

# **The Illinois Electric Market**

**A report prepared by the  
Citizens Utility Board (CUB)**

**May 13, 2014**

## **Introduction**

The Citizens Utility Board (CUB) releases this report in the wake of one of the most expensive winters in Illinois history and on the verge of a June 1 increase in electricity prices. This report is meant to warn consumers of potential rip-offs the consumer watchdog group has observed in 2014, amid seismic changes in Illinois' electric market.

CUB experts who field calls and staff events throughout Illinois are reporting a 115 percent increase in consumer complaints this year about alternative electric suppliers. A mix of market instability, consumer confusion, and misleading (or at least imprecise) marketing has created a treacherous environment for Illinois consumers who stand to lose hundreds of dollars per year on bad deals. While there are many alternative suppliers that are acting appropriately and there are still offers that can save customers money, CUB's report shows that May 2014 average prices from alternative electric suppliers competing against Commonwealth Edison (ComEd) are more than 20 percent higher than they were last May.

CUB's report highlights the five biggest problems consumers are encountering in the electricity market:

- 1) Exorbitant rates.
- 2) Low introductory rates that suddenly disappear.
- 3) Extra fees.
- 4) Punishing exit fees.
- 5) High-pressure sales pitches.

This report is a warning to consumers to watch out for rip-offs in Illinois' fledgling electricity market. However, it also will highlight promising offers that are or soon will be

offered in Illinois. If choice is going to be a long-term success in Illinois, alternative suppliers will have to deliver creative pricing plans that give consumers opportunities to save in volatile energy markets.

### **Illinois' Electric Market:**

Competition in the Illinois electric market exploded in 2013, with a 70 percent increase in customers who have left their utility supplier to buy electricity from an unregulated company. The Illinois Commerce Commission (ICC) reports that more than 3 million residential consumers are now with an alternative electric supplier, compared with about 1.8 million in January 2013.

Under Illinois' 1997 electricity restructuring law, consumers could have switched to other suppliers in 2002, but no marketers viewed the Illinois market as friendly enough for competition until 2010 for two reasons. First, regulated utilities ComEd and Ameren were locked into power contracts that left their electricity prices much higher than current market rates. Secondly, an ICC ruling allowed suppliers to charge for their electricity through ComEd and Ameren bills.

Beginning in 2010, consumers who had been stuck with ComEd and Ameren for decades began to move to other suppliers that offered lower rates—in some cases almost half what the utilities offered. Suddenly, customers who for years had just one choice for electricity now had four:

- 1) Stay with ComEd or Ameren;
- 2) Move to an alternative supplier;
- 3) Move to a supplier chosen by a county or municipality (“municipal aggregation”);
- 4) Go with a special utility power pricing plan called Real-Time Pricing by ComEd, or Power Smart Pricing by Ameren.

For the most part, electricity choice has delivered savings to consumers in the short term, thanks to the higher-priced utility contracts that allowed alternative electric suppliers to undercut the traditional electric companies. In fact, last year, CUB released a report that estimated consumers had saved \$92 million to \$218 million thanks to electric competition. CUB estimated that the bulk of the savings were captured through “municipal aggregation” deals, in which local leaders negotiate power prices on behalf of their constituents.

But on June 1, 2013, Illinois consumers woke up to a different electricity market. On that date, the last of those expensive utility contracts expired and prices for ComEd and Ameren plummeted. As a result, potential savings shriveled in the new electricity market. Then came the “polar vortex” in January—a swirling mass of air that pushed temperatures as low as 50 below zero and helped send wholesale power prices skyrocketing. In many instances, the spike pushed alternative supplier prices past the utilities. CUB received complaints from consumers who were slapped with rates as high as 35 cents per kilowatt-hour (kWh)—compared to ComEd’s rate of 5.5 cents per kWh.

