

# More utility competition was supposed to drive down prices, but many Marylanders are paying more for energy



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**M**arylanders were supposed to be saving money on their gas and electric bills.

Almost two decades ago, state lawmakers welcomed an influx of energy companies offering contracts in mailings and door to door. They said opening up utility monopolies to competition would drive down prices.

But for most residents who have signed up for those deals, energy costs have not fallen. Instead, data compiled by consumer advocates show they have spent hundreds of dollars a year more than they would have if they stuck with standard utility rates.

Energy industry officials say customers choose to pay more, in some cases for renewable energy or for perks such as smart thermostats. But in two new reports, consumer advocates say confusing terms, teaser rates and in some cases deceptive marketing tactics have sent bills soaring by as much as 50 percent to 75 percent.

The advocates worry much of those costs are falling regressively on low-income Marylanders — many of whom receive utility bill assistance to keep the heat on in the winter.

And they are calling on the General Assembly and Public Service Commission to improve transparency, public education and law enforcement to better protect consumers at a time when other states are calling companies out for deceiving customers who struggle to afford to keep the lights on.

“Something has to be done,” said Rachael Neill, who every month helps dozens of people find a way to pay utility bills as director of community services for the Govans Ecumenical Development Corp. “People are getting their power turned off over this.”

## ‘Efficient pricing’

Amid a wave of energy deregulation across the country, the General Assembly voted in 1999 to revamp the sale of gas and electricity to state residents.

Before that, utilities like Baltimore Gas and Electric Co. enjoyed a monopoly on the sale and distribution of electricity and natural gas. They also owned the power plants. The monopolies were granted to encourage companies to make the long-term capital investment to build those expensive plants and distribution networks.

Deregulation meant that, after decades of reaping profits off that investment, BGE would no longer be consumers' sole source of energy. BGE would however retain ownership of and remain responsible for the distribution and delivery of energy — the power lines and natural gas pipes.

In other words, while Marylanders still have their power delivered by BGE and other utilities, they now can choose between continuing to buy energy from BGE or opting to buy it from private companies that own power plants or buy power from the grid on the wholesale market.

About a quarter of BGE customers, and one in five utility customers statewide, are signed up to buy energy from companies such as Constellation, WGL Energy and Direct Energy, the largest and most established third-party energy suppliers in Maryland, according to state and federal data.

The idea was that competition would foster more innovation and drive down prices for energy.

Matt White, president of the Retail Energy Supply Association, said that while energy companies' prices might not always beat the prices BGE and other utilities offer, deregulation is working as intended. The companies can't control what happens in volatile international energy markets, he said.

"It's created more efficient pricing," said White, who is also general counsel for IGS Energy, a supplier that serves BGE customers. "Sometimes it's higher, sometimes it's lower, but when the price is higher, that sends a price signal to the companies to become innovative."

On average, energy companies operating in Maryland charged less than 10 cents per kilowatt hour of electricity in the early 2000s, according to the U.S. Energy Information Administration. Those rates have risen to between 13 cents and 15 cents per kilowatt hour, on average, in the 2010s.

The energy industry suggests deregulation has prevented prices from rising higher. Citing a report compiled for the Retail Energy Supply Association, officials at Baltimore-based Constellation noted that energy prices have risen faster in states without competitive markets.

## Big bills

Rising energy prices have meant tens of millions of dollars a year in higher costs on utility bills, according to researchers commissioned by the Abell Foundation and the Maryland Office of the People's Counsel, a state agency that advocates for utility customers.

Consultants hired by the people's counsel compared the rates energy companies advertise with the standard rates offered by BGE and other utilities. They found that customers opting to buy from a private supplier are paying about \$55 million more each year for natural gas and electricity, according to a report released last month.

A forthcoming report from the Abell Foundation, provided in advance to The Baltimore Sun, finds that federal data show the overpayments to be even higher — \$255 million for electricity alone from 2014 through 2017.

That means extra annual costs of anywhere from \$50 to a few hundred dollars for nearly 400,000 households across the state, the Abell report says. The report found that just 3 percent of utility customers who buy power from a supplier are saving money.

“This isn't a small issue happening to 10,000 households,” said Laurel Peltier, a journalist who spent two years researching and writing the Abell report. “This is happening to a lot of households.”

The researchers said they suspect many customers sign up for teaser rates and then don't notice when those promotions end, and companies are free to impose variable rates, like going from a fixed-rate to an adjustable-rate mortgage.

Paula Carmody, the Maryland people's counsel, said it's a difficult industry for even the most savvy consumers to navigate.

White called the analyses flawed because they aren't based on actual billing data and don't account for what the energy industry calls “value adds” — gift cards, airline miles or smart thermostats that often come along with contracts to buy gas or electricity. Many customers sign up with full knowledge that they're paying more, because they want to buy wind or solar power, he said.

