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**CLM** Corporate Focus  
**HD** **Industry Splits Over Power Play --- Major Utilities Are Divided Over Illinois' Effort to Roll Back Rates**

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**LP** Many states moved to deregulate their power markets a decade ago in the hopes that competition would lead to greater efficiency and lower power bills.

But with electricity bills now surging, an increasing number of those states are considering legislation that would reverse many elements of deregulation. As a brewing fight in Illinois shows, that has created divisions among utilities on how to respond.

**TD** Worried that the existing deregulated market won't deliver affordable prices to consumers, Illinois lawmakers are advancing legislation to roll back electricity rates and possibly set new controls. A backlash against deregulation gained momentum in Springfield, the Illinois capital, after the state attorney general last week asserted that electricity generators manipulated the state's wholesale energy auction, contributing to a run-up in prices that have raised retail rates by 24% to 300% this year. State **utility** regulators found prices were mixed over the past decade when adjusted for inflation.

A new auction process, introduced in September 2006, was supposed to hold the line on prices. The names of those accused were redacted from public versions of the attorney general's complaint. But the state's two major utilities, both of which have large unregulated generation companies, Exelon Corp. of Chicago and Ameren Corp. of St. Louis, are facing an outcry. They dispute the findings.

Ameren, the second-biggest **utility** company by customers operating in Illinois, said this week it is willing to discuss a return to traditional rate regulation, a decade after the Illinois legislature passed its landmark 1997 deregulation law. That law froze electricity prices during a 10-year transition period but let utilities transfer their generating plants to affiliated companies or sell them to unrelated firms. Today, generation owners are free to charge market prices for the bulk power they sell to Illinois utilities and others.

Ameren's receptivity to greater regulation creates a rift with Exelon, the state's biggest **utility** company, which owns Chicago **utility** Commonwealth Edison and the nation's largest fleet of unregulated power plants. Exelon Chief Executive John Rowe said that even though "open markets are on the defensive now," that doesn't mean producers like Exelon should be expected to cede their ability to charge market-based prices.

People are angry that rates have risen after so long a freeze, Mr. Rowe said, but "that's the deal they struck in 1997."

Mr. Rowe said he is willing to talk about a number of market changes, including creating a new power-procurement method. But he opposes retail rate rollbacks that he says could push utilities into insolvency because they wouldn't collect enough money from customers to cover their electricity-procurement costs. Ameren Chief Executive Scott Cisel warned that **utility** layoffs could follow rate rollbacks. A similar situation pushed PG&E Corp.'s California **utility** into bankruptcy protection in 2001. In general, federal regulators have taken a dim view of efforts that block utilities from being reimbursed for costs they can't avoid.

The ruckus in Illinois stems, in part, from consumers' anger over the fact that rates increases took

effect during an unusually cold winter and swept away special discounts that gave some consumers unusually low prices. Hardest hit were customers who heat their homes with space heaters, a group of heavy users that make up roughly 10% of customers at Ameren's biggest **utility** unit, Illinois Power. For these customers, rates quadrupled to 10 cents a kilowatt hour from 2.5 cents a kilowatt hour, before taxes and other costs were added. The old rates were a relic of a time when the utilities had excess capacity and were trying to drum up new customers to shift to **electric** heat from propane or heating oil.

At Commonwealth Edison, customers had the option of limiting price increases to 10% for each of the next three years and paying off a deferred balance in future years. Only a minority have chosen that option. Rate increases typically are much lower for Commonwealth Edison customers, whose rates already were higher, than for Ameren customers.

Illinois Attorney General Lisa Madigan said in a complaint filed at the Federal Energy Regulatory Commission, or FERC, late last week that generators practiced illegal "market allocation" when they bid resources into a state-run auction in September and now are furnishing power to utilities at prices that are double or triple their underlying costs. The generation market is concentrated in too few hands, she said, which gives the generators inordinate leverage.

Exelon's Mr. Rowe said he believes "that we, and the other bidders, are clean" and will be exonerated by FERC.

Meanwhile, the legislature forged ahead on bills that would roll back rates to the 2006 level and freeze them. A bill by Democrat George Scully Jr., chairman of the state's House **Electric Utility** Oversight Committee, passed a bill out of the Illinois House on a 92-to-5 vote that would reduce rates and then freeze them for three years. The state Senate's Democratic leadership has opposed a rate freeze, but a Senate energy committee passed a bill out of committee by unanimous vote, on March 8, which would roll rates back for six months.

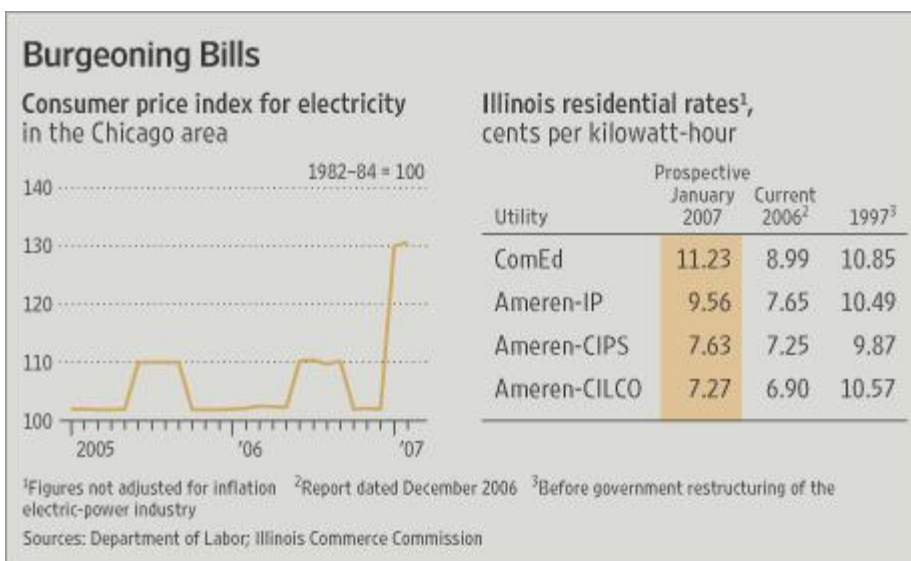
Behind the attorney general's allegations: The cheapest power producers are able to collect the same prices charged by producers relying on more costly sources of electricity. Under the auction, suppliers agreed to furnish power to Exelon's Chicago **utility** and Ameren's three **electric** utilities operating in central and southern Illinois. Collectively, they serve 98% of state residents. Although the auction included 21 bidders and 16 emerged as winners, 46% of the power being furnished to small customers of Commonwealth Edison comes from Exelon's large fleet of nuclear plants, which are among the lowest-cost producers of electricity in the nation.

Winning prices in the auction ranged from \$63.33 to \$90.12 a megawatt hour, with big users paying the highest prices. That's far above the cost to make electricity at existing coal or nuclear units, and it is significantly higher than prices quoted on the bilateral market, in which transactions between generators and industrial users take place.

The attorney general is asking FERC to cancel the auction results, order refunds and force generators to sell electricity at prices tied to production costs. The Illinois Commerce Commission is exploring changes in rate designs to ease rate shocks as well as revisions to auction rules for the next round in spring 2008.

Mr. Rowe said the auction prices were based on complex calculations that took into account the cost of building new generating plants and the cost of fuels like coal and natural **gas** and future electricity prices.

(See related letter: "Letters to the Editor: Customers Are Best Served By Competitive Markets" -- WSJ April 3, 2007)



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