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The Philadelphia Inquirer

BUSINESS & MONEY



Patrick Melcher poses for a portrait at his business, Nature's Edge Woodwork, near Downingtown. He has paid thousands this winter to heat his old stone farmhouse and his workshop on the same property. Tyger Williams / Staff Photographer

UTILITIES

How much did heating bills cost this winter?

As the region experienced one of its coldest winters, see how much it cost to heat a Chester County farmhouse, a Fairmount condo, an Ardmore twin, and more with different fuel sources.

By Erin McCarthy
Staff Writer

If you're getting burned by high heating bills this winter, you're in good, and equally stressed, company.

U.S. households are expected to pay more than \$1,000 on average to heat their homes this winter, according to the National Energy Assistance Directors Association's projections, which were updated last month. That's about \$100 more than households paid last year,

Patrick Melcher

Home: A 3,800-square-foot farmhouse near Downingtown
Heat source: Oil and a wood-burning stove
Last oil bill: \$800

according to the association, which advocates for federal funding for low-income ratepayers.

Consumers are paying more whether they heat their homes with electricity, natural gas, or heating oil. Residential propane costs are on par with last year.

And customers usually pay more in freezing temperatures, when more energy is required to keep their homes comfortable.

Philly-area residents were hit with a double whammy: They experienced one of the coldest, snowiest winters in recent memory as rate increases took effect for major utilities, including Peco and PGW.

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A wood stove provides heat in Melcher's old stone farmhouse, along with oil and electric heaters.

UTILITIES

How deregulation made electricity more expensive, not cheaper

In the past five years alone, the supply portion of the standard service residential electric bill in Philadelphia has increased by 71%.

By Noah Dormady
and Alberto J. Lamadrid
The Conversation

American families are feeling the pinch of rising electricity prices. In the past five years alone, the supply portion of the standard service residential electric bill in Philadelphia has increased by 71%. In the Lehigh

Valley it has increased by 77%. And in Columbus, Ohio, by 110%. These are three data points in a national trend.

Energy affordability is quickly shaping up to be a key election issue at all levels of American politics. And more than half of U.S. adults surveyed in January reported being very concerned about the price of electricity.

New research from the Energy Markets and Policy Group that includes The Ohio State University and Lehigh University, where we serve as principal investigators, provides new insights about another factor you were probably not thinking about — middlemen introduced by deregulation.

How deregulation brought middlemen instead of competition

Between the late 1990s and early 2000s, several state legislatures deregulated their electricity systems. Deregulation was originally sold as a way to replace inefficient regulation and reduce bureaucracy. People were told that competition would deliver lower prices.

Under the old system, a state regulatory commission set prices for all electricity services — generation, transmission, and distribution — which were supplied by the same monopoly utility company. Each state commission was required by federal law to ensure that rates were "just and reasonable." Under

deregulation, that same commission rate-setting process still holds for transmission and distribution, but the generation part was split off.

Deregulation created competitive wholesale markets for generation, but price competition did not spread widely at the retail level. In states with active retail deregulation, there are two ways the retail generation price can be set. Consumers get to pick which one — buy from a marketer on the open market, or do nothing. Most people choose to do nothing.

Rather than introducing efficiency, this system of retail deregulation created a new complexity: middlemen marketers. In most cases, no matter which choice people make, it's hard for them to

understand how their electricity rates are set.

Option A: The open market

Electricity customers in deregulated retail markets can choose a company that buys the electricity on their behalf. Energy salespeople have sophisticated marketing programs to sell their companies' plans.

For example, people who live in the Cincinnati area can contract with one of more than 50 suppliers to buy electricity on their behalf from the wholesale market. In the Lehigh Valley and Philadelphia there are more than 30 suppliers. Their monthly bill would still

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All this occurred after a summer in which some local consumers paid more than ever to stay cool.

Spokespeople for Peco and PGW, which provide electric and gas service to millions across southeastern Pennsylvania, said many of their customers saw increased usage this winter due to the cold. They noted that individual bills can also be impacted by thermostat settings, efficiency of appliances, and weatherization of windows, doors, and other parts of the home, as well as whether customers have opted for a third-party energy supplier.

