Deregulation Fails In Its 'Model States'

by John Hoefle

All over the world, deregulation is being pushed on the basis of its purported success in the United States, when in fact deregulation here is a colossal failure, at least as measured by its publicly stated goals, rather than its hidden agenda.

When deregulation blew up so spectacularly in California last year, the spinmeisters of deregulation launched a propaganda campaign to blame California's problems on that state's government, and to claim Pennsylvania as the "success story" which proved that deregulation works. This Pennsylvania "success story" has been touted around the world, everywhere the energy pirates are trying to lure countries into their privatization and deregulation scams. The problem with this story is, that it is simply not true. Deregulation is a failure in Pennsylvania; the state's electricity system is inexorably breaking apart, like a slow-motion train wreck.

The problems in Pennsylvania are several. First, only a small percentage of the state's electricity customers were willing to switch from their regional utilities to the power marketers, and many of those who did switch have now jumped ship and returned to their original utilities. The level of participation was so small that the state took the extraordinary step of forcing one major utility to give 20% of its customers to an alternative supplier, the Bush-connected Enron. Second, some utilities in the state have sold off their generating capacity, leaving themselves and their customers at the mercy of predatory market prices. Third, the utilities themselves are being restructured through mergers with out-of-state companies, reducing even further the state's ability to regulate its own electricity system, should it return to its senses.

Customers Not Switching

Under deregulation, the state's electric utility customers are not bound to their regional electric utilities, but are supposed to become "free" to select alternative suppliers. The process was implemented in three stages in Pennsylvania, with one-third of the state's electricity customers being allowed to select their suppliers at the beginning of 1999, another third at the start of 2000, and the rest at the beginning of 2001.

The selection of a supplier is mainly driven by price. Since all of the electricity generated in the state is essentially fed into a common pool from which all customers draw, consumers cannot chose whose electricity they use, only who sends them the bill. The supplier who offers the lowest price gets the business (the supplier has to generate, or buy, enough electricity to cover what its customers draw out of the system, but such actions are hidden from the consumer).

To help sell deregulation politically, the state mandated that existing utilities cut their rates and impose a multi-year cap on the rates they could charge their customers. People could either stay with their existing utilities and take the mandated rate cut, or accept an offer from an alternative supplier if the price was lower.

In the initial phase of deregulation, the alternative suppliers did offer competitive prices, and customers signed up in significant numbers. After the first three months of 1999, nearly 396,000 customers—23% of the 1.8 million who were eligible—had switched. Overall, that amounted to just under 8% of the state's total 5.3 million electricity customer base.

One year later, on April 1, 2000, the number of customers of the energy pirates had risen to 535,000, but out of an eligible pool of 3.5 million, double that of the year before. Of the 1.8 million potential new customers, a net of only 140,000 had signed up with alternative suppliers, dropping the retail penetration of the alternative suppliers to 15% of the eligible customers. Despite the rise in overall customer numbers, deregulation was actually in decline.

The decline became more pronounced during the first three months of 2001, when the final third of the state's customers became eligible.

On the surface, the first quarter of 2001 was successful, with the number of alternative supplier customers rising by 219,000 to an all-time high of 788,000, or 15% of all electricity customers in the state. However, according to the Pennsylvania Office of Consumer Advocate, the first quarter figure included 253,000 customers who had been arbitrarily switched from the utility PECO Energy to alternate supplier New Power Company (Enron). Factor out those customers, and the number of alternative customers would have actually declined slightly from the year before, despite an additional 1.8 million customers becoming eligible (**Figure 1**).

