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Editorial: Volts and Votes

Beginning next year, Illinois residents and businesses could get a serious shock to the wallet.

They're to begin paying market rates that are 20 percent to 25 percent above what they pay now for electricity. The question for lawmakers is what to do now.

Electric rates have been frozen in Illinois for nearly a decade. A bill introduced recently would continue the freeze for another three years.

It's a safe bet that when deregulation was approved in 1997, no one—neither its supporters nor its opponents—imagined it would result in higher prices. That year, the U.S. Department of Energy predicted that deregulation would cause retail electric rates to drop between 6 percent and 13 percent. Energy industry groups predicted even bigger drops.

That hasn't happened. There have been success stories, but primarily in Northeastern states like Pennsylvania, where energy prices were high to begin with.

The problem now is the soaring price of natural gas, used to power newer power plants. Higher gas costs have forced wholesale electric prices through the roof. Prices paid in New Jersey last month, using the same bidding process that would be used in Illinois, were 55 percent higher than last year. Illinois utilities rely very little on natural gas in favor of coal. Ameren generates less than 2 percent of its power with gas. That means the company can make electricity much more cheaply than current wholesale prices. That might have been good for Illinois consumers, except that the company's power plants have been spun off into separate, unregulated subsidiaries. Starting next year, they'll be selling their electricity to the highest bidder.

Compounding the problem is a rule approved by Illinois regulators, with utility company support, limiting the amount of power Ameren can buy from its subsidiaries. Only 35 percent of the company's power can come from a single source.

But even if that rule didn't exist, downstate electric customers would be in for higher prices. Ameren's total generating capacity in Illinois is 4,000 megawatts, but it needs 7,000 megawatts to supply its current customers. The only place to get the additional juice is on the wholesale electricity market.

Gov. Rod Blagojevich, all members of the Illinois House and part of the state Senate are up for re-election this year. That adds urgency to the push for a rate freeze. Such a freeze would be popular with voters, but there are risks.

During California's energy crisis in 2001, retail rates were frozen, but utility companies had to buy power on the wholesale market. As a result, the nation's largest utility, Pacific Gas & Electric, went bankrupt. Could the same thing happen in Illinois? Absolutely.

ComEd, which supplies power in the Chicago area, has already threatened bankruptcy. Some analysts have also suggested that Ameren's Illinois operations are at risk, too.

The best possible solution is a compromise, such as a phased-in rate increase, that would let utilities start recouping at least some of their increased costs without sending a big jolt to the wallets of residential and business customers.

That's still possible, but in an election year it may be unrealistic. In the short run, that may be good for consumers. In the long term, it may mean everyone gets burned.