility. And then there's the case of California, whose electricity industry still is recovering from a collapse in 2000, when energy prices soared amid predatory trading by Enron Corp. and others.

We were curious how residential energy customers are faring in states that didn't suffer the spectacular flameout of California. We looked at five states—Michigan, Ohio, New York, Pennsylvania and Texas—to see how many companies are currently providing electricity and

what's happened to retail prices. We also wanted to assess the quality of the state-run Web sites aimed at helping you sort through the options. (Check your state's public utility commission Web site for more information.)

This information is particularly important because the newer power companies may not be subject to the same consumer-protection rules as utilities. They have more flexibility to change their prices and levy extra fees.

One immediate conclusion from our test: Even in some deregulated states, competition remains largely a myth. In Michigan, for example, no power companies have stepped forward to provide residential service, because they aren't convinced they can resell the electricity at a profit.

Pennsylvania, meanwhile, should be a hotbed of competition, as the state is home to large number of power companies vying for commercial accounts. (One would expect that would create some spillover on the residential side.) But the residential power market has actually become less competitive in recent years, as some of the start-up companies have dropped out of the game. Power providers other than utilities now serve fewer than half as many customers as they did in 2000, or 180,000 versus 430,000.

Two-thirds of those 180,000 residences are supplied by Dominion Resources Inc., of Richmond, Va., which is no longer actively soliciting new residential accounts in Pennsylvania. The heaviest

marketing is being done by the sellers of "green" power (renewable energy from solar panels and wind turbines), who often charge twice as much as the utilities.

The only market with plentiful competition for residential customers is in Texas. But the market is lively because the prices charged by the utilities are unusually high, which gives rival suppliers a rate they can easily beat. Consumers in Houston can choose from among 15 suppliers, but the prices range from 9.6 cents to 13.19 cents a kilowatt hour.

Texas, though, gets points for its Web site (www.powertochoose.org). A Texan who types in a ZIP Code gets a list of suppliers and prices and even

"terms of service" sheets that include nitty-gritty information on hidden fees and disconnection policies.

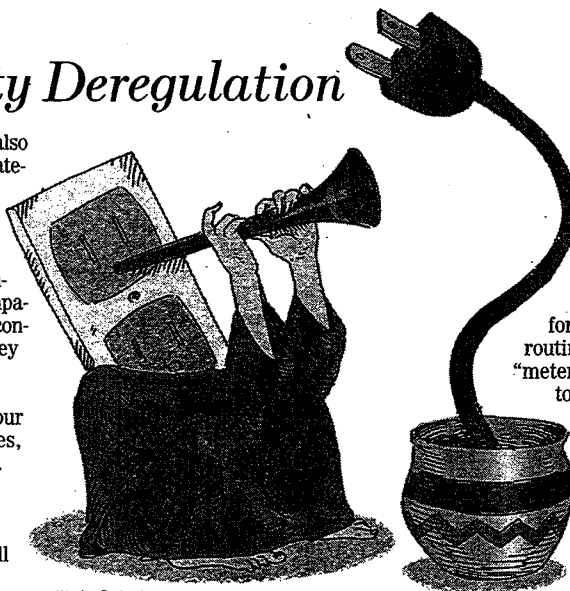
Indeed, the price-per-kilowatt-hour of power tells only part of the tale for consumers. Some firms routinely charge a \$10 monthly "meter fee." Others require customers, when they sign up, to deposit up to 20% of the estimated annual cost of electricity for that account—potentially hundreds of dollars. Companies also can initiate disconnections against customers who are as little as 10 days delinquent in Texas.

In New York, two utilities have just opened their territories to competition—New York State Electric & Gas Corp. and Rochester Gas and Electric, both units of Energy East Corp. But so far about 80% of customers have decided to stick with their old utilities. One reason is that the utilities offer fixed-price plans, while the new players offer variable pricing, meaning the rates rise and fall with the broader power market, which adds an element of risk for consumers.

According to the New York Public Service Commission Web site, customers of Consolidated Edison have eight choices of power companies. But one of them, Amerada Hess Corp., told us it wasn't signing up residences and three failed to return our calls.

The only company we found offering a fixed-rate option was a utility affiliate, ConEd Solutions, which charges 11% more than the utility (12.9 cents a kilowatt hour versus 11.56 cents). We found only one supplier, Econergy Energy Co., Inc., that underpriced Consolidated Edison. The savings—less than 2%—was too puny to be worth the risk of switching.

Ohio stands apart from all this for one reason. Twenty percent of its residences get electricity from competitive suppliers as a result of something called "aggregation," which lets customers band together and buy blocks of power. This gives them buying clout. Customers of the Northeast Ohio Public Energy Council, the biggest aggregator in the state, get electricity at a 6% discount to what First Energy, the local utility, charges.



Wesley Bedrosian

STATE	COMPETITORS IN SAMPLE MARKET	PRICES CHARGED	LIKED	DISLIKED
Texas	15 in Houston area	From 9.6 cents to 13.2 cents a kilowatt hour plus fees	Web site run by state includes nitty-gritty details on contracts and fees.	Suppliers often levy extra fees—in some cases, even to call their help desks.
New York	Eight in New York City	Between 11 and 13 cents a kilowatt hour, plus delivery fees	Recent law makes new suppliers subject to same rules of fair play as old utilities.	Most companies charge variable prices—rates move with the broader electricity market—which adds risk for customers.
Ohio	Customers band together to buy electricity through what are known as "aggregators."	Varies, but power aggregators usually offer savings over the utilities	Aggregators are delivering decent discounts—in one case, 6% less than the competing utility.	Not all areas have competition
Michigan	Utilities are still the only game in town	Detroit Edison just got 10% rate increase approved and CMS Energy, another utility, has a request pending.	New consumer-protection rules include monetary penalties for shoddy service.	Consumers are stuck with utilities, whose rates are headed up.
Pennsylvania	Six in Philadelphia	Between 6 and 10 cents a kilowatt hour plus delivery fees	Office of Consumer Advocate updates its Web site monthly.	"Green" power companies are the most active, but they charge more.

E-mail to cranky@wsj.com.