

St. Louis Post-Dispatch
January 28, 2006

Article: It Might be Time to Power Down Illinois Politics on Deregulation

By: David Nicklaus

In the nine years since Illinois decided to deregulate its electric utilities, consumers have saved an estimated \$3.5 billion. But Gov. Rod Blagojevich and some consumer groups are developing a severe case of buyer's remorse.

They already know what residents will learn next January: The market price for electricity is higher than what Illinois utilities are charging. In 2007, under an auction process approved last week by the Illinois Commerce Commission, the state's residents will begin paying market prices.

The sticker shock will be considerable. Ameren estimates that rates in southern and central Illinois could rise by 20 to 35 percent.

So is deregulation a bad deal? Only if you believe in a free lunch.

Energy was cheap in 1997, when utilities agreed to cut their rates 20 percent. It was still cheap in 2002, when a rate freeze was extended.

Energy isn't cheap today, but it's too late to turn back the clock on deregulation. Even if you could, no regulatory scheme can protect against market forces forever.

In Illinois, what's left of the regulatory apparatus has been a political circus lately.

Blagojevich fired one Commerce Commission chairman for pushing the auction idea, and then his proposed replacement failed to win approval in the state Senate. A judge threw out one legal challenge to the auction, but an appeal of last week's decision is still possible.

Scott A. Cisel, Ameren's president of Illinois energy delivery, says the transition to market-based pricing must be completed. "We have been very clear throughout this process, and continue to be clear, that we need full and timely recovery of our costs," he said.

Carl Peterson, a former Commerce Commission staffer who's now a consultant with NERA Economic Consulting in Chicago, agrees that Ameren's situation "is fairly straightforward. If you have costs that are higher than your prices, eventually you're going to get into trouble."

Illinois' utilities have sold their power plants or placed them into unregulated subsidiaries, so they already are buying power on the open market. The state "obviously can't stop the market forces in the world," Peterson said.

He believes that the reverse-auction process approved last week, based on similar auctions in New Jersey, is a fair way to set prices.

Getting the rules settled in Illinois is a matter of survival for Ameren, Cisel says. One of his company's Illinois subsidiaries, known as AmerenIP, is just one step above a junk-bond rating. Rating agencies have the company on a watch list, and a Moody's analyst has speculated that Ameren's subsidiaries might file for bankruptcy. Ameren has called that possibility remote, but hasn't ruled it out.

Ameren is willing to cushion the blow of higher power prices, but only if it knows that revenue it foregoes in 2007 will be repaid in 2008 or 2009. Cisel says the company has discussed a phase-in plan with legislators, but he isn't optimistic about getting approval this spring. If political uncertainty continues into the fall, he fears that Moody's will drop the company to junk-bond status.

If that happens, comparisons will be drawn to California's botched version of deregulation, which forced Pacific Gas & Electric into bankruptcy in 2001.

Illinois has done deregulation the right way up until now. Let's hope its politicians can tone down the rhetoric and avoid a misstep at this next, critical stage.