Examples of complaints:

- An Oak Park man who signed up with Nordic Energy Services said he was told the chance of the rate going up was not likely—until it jumped from about a nickel per kWh to 21 cents per kWh.
- A Chicago man signed up with Viridian for a rate that stayed at 5.2 cents per kWh for six months, but then changed to a rate that reached as high as 16 cents per kWh.
- A Melrose Park woman with Major Energy said her rate jumped from an average of 7 cents per kWh to as high as 35 cents per kWh.

- A Elmhurst woman noticed the name Illinois Gas and Electric on her bill, and told CUB she did not know that was with an alternative supplier—but she did notice her bill go up, with a rate of more than 10 cents per kWh.

- A Chicago man complained to CUB that he called Starion Energy trying to find out the details of his contract “but was not able to speak with anyone.”

- A Maywood senior citizens told CUB that her electric bills have become astronomical. It was determined that she was paying North American Power about 16 cents per kWh. “She says someone was going door to door inside her senior building about a year ago and told her she would save money,” the complaint said.

- A Chicago woman reported that her bill jumped from \$150 to \$500 in one month with Hiko Energy. “Customer states that she has been trying to get in touch with Hiko but that she has not been able to speak with a live representative,” the complaint stated.

The summer will bring another change. A June 1 increase in “capacity costs”—wholesale market charges built into electricity prices—will raise power prices across the board for ComEd and alternative suppliers. In short, the era of easy savings in Illinois’ electricity market is over. With these changes, there is significant concern that consumers trapped between the “polar vortex” winter and summer increases will get scared into signing up for bad deals from individual suppliers outside of aggregation deals.

### **ChicagoLand’s Highest Rates**

The following review is a snapshot of what CUB observed among alternative electric supplier offers as of May 7. In May of 2014, the “price to compare” for ComEd was 5.523 cents per kWh, but on June 1 it is set to increase by 38 percent to 7.596 cents per kWh. From October 2014 through May 2015, ComEd’s price will be an estimated 7.42 cents per kWh.

Consumers seeking to do business with an alternative supplier should consider the following potential pitfalls:

**1) Exorbitant rates.**

Consumers can either choose fixed rates, which don't change over the course of an offer, or variable rates, which change each month.

In a snapshot of average electricity prices offered by alternative suppliers in May 2013 vs. May 2014, CUB found that the average advertised variable price, which can change on a monthly basis, increased by 21 percent over the last year to about 9.14 cents per kWh. (See Appendix A.)

The five highest advertised rates, all variable prices that CUB observed on May 7:

Viridian: 14.99¢ per kWh  
Viridian: 12.99¢ per kWh  
Starion Energy: 12.99¢ per kWh  
Ambit Energy: 10.96¢ per kWh  
Xoom Energy: 10.09¢ per kWh

There are still rates that appear lower than ComEd's price to compare after June 1, but consumers need to evaluate whether it is the right deal for them.

**Tip: When evaluating an offer, ask if it is a fixed or variable rate, and what the term of the offer is. Always know the utility's price to compare, and beware of any sales pitch that seems to promise savings. Remember, what seems like a good deal now may not be in a few months.**

**2) Low introductory rates that suddenly disappear.**

This spring, CUB observed introductory rates for less than a nickel per kWh for one to three months. The consumer group has received reports of those introductory rates then ballooning to a standard variable rate of more than 10 cents per kWh.

**Tip: Verify if the rate you are being offered is an introductory rate. If it is, expect the rate to go up after a short period. Before signing up ask when the introductory offer ends and what the real rate then becomes.**

**3) Extra fees.**

CUB's review of plans found that some companies charge fees that can add to a customer's monthly bill.

**Tip: Ask if a plan has a monthly fee, and factor in how that would impact the per kilowatt-hour rate.**

**4) Punishing exit fees.**

Many companies also charge cancellation fees of up to \$175 if a customer wants to exit a plan before the contract is up.