"Energy affordability remains a priority, and rising supply costs — set by competitive markets and not controlled or profited from by Peco — continue to be a major driver of customer bills," spokesperson Candice Womer said in a statement, noting a nearly 20% year-over-year supply cost increase for electric customers and a nearly 10% increase for gas.

The Inquirer spoke with five people who live across the region, have different types of homes, and use varying fuel sources and heating systems. Here's how much they've paid to keep warm this winter.

Quotes have been edited for clarity and brevity.

Patrick Melcher, a 48-year-old who owns a custom woodworking business, said he usually needs to fill his 250-gallon oil tank twice a year. In early January, he paid \$800 for a 230-gallon top-off, or about \$3.45 per gallon, which he thought was fair. He had paid around the same for an oil fill-up in October. This winter, Melcher said he's also spent about \$900 on firewood for his wood-burning stove, plus a couple hundred dollars a month to fuel the electric heaters in his workshop.

"I don't have a ton of money. I have a small business. But what else can you do? In the wintertime, it hurts. You hope for a mild winter. It's one of those things you can't control."

Janice Simonsen

Home: A 750-square-foot condo in Fairmount
Heat source: Electric wall units
Last electric bill: \$312

Janice Simonsen, a 69-year-old retired public relations professional, said her electric bills are usually around \$50. This winter, however, her last three bills have been \$78, \$84, and, most recently, \$312 for the period of mid-January through mid-February. She keeps her heat around 65 during the day, she said, and 60 at night. She's billed through her condo complex, and said her neighbors have noted similar increases.

"I know we had very cold days but we were just boggled. I'm looking at everything around the apartment now. What can I turn off? Have I been careless about leaving things on? I don't think so, but I am much more cognizant of that. I'm wondering if this is the new reality."

Carol Capriotti, a 55-year-old research scientist, said her family



Carol Capriotti paid more than \$700 in February for gas and electric service for her Willow Grove home, which she heats with a gas-powered boiler.
 Courtesy Carol Capriotti

Carol Capriotti

Home: A 2,500-square-foot Cape Cod in Willow Grove
Heat source: A boiler powered by natural gas
Last gas bill: \$570

rough. \$720 for heating and energy is a bit much. I don't want to say I can't pay it, but it's definitely a struggle."

Melissa Fritz

Home: A 1,700-square-foot Colonial in Quakertown
Heat source: Electric-powered heat pumps
Last electric bill: \$877

Melissa Fritz, a 41-year-old full-time hospice aide who works part-time at a distillery, said she had her upstairs and downstairs heat pumps serviced in December. In recent years, she insulated windows and the basement ceiling, and she said she keeps the temperature around 65. Fritz is billed directly

through the borough electric department, and can't ever remember receiving a bill this high since moving into her home 13 years ago. Before the most recent charge, her last three monthly electric bills totaled \$256 in December, \$424 in January, and \$505 in February.

"I'm a single parent. I work full-time and part-time. My child has behavioral issues. So I am struggling. It is more than the [\$704] mortgage payment. I know in the winter months it goes up, but to go up that high, it's frankly ridiculous."

Sean Seidell, a 52-year-old who works in technology, said his bills this winter are on par with previous years. He has gas-powered forced-air heating, he said, but electricity powers the blower fans that circulate the air. Seidell got solar panels installed in 2020, and he said they

Sean Seidell

Home: An 1,800-square-foot twin in Ardmore
Heat source: Forced-air heating
Last gas and electric bill: \$209

offset his electric cost throughout the year, though less so in the winter than in the summer.

As for his heating bills, *"it's been reasonable. My house was built 125 years ago. I don't really do anything to keep it energy efficient besides the programmable thermostat and the solar panels."*

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switched from oil heat to natural gas over the past decade. They were fed up with paying hundreds of dollars every time they needed to fill their oil tank. Still, she said, their home is drafty and they need to upgrade doors and insulation. Their most recent Peco bill, which includes electric and gas, was \$721, and the gas portion was \$570.