And, he said, it's no more difficult to shop for energy than it is for a cellphone, cable television or car insurance.

“I would say they're not giving customers enough credit,” White said. “The beautiful thing about the market is you can choose. There's never really any instance where people are being forced to take gas or electricity that they don't want to receive.”

Consumer advocates say that might not always be the case.

## Vulnerable customers

George Evans was looking for help preventing BGE from shutting off his electricity last year when a salesperson for another supplier walked up to him on York Road in Govans offering a \$250 bonus to sign up for an energy contract.

“That sounds too good to be true,” he responded, intending to decline the offer.

The 42-year-old Charles Village resident is legally blind and lives on disability income. His BGE bills show that he was signed up anyway, and charged \$233 more than he would have been otherwise over five months, according to an analysis Peltier conducted.

The Govans community group where Neill works, known as GEDCO, was able to get the supplier to promise him a refund, for which Evans said he’s still waiting.

Consumer advocates say his isn’t a unique case. Most if not all of the residents who visit GEDCO’s CARES Center for utility bill assistance buy energy from private suppliers, Neill said. Most have been approached at their homes or outside places like Walmart, public housing high rises, or city offices where residents come for social services or utility assistance.

“It seems like they’re being taken advantage of because they don’t understand what they’ve signed up for,” Neill said.

And it’s not just utility customers being affected, she said. The CARES Center also works with job seekers, some of whom excitedly accepted positions selling energy contracts only to find they only get paid on commission.

Jason Stanek, whom Gov. Larry Hogan appointed as chairman of the Public Service Commission in June, said even he has been shocked by an unexpected jump in his electricity rate. He recently noticed he was paying 70 percent more to an energy supplier than he would to Pepco, the utility that covers the Washington region, and switched to another company. He said he doesn’t see that as a policy problem, but rather an example of the competitive marketplace working as it’s meant to.

While he said more could be done to improve a page on the commission’s site where people can compare rates and shop for electricity, he said he hasn’t heard of instances in which customers couldn’t find information about the rates companies charge, if they’re looking for it.

“It’s the policy of the state to promote retail choice,” he said.

## Government’s role?

Consumer advocates are calling on the state to do more to protect energy customers, for example, by prohibiting variable rates.

They argue that the state should at least force companies to be more transparent about the rates they charge. Regulators in Massachusetts provide ZIP code-level billing data that have shown some companies target low-income neighborhoods, and Maryland advocates suspect data from this state would show the same thing.

And they suggested the commission should be more proactively enforcing consumer protections that should prevent some of the problems utility customers are seeing.

Carmody pointed to recent steps in Massachusetts and Illinois to root out unfair practices by some of the same suppliers that operate in Maryland. In a settlement IDT Energy reached with the Illinois attorney general last month, the company agreed to refund \$3 million to customers, while denying charges that it employed deceptive marketing tactics in predominantly black Chicago neighborhoods.

“This is an essential service; this isn’t some consumer product,” Peltier said. “This is, I think, where government makes a stand.”

Stanek said the commission’s staff has long been capped under the state budget, and does not have the resources to launch proactive investigations into energy suppliers. He said each one is vetted before it’s allowed to start selling in Maryland. If the commission gets a lot of complaints about one company, he said, it will act as needed.

“The public is not shy about reaching out to us and letting us know if they think they’ve been scammed,” Stanek said.

A spokeswoman for the Maryland Attorney General’s Office, which handles other consumer issues, said it passes any complaints related to energy sales to the commission, and can only pursue prosecution if the regulatory panel refers a case.

The retail energy group’s White acknowledged that there might be instances of misbehavior in the industry, but said he thinks there already are proper mechanisms in place to respond in those cases.

Constellation officials said their internal sales policies are stringent, and agreed the industry "can and should do all it can to protect vulnerable consumers from bad actors and from paying more for energy than they can afford." The company serves 113,000 electricity customers and 21,000 gas customers in Maryland.

White suggested the new research in Maryland, and similar reports in Massachusetts and other states, began with preordained conclusions.

“They’ve already determined that they don’t like the market, that they’d rather customers not have a choice,” he said.

Lawmakers said they could begin exploring the issues for themselves soon.

Neither Del. Dereck Davis nor Sen. Delores Kelley, who lead the Maryland General Assembly committees that handle utility issues, said they were familiar with the issues raised in the report. But both Democrats said they would be willing to explore them when the legislature convenes for its annual session in January.

Del. Mary Washington, a Baltimore Democrat who was elected in November to move to the Senate, has in the past focused on efforts to ensure residents have fair and affordable access to public drinking water and that they don’t lose their homes over unpaid water bills. The new research suggests there could be similar problems with another basic necessity — gas and electricity.

“Our constituents rely on fair billing for what they consume,” she said. “If that’s not happening, then we need to fix it.”

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