Md. consumers to get a big jolt

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By Brian E. Frosh

IF TALK about power grids, energy production and utility deregulation makes make your eyes glaze, this may wake you up: In less than a year, price controls begin to come off residential electricity rates in Maryland. When that happens, Maryland consumers will learn a hard lesson about market economics.

For years, Maryland, like most other states, regulated electric utilities. Maryland's Public Service Commission (PSC) kept tabs on projected demand and, if needed, could order utilities to build new power generating facilities. The commission also controlled consumer prices.

The wave of utility deregulation that swept the country in the 1990s washed over Maryland's electric utility laws in 1999, sweeping away the old system. Advocates said that, unmoored from the commission's control, electric utilities would respond rapidly to market demand, adding production capacity. New providers would enter the market. Customers would be able to choose their own power companies, shopping around for the best deal.

To protect consumers until the new system got running, the General Assembly temporarily capped rates for residential consumers. Those caps will start coming off in June.

Things haven't worked out the way deregulation optimists hoped. The number of power companies serving Maryland hasn't increased. Mirant Corp., which serves Maryland's Washington suburbs, has gone bankrupt. It bought Pepco's generating facilities following deregulation in 1999. The company sells power to Pepco. Allegheny Power, serving the western part of the state, came within a whisk of doing the same. Consumer choice in most parts of the state just hasn't materialized.

So what can consumers expect once caps are removed? Higher prices, almost certainly. Wholesale electricity prices jumped 30 percent between 1998 (the last year of regulation) and 2002. With caps off, those increases would have flowed straight to consumers.

While it's true that cool weather can push rates down, hot summers, such as the one we had in 1999, send costs soaring. Either way, consumers will find themselves on the crack end of the whip, and the net trend in retail prices since deregulation has been upward.

It doesn't have to be that way. In a market economy, price depends on supply and demand. The state has given up regulating supply, but demand still offers a way to rein in rate increases.

For years before deregulation, Maryland required electric and gas companies to offer energy conservation programs. Among other things, the programs provided rebates and low-interest loans that people could use to buy efficient air-conditioners, furnaces and other equipment. These items may cost more initially than their less-efficient counterparts, but the savings over time more than make up the difference.

The programs saved substantial amounts of power every year. They also resulted in real savings for consumers, according to Michael J. Travieso, until recently Maryland's people's counsel responsible for representing consumer interests before the PSC.

In testimony to the Senate Finance Committee in March, Mr. Travieso noted that the biggest post-regulation jump in wholesale electric prices occurred in 1999, a year of unusually hot weather. His analysis showed that the increase was due to 600 megawatts of high-priced electricity that Maryland's electric grid was forced to purchase in June 1999 to meet peak demand. Because of the tight energy market at the time, wholesale prices rocketed from $130 a megawatt hour to $850.

Energy conservation programs could have eliminated that 600-megawatt spike. In 1998 — the year before deregulation — Baltimore Gas & Electric had a conservation program that cut peak demand by 255 megawatt hours. Pepco's program reduced it by another 285 megawatts. That was 540 megawatts, just from programs offered by two utilities.

Unfortunately, these programs and others like them vanished with deregulation. Other states that deregulated electric utilities invested heavily in conservation, but not Maryland.

In the last legislative session, the Maryland Senate considered a bill that would have reinstated the state's energy conservation programs, financed by a small surcharge on electric bills. It would have cost the average Maryland family about 75 cents a month, the cost of running a nightlight. Marylanders could easily save many times that amount on their monthly bills in hot years, and all consumers would benefit, not just the ones participating in the programs.

The bill was killed, but it should have been a slam-dunk. By curbing electricity demand, it would have reduced price volatility, held down consumer costs, cut power plant pollution and given Marylanders a measure of protection against future blackouts.

The bill died in large part because of the opposition of utilities and energy suppliers who were concerned it would cut into their sales. But Maryland needs to get back into the business of conservation. California's energy crisis and the recent blackout show that we're in a new era of energy uncertainty.

For consumers, the last best protection is demand-side management.

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