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Cargill: State paying price for retreating on electric choice

Americans know what happens when government sets prices and takes away competitive choices.

It gets them wrong.

So it is no surprise to learn ten months after Michigan state government decided it would set prices for electricity, it's got it wrong. The Michigan economy - and families - are paying the price in the form of \$600 million in higher electric bills, despite steep declines in electricity demand.

In 2000, after decades of high electric rates set by regulators, Michigan decided to allow competition and markets to determine the price of electricity. For eight years, electric rate increases moderated, as Consumers Energy and Detroit Edison held down rates for fear of losing customers.

A Detroit Renaissance benchmarking study found that while Michigan electricity prices remained high compared to other states, they were "growing at a lower rate than several others."

Despite that record of success - which included construction of 4,000 megawatts of new power, with investors, not customers, taking the risk of mistakes - Michigan utilities went to the Legislature and demanded an end to competition.

They got it ... almost. A meager 10 percent of their load was left for competitors to scrap over. Once 10 percent of a utility's load left to other companies, the door would be slammed shut, and other customers would be stuck with the government set prices.

The bills became law last October - and now we're seeing the impact of this legislation.

First, as predicted by opponents of the legislation, the utilities quickly asked the Michigan Public Service Commission for rate hikes. Handcuffed by the new law, the commission has obliged, allowing the utilities to charge \$600 million more for electricity than they did just a year ago.

As electric rates went up, savvy customers looked for alternatives. Around the Midwest, electricity demand is down due to manufacturing's decline. Smart companies have contracted for rates well under those set by the government regulators for Consumers Energy.

But no more. Consumers Energy hit the 10 percent limit Aug. 13. Remaining customers will not be allowed to escape the sky-high Consumers Energy rates.

Detroit Edison hasn't lost as many customers. That's because it shoved most of its rate hikes onto residential customers. With only 10 percent of load open to competition, competitors took a pass on trying to market to those customers.

The cost to Michigan is nonetheless high. Small residential electric users in Detroit Edison territory saw electricity rates increase 27 percent since August 2008. Large residential users are seeing electric rates up 10 percent - despite the fact that electric demand is down.

It's time to join other states in our nation that are enjoying dropping electric rates by lifting the cap on electric choice and allowing businesses and eventually residential customers to shop for lower energy prices.

Additional Facts

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is executive director of the Customer Choice Coalition (www.StopTheMonopoly.com), "a group of associations, businesses, alternative energy suppliers, individuals and other organizations."
