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Does choice in electrical providers bring savings?

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At Seventh and Market, bundled against the cold last year. With winter again at hand, the idea of choosing electricity suppliers to save money might not be all it is touted to be. (ALEJANDRO A. ALVAREZ / STAFF PHOTOGRAPHER)

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The Inquirer



GALLERY: Does choice in electrical providers bring savings?

Like Pennsylvania and New Jersey, Connecticut allows competitive electricity suppliers to sell directly to residential customers, and they have barraged consumers with offers they tout will help to cut their monthly bills.

But data released recently by Connecticut's consumer advocate show actual savings are elusive for most residential customers. The disclosure raises questions about the value of competitive electricity markets for homeowners in other states, including Pennsylvania and New Jersey, where similar price information is private.

Consumer Counsel Elin Swanson Katz said more than three-quarters of Connecticut's residential customers who signed up with competitive suppliers paid more for power in September than if they had kept the standard regulated price offered by the state's two utilities.

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The 473,000 Connecticut customers who chose competitive suppliers paid \$42 million more for power during the first 10 months of this year than they would if they had remained with their utility, Katz said. Some customers paid rates twice as high.

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"The prices are not related to the market," Katz said. "They're mostly related to what they can get away with."

Consumer advocates in Pennsylvania and New Jersey say the Connecticut report matches data they have glimpsed previously.

Tanya J. McCloskey, the acting director of the Pennsylvania Office of Consumer Advocate, said that data disclosed during a legal review of a PPL Utilities social program showed that up to 73 percent of the low-income customers served by competitive suppliers paid more than the utility's basic supply rate, known as the "price to compare" in Pennsylvania.

"We did find trends that significant numbers of customers were paying significantly more than the price to compare," she said.

Stefanie A. Brand, the director of the New Jersey Division of Rate Counsel, cited a 2012 filing with New York state utility regulators that reported that 84.3 percent of Niagara Mohawk residential electricity customers who had switched paid higher bills.

"I don't think there's much reason to believe it would come out any different [here] than it did in New York or Connecticut," she said.

The Connecticut disclosures have rankled electricity suppliers, who say the state consumer counsel's focus on price alone provides an unfair, one-dimensional portrait of a complex market.

Connecticut's data do not distinguish customers who may have chosen premium-priced renewable energy offers, or who may have received something of value - such as cash bonuses, frequent-flier miles, or a programmable thermostat - that was included in the price.

"There's a lot more there than meets the eye," said Chris Kallaher, a regional director of government affairs for Direct Energy, a retail supplier.

The consumer counsel obtained the data from Connecticut's Public Utilities Regulatory Authority, over the protests of suppliers. In most states, including Pennsylvania and New Jersey, suppliers reveal only their advertised offers, but do not report the prices they charge after the initial terms lapse.

"We don't have the authority to compel anyone to produce that data," said Nils Hagen-Frederiksen, the spokesman for the Pennsylvania Public Utility Commission. The PUC does



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not regulate the prices that competitive suppliers charge, which the suppliers argue are private transactions.

Seventeen states and the District of Columbia have adopted electric retail choice programs that allow customers to buy power from competitive suppliers. While customers can shop for generation suppliers, they remain captives of incumbent utilities, which collect a regulated rate for delivering the power over their wires.

In all states except Texas, where residential customers must buy from a third-party supplier, utilities are also required to provide default supply for customers who don't shop.

In Pennsylvania, suppliers serve about 34 percent of the state's five million residential customers. In New Jersey, where competitive markets are less developed, only about 12 percent of the 3.4 million residential customers have switched.

In Connecticut, competitive suppliers have signed up 34 percent of the state's 1.4 million residential customers who are served by the two state-regulated utilities, Eversource and United Illuminating.

The apparent price disparity in Connecticut may be skewed because the standard default rates of the two electric utilities dropped dramatically July 1, undercutting many competitive suppliers. Utility prices are scheduled to increase Jan. 1.

"The prices reflected in consumer counsel's report is a snapshot in time," said Stuart Ormsbee, the New England chairman of the Retail Energy Supply Association, a trade group.

Electric choice became a sensitive political issue last year after thousands of customers in Northeastern states with variable-rate contracts got scorched with huge bills when prices spiked dramatically during the icy winter.

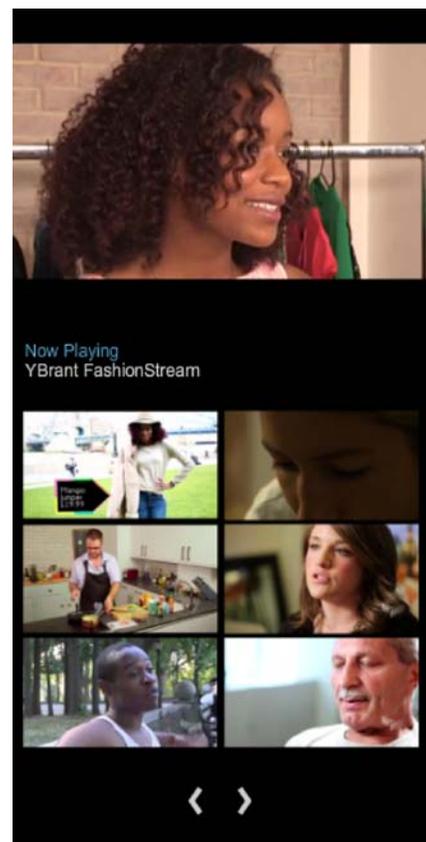
New Jersey and Pennsylvania regulators responded by tightening rules, fining some suppliers for unfair marketing practices and requiring more plain-language disclosures.

Few states took more dramatic action than Connecticut, which banned new variable-rate contracts for residential customers after Oct. 1.

Consumer advocates acknowledge that most large commercial and industrial customers, and some smaller customers, have benefited from competitive markets.

But they say many casual customers do not pay close attention to market trends or their monthly bills. They may sign up for offers under pressure from salespeople without fully understanding the terms. Others neglect to respond to notifications when their fixed-rate deals lapse, and their rates move up, unnoticed.

"I think that overall the average person may not be willing to devote that level of time and effort, and in that case, there



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may be a danger," said Brand, the New Jersey ratepayer advocate.

"It's not a market for everybody," said Michael Coyle, a spokesman for the Connecticut Public Utilities Regulatory Authority.

The state consumer advocates recommend that customers regularly inspect their bills, which will list the price per kilowatt-hour they are currently paying, as well as the comparative price the utilities charge.

McCloskey, the Pennsylvania consumer advocate, acknowledges that the PUC does not regulate the prices of competitive suppliers, but she argues that the Electricity Generation Customer Choice and Competition Act does not preclude regulators from asking suppliers to disclose their rates.

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