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ComEd's pursuit of a competitive market benefits consumers

Morton Kamien, Special to The Chicago Sun-Times

Over the past several weeks, debates about ComEd's proposals to procure power for its customers in 2007 have intensified. Various parties have claimed to know what's best for the utility industry, ComEd and its customers.

There are some who would turn back the clock to old-style regulation for utilities and completely dismiss the progress that has been made toward an open, competitive electricity market. But that was not the intent of lawmakers when they passed the Illinois Electricity Restructuring Act of 1997. The purpose of the act was to promote an efficient electricity market in Illinois, with the belief that effective competition and reliance on the market would in the long run provide more efficient and less costly electric service for all customers.

The law directed the Illinois Commerce Commission to promote the development of an effectively competitive electricity market that operates efficiently and is equitable to all consumers. This began with the 20 percent reduction in residential electric rates and the nine-year rate freeze that ends Dec. 31, 2006. ComEd hopes to continue fulfilling the law's purpose by procuring power in a competitive market beginning in 2007.

ComEd's procurement plan was developed after six months of careful study and a series of workshops sponsored by the ICC, involving all key stakeholders. In their proposed reverse-auction process, bidders sell rather than buy and the price declines rather than rises in successive rounds. It is based on the principle that general market-based competition is more likely to lead to efficient pricing, innovation and more customer choice than traditional regulation. And the ICC will monitor the auction to ensure that it's working according to plan.

Illinois is not the first state to propose this method of procuring power. New Jersey is using the same method proposed by ComEd, and it has helped to temper increased market prices. Following the New Jersey Utility Board's February 2005 review of their latest auction results, the commissioners expressed a high degree of satisfaction with the outcomes, which include the lowest possible cost of power for customers.

There has been talk among some policymakers about extending the rate freeze beyond 2006 rather than moving toward deregulation. This would put Illinois utilities in an untenable financial situation -- buying power at a higher cost than they are allowed to sell it. No business can function under such circumstances. This is what happened in California and the result was that a major utility went bankrupt in a matter of months. California taxpayers ended up bailing out the utilities in order to maintain reliable electric service.

Moreover, continuation of the rate freeze will further postpone the emergence of a competitive market serving small electricity users because no private supplier can profitably supply electricity at a below-market price.

A California-style utility meltdown in Illinois is not so inconceivable, and in fact, the financial markets are already nervously watching the political signals in Illinois to see if political expediency will trump economic reason. Moody's has already announced that it has put ComEd's credit rating on its watch list, and Standard & Poors has downgraded ComEd and its affiliates, citing the heightened adversarial regulatory environment in Illinois.

Illinois legislators showed great wisdom in 1997 by moving the state toward a path of restructuring the electric utility industry, unbundling power generation from transmission and distribution, and setting the stage for having the competitive market set the price for procurement

of power. In the long term, this is the best means of ensuring an effective and reliable supply of electricity for all classes of customers at the lowest possible cost.

It seems that others agree. Just last week, the administrative law judge assigned to ComEd's procurement case issued a ruling that finds the proposed reverse auction is lawful and good policy. The ruling further determines that ComEd is entitled to recover its prudent costs and that the only place it can buy power is in the wholesale market.

In accordance with the judge's order, competition must go forward and a reverse auction is the best method. Illinois has come too far in restructuring over the past nine years to falter at the brink of success now.

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