**Tip: Ask if a plan has an exit fee. Remember that under the law, customers are allowed to leave a contract without paying an exit fee within 10 days after the date of the first bill from a supplier.**

**5) High-pressure sales tactics.**

Alternative suppliers market their offers through the mail, over the phone, and door to door. CUB has received reports of sales representatives using misleading marketing to sign customers up for bad deals. Tactics include promising savings on plans that turned out to be money-losers and claiming to be from the "electric company" and asking to see a customer's bill or account number. (That opens the door to "slamming"—signing up a consumer without his or her permission.)

**Tip: Do not give out your account number or hand over your bill to anybody who claims to be from the "electric company." If you are interested in an offer, get information about it and tell the representative you will contact them if you want to sign up. Call CUB if you have questions about an offer.**

## **Conclusion:**

While it is still possible to find savings in Illinois' electric market, major changes in 2014 have opened the door to misleading marketing and bad deals. For more than a year, CUB has warned alternative suppliers that the electricity market would even out and their price advantage would shrivel, requiring them to offer creative plans to help customers save money in the face of a volatile energy market. CUB sees some promise, as new digital electric are installed. These meters, which can provide usage information for a home almost instantly, give consumers easy access to new pricing plans that are or will be offered by ComEd and/or alternative suppliers. While these offers may not be right for everyone, they could allow many customers to save money:

**MC Squared Smart Value Power Program:** MC Squared is the first alternative supplier to offer a “time of use” rate, which can save certain households money if they are willing and able to put off heavy appliance usage to certain off-peak times of day. As of May 11, the year-long plan charges customers roughly 4 cents per kWh (plus “transmission” and “capacity” costs) for power used after 7 p.m.. It charges about 7 cents per kWh (plus “transmission” and “capacity” costs) for power used from 7 a.m. to 7 p.m. This plan is only for customers who have a new digital electric meter from ComEd.

**ComEd's Real-Time Pricing Program:** This program charges customers an hourly rate for electricity, allowing them to put off heavy appliance usage until times of the day when power prices are low. While not for everyone, real-time pricing in 2013 saved participants an average of 28 percent on the supply portion of their power bills.

**Peak Time Savings.** This program, which will begin in the summer of 2015, gives ComEd customers an opportunity to save money without risk. By signing up, consumers are



credited on their electric bill when they reduce power usage during designated periods when electricity is most in demand.

For more information on these plans, go to **CUBSmartPower.com**.

If there is any lesson that Illinois should have learned from its electricity choices, it is that the market cannot reliably and consistently deliver savings for consumers. People can still find savings in Illinois' electric market, but the surest bet is to take advantage of the creative pricing plans made possible by new digital electric meters and to practice energy efficiency. Consumers would also benefit by signing up for **CUBEnergySaver.com**, CUB's free online energy efficiency service that has been showing customers how to save an average of \$100 on their utility bills through simple tips designed for modest budgets.

## **Appendix A**

CUB compared the average variable rates charged by alternative suppliers on May 8, 2013 with the average variable rates charged by alternative suppliers on May 7, 2014. (CUB takes weekly snapshots of supplier prices through email contacts with suppliers and through research of supplier websites and the Illinois Commerce Commission website, PlugInIllinois.org.)

In figuring the average prices, CUB took out any variable rates that were stated to be introductory rates. CUB also removed any special rates for certain customers—such as military personnel.

The average variable rate from May 8, 2013 was 7.566 cents per kWh, compared with 9.1417 cents per kWh May 7, 2014.

### **May 2013:**

Variable plans: 19

Rate total: 143.747  
Average rate: 7.566

**May 2014:**

Variable plans: 12  
Rate total: 109.7  
Average rate: 9.1417

9.1417 DIVIDED BY 7.566 = 1.208

1.208 MINUS 1 = .208 MULTIPLIED BY 100 = 20.8 percent

The average variable rate increased by 21 percent from May 2013 to May 2014.