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WHY YOUR ELECTRIC BILL IS STILL HIGH

While natural gas prices have fallen, utilities aren't so sure they will stay that way

By **TOM FOWLER**
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When Maurice Fallas' electric bills first shot up last summer he didn't think it would last.

The Houston-based investment consultant knew natural gas prices were on the rise and that in Texas electricity and natural gas prices are closely linked, but he thought competition would keep them in check.

A year later, however, natural gas prices have dropped more than 60 percent, leaving Fallas to wonder why his power bills still haven't followed suit.

"With gasoline, the oil companies say, 'We don't control the prices, the market does,' " Fallas said.

"In this case, if the market controls the price of natural gas and it's less than half of what it was last year, what's the excuse with electricity? Who's controlling the price? The market or the

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companies?"

The answer is both.

Power companies like Reliant Energy in Houston and TXU Energy in Dallas set a key benchmark power rate, called the "price-to-beat," based on natural gas prices.

But unlike the daily gas price followed by most people, power companies get to use a long-term measure that has dropped just half as far.

The decision of when to change power prices based on the gas markets is largely at the power companies' discretion.

So far neither Reliant nor TXU has dropped that benchmark price significantly since, although that could change at any time.

"It's true power prices don't come down as fast as natural gas prices, but in time they do change," said Brian Landrum, executive vice president of operations at Reliant.

Texas electricity prices are particularly sensitive to natural gas markets since more than half of the states' power is from gas-fired plants. Under the state's deregulation rules, power companies can use natural gas as the means for setting the price they charge customers.

Big bills began in 2005

In the early days of deregulation, when gas prices were generally below \$6 per million British thermal units, power bills didn't seem so onerous. But in 2005 gas prices surged to a peak of around \$15 per million Btu. The big electric bills followed.

Fallas, a customer of independent power retailer Gexa Energy, said his monthly bills jumped by more than \$100 in a relatively short period of time last year. A monthly bill of \$300 per month is not unusual for his 1,200-square-foot townhome.

"It's like there's \$100 to \$150 you had every month last year that has suddenly disappeared," Fallas said.

The companies selling power to consumers and businesses say the rate increases essentially reflect the higher costs they face when buying power on the wholesale markets. They estimate that cost by looking at an average of the price of gas on the futures markets over the coming 12 months.

And since companies can only change their price-to-beat rates twice per year, they need to make decisions about lower rates carefully, said TXU spokeswoman Sophia Stoller.

"We have to take a long-term view before we make a decision," Stoller said.

A late-season hurricane or an unexpected change in the winter forecasts could change the long-term natural gas price outlook in a hurry, said Les Owen, vice president of sales for Gexa.

"Even though the price has dropped, it could turn right back



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around in a short period of time," Owen said. "We can't always react quickly enough to account for those changes."

Landrum said it wasn't until just recently that the long-term price curves really began to drop off. Before then there were still indications prices could have rebound.

The companies have received plenty of complaints about prices, but they note last year's increases could have been worse.

By law the power companies could have increased their rates almost immediately to account for the increased fuel costs. But with prodding from regulators they phased in the increases.

The gradual increase spared consumers but cost the companies. Reliant estimates it lost \$120 million, while TXU officials said the gradual price increase cost it about \$40 million.

Natural gas isn't the only factor driving power prices, said Landrum. Texas once had a large surplus of power generation capacity, but the margin between supply and demand has contracted as the state continues to grow but the number of power plants has not.

That tightening supply gives wholesale power producers more leverage to demand more from companies that buy power to sell to consumers.

And, not surprisingly, politics can also affect price.

Price cuts rumored

Earlier this year, as power bills had consumers screaming, there were rumblings that state officials might force retail companies to cut prices, said Patricia Dolese, a former official with the Public Utility Commission of Texas, who now runs a consulting firm, Regulatory Compliance Service, which advises electric retailers.

While it wasn't clear the PUC had the authority to force price changes, the threat appeared to encourage companies to work harder at getting customers onto lower priced plans, Dolese said. Reliant said that so far this year 400,000 of its Houston-area customers, or about 40 percent, have switched to other plans it offers that charge less than the price-to-beat. TXU said it has aggressive marketed alternative plans to its customers as well.

Reliant said having customers on plans other than the price-to-beat is preferable to them, however, even if those customers are paying less. The other plans require longer-term commitments that make it easier for Reliant to make long-term power purchases.

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