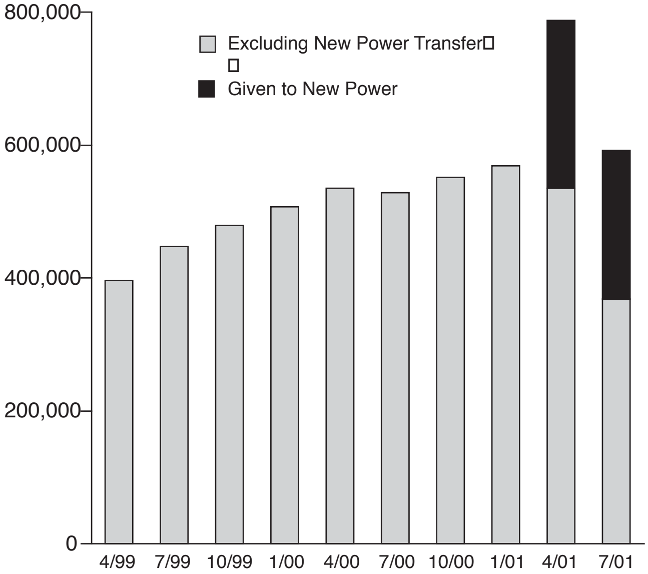
The bottom fell out in the second quarter when, even with the New Power transfer, the number of alternative customers dropped to 592,000; factor out the 224,000 PECO customers who still remained with New Power on July 1, and the alternative suppliers would have been left with just 368,000 customers, 7% of the total and the lowest quarterly figure since deregulation began in 1999.

The dramatic decline in interest in alternative suppliers that was already evident to the pirates and their champion, Pennsylvania's Republican Governor Tom Ridge, during 2000, put the deregulation crowd in a difficult spot. With the pirates increasingly unable to compete with the utilities on price, their customer base was evaporating, something which the pirates and Ridge considered unacceptable. So they came up with a plan: If the public wouldn't switch to the pirates on their own, the state would switch them. All, of course, in the

FIGURE 1

Electricity 'Choice' Failing in Pennsylvania

(Number of Customers)



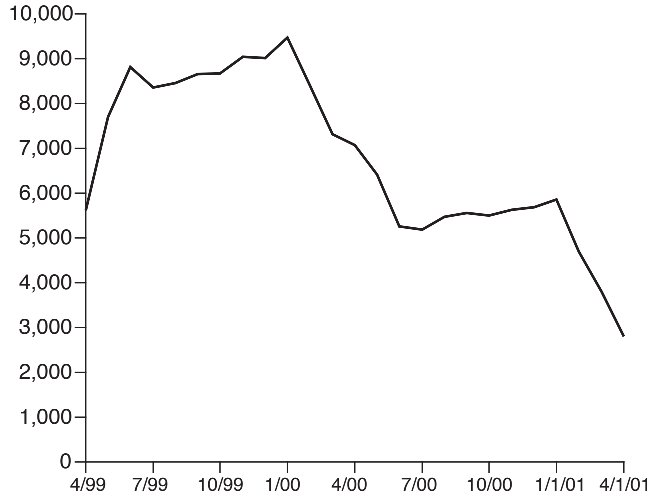
Source: Pennsylvania Office of Consumer Advocate.

Customers flee in droves, even with New Power giveaway.

FIGURE 2

Pirates Fail to Gain Retail Foothold in Massachusetts

(Number of Customers)



Source: Massachusetts Division of Energy Resources.

name of protecting the public's right to choose.

The switch took the form of an order by the state's Public Utility Commission directing PECO Energy, the Philadelphia-area utility, to give up 20% of its customer base, some 300,000 customers, to an alternative supplier. The company selected to receive these customers was New Power Company, a spinoff of Enron. Neither the PUC nor New Power asked these customers if they wanted to switch, they just switched them.

As New Power put it in a Jan. 12, 2001 press release, the "customers will be switched from PECO to New Power at no cost, without having to fill out forms. Those who decide to opt out must do so by signing and returning a postage-paid card by January 25, 2001."

In Pennsylvania, it appears, the "right to choose" belongs to the pirates, not the citizens. Choice, like the benefits of deregulation, is an illusion.

Worse in Massachusetts

The situation with deregulation is even worse in Massachusetts, in terms of the numbers of customers who choose alternative electricity suppliers. As of April 2001, a mere 2,800 of the state's 2.5 million electricity customers were using alternate suppliers, giving the power marketers a minuscule 0.1% of the customers.

In Massachusetts, electric choice failed right off the bat. In its first month, April 1999, only 5,600 customers signed up; the number of customers peaked at 9,471 in January 2000, a mere 0.4%, and has declined by 70% since then (**Figure 2**). After two years of deregulation, the level of participation is half what it was in its first month.

In Massachusetts, the deregulation law provided for a 15% rate cut for customers who stayed with their utilities, a price the alternative suppliers simply cannot match and stay in business.