"It's better than oil heat for sure, but this past year has been very



In Ardmore, Sean Seidell's 1,800-square-foot twin home, which has solar panels, has cost about \$200 to \$250 a month to heat this winter.
 Courtesy Sean Seidell



A phone charger plugged in a Center City apartment. In Fairmount, Janice Simonsen said she is making sure she unplugs everything after receiving a more than \$300 electric bill for a 750-square-foot unit.
 Jessica Griffin / Staff Photographer

Electricity

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come from the regulated distribution company (Duke Energy, PPL, PECO, respectively), and would still include regulated charges for distribution and transmission set by state and federal officials. But it would also include charges from an unregulated retail supplier, for the generation part of their bill — their electric supply.

Our research has found that these markets are not working as intended.

Option B: Do nothing — default service

For people who choose not to shop on the open market, by doing nothing they remain on what is called the "standard offer" or "default service." Sometimes it is also called "provider of last resort" service because it is not meant to be the best option.

For these people, state law generally requires each distribution utility to hold auctions or use a procurement process like a request for proposals to determine which middlemen companies get to be their supplier, and of course, at what price.

People in this category still buy from middleman marketers. But rather than choosing their own

middleman, they get the middleman the utility company selects for them.

Problems in the open market

People who live in states with deregulated electricity markets know that these open markets have many problems. There have been investigations into unfair trade practices, lawsuits, and regulatory penalties for misleading sales practices.

Other problems include deceptive marketing, a process called "slamming" in which companies change customers' suppliers without their knowledge, contract loopholes that increase prices, and outright fraud.

Help for consumers usually comes after problems have arisen, rather than preventing them in the first place.

Our research team sought to determine whether, and how much, electricity consumers would save money if they used the supposedly competitive open market, rather than going with the default rate. To answer this question, we developed a detailed database of every daily retail choice offer filed by every supplier in all service territories in Ohio for a

decade — which meant compiling millions of records.

We found that 72.1% of the open-market offers exceeded the utility's default rate. In some years, there was not even one single cost-saving offer for the entire year, or longer. The vast majority of these supposedly competitive electricity prices were higher than customers would get by doing nothing. Taking the time to research the market and compare prices was often not worth consumers' time.

Importantly, the study found that suppliers in the open market were not setting their prices based on market fundamentals — like the underlying wholesale price of electricity. Instead, they were setting prices based on the results of the utility's default supply selection. In a competitive market, that is not supposed to happen.

Is default service really competitive?

In a separate study, our team evaluated every default service auction in every utility service territory in Ohio since 2011, nearly 15 years. We found that the number of companies competing with one another in these auctions is a key determinant of the retail markup

consumers have to pay.

In some of the default-option rate auctions, as few as five suppliers placed bids. In others, there were as many as 15 companies vying to provide default-option electricity. Our analysis found that in situations when the underlying costs of generating electricity were the same, default supply auctions with fewer bidders delivered significantly higher prices for consumers than auctions with more bidders.

It's important to note that Ohio's process for setting default service rates is more robust than many other states. In Pennsylvania, the process is similar to Ohio's. In some states, it is not uncommon for even fewer companies to bid. So Ohio and Pennsylvania's situation is not actually a worst-case scenario for consumers. Rather, it's probably better than many other states with deregulated electricity markets.

Putting it all together

The first study showed that the open market is not setting efficient retail rates and is not working as intended. Most of the offers made available to consumers are not worth their time, and the suppliers in those markets are not

setting their prices based upon market fundamentals. Instead, these companies are taking their cues from the local distribution utility's default supply auctions. That is not how deregulation was envisioned.

The second study showed that the process which sets the default supply rate is also not very competitive. Less competition means the middleman companies bidding in those auctions can bid, and win, higher prices — raising electric bills and increasing their profit margin.

Energy deregulation promised lower prices through competition. But instead, consumers got an army of middleman marketers. And, those middlemen have been taking their cues from a bidding process that often has too few participants to keep prices low.

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