De-Structuring the Industry

While the pirates have not made much headway in the retail side of the business in Pennsylvania and Massachusetts, they have made significant progress on the wholesale side, due to the divestiture of electricity generating capacity by utilities in the states, and a series of mergers.

During 1999 and 2000, Pennsylvania utilities divested 44 power plants with a generating capacity of 21,016 megawatts (equivalent to 57% of the state's total generating capacity of 36,563 megawatts in 1998). These divestitures largely took one of two forms: transfers of generating assets from regulated to unregulated subsidiaries within the same holding company; or sales to unrelated companies, including in some cases to unregulated subsidiaries of the parent companies of other regulated utilities.

In Massachusetts during 1998-2000, regulated utilities divested 31 power plants with a generating capacity of 8,401 megawatts, equivalent to 81% of the state's 1998 generating capacity of 10,328 megawatts.

A demonstration by LaRouche supporters at the State Capitol in Harrisburg, Pennsylvania, calling for re-regulation of energy.

The effects of these divestitures are already being felt, especially by some of the utilities which sold all of their generating capacity and now find themselves having to buy electricity on the open market, at prices higher than they expected.

One such company is GPU, a New Jersey-based utility which owns two Pennsylvania utilities, Pennsylvania Electric and Metropolitan Edison. During 1999 and 2000, GPU sold off 25 plants with a generating capacity of 10,736 megawatts. Many of these plants were sold to Sithe Energies of New York, which later sold them, at a healthy profit, to Reliant Energy of Houston.

In mid-February of this year, just a month and a half after deregulation went into effect for all residents of Pennsylvania, GPU asked the state PUC to exempt it from the rate caps, so it could pass its cost of energy on to its customers. This is energy it used to produce, but was now buying, at inflated prices, from the unregulated owners of its former power plants. GPU is also in the process of an attempted merger with Ohio's First Energy, which owns several utilities in Ohio, and Pennsylvania Power in Pennsylvania. Should the deal go through, the majority of the state's major utilities would be owned by out-of-state firms (PECO Energy, which is owned by Chicago's Exelon Corp.).

In Massachusetts, Britain's National Grid plc owns two of the state's major utilities, Massachusetts Electric and Eastern Edison, neither of which has any generating capacity. National Grid is also buying New York State utility Niagara Mohawk, which has sold its generating capacity. Boston Electric and Commonwealth Electric have merged, creating NSTAR, another utility which sold its generating capacity.

Pirates Can't Compete

The sales of generating capacity and the mergers are a key part of the deregulation plan, namely, to destroy enough of the old regulated system, that it would be impossible to revert to that system once the public figures out what has been done to them.

When deregulation was passed in California, Pennsylvania, Massachusetts, and the other states, its proponents promised lower prices and touted the consumers' right to choose, both to be accomplished by opening the electricity market up to competition. The people of Pennsylvania and Massachusetts are getting lower rates in the short term, not because of deregulation, but because of the price caps which were put in the laws as a way of selling deregulation to a gullible state government and population. Once those caps are lifted, however, prices will soar.

Rather than wait for the caps to expire, the drumbeat is growing to raise them, grant exemptions to them, or to repeal them altogether. The customers of California utilities Pacific Gas & Electric and Southern California Edison have already seen their rates jump well beyond the levels promised; in Pennsylvania, statewide choice had only been in effect for a month and a half before GPU went to the state's Public Utility Commission asking for an exemption to the cap, so that it could raise rates 30%.

In demanding the right to jack rates through the ceiling, the deregulation pirates are engaging in deceptive linguistic contortions to allow them to pretend that they are raising prices as a public service. Among the euphemisms being trotted out to justify price-gouging is the term "price signals." Price caps, they claim, prevent the proper price signals from reaching the consumer, thereby misleading those consumers about the true cost of electricity and reducing their incentive to conserve.

To quote a Reliant Energy press release: "The price cap methodology is misleading the public on the actual cost of power. . . . Price caps distort dispatch signals . . . [and] remove price signals for retail customers." This, coming from a company that charged California $1,900 for $30 worth of electricity and was angered when the state had the nerve to complain.

What the arrogant Reliant actually thus revealed, is a truth that should have been obvious to everyone all along: Deregulation is a looting operation, designed to increase the amount of money people pay for electricity and direct that loot to the biggest criminal cartel on the planet, the British-centered international financial oligarchy. Now there's a signal that needs to reach the public.