

## Pain at the Plug: Fuel Costs Push Up Electricity Rates, Too

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American consumers just coming to grips with higher gasoline prices can now count on another worry: higher electricity prices. Something has to give—but will it be electricity demand, or power-company profits?



Lights out? (Wikipedia)

Rising costs for coal and natural gas, which account for 70% of the fuel used to generate electricity in the U.S., are starting to trickle-down into households, [reports Rebecca Smith in the WSJ](#) (sub reqd.). Coal prices have doubled since early 2007; natural gas is up about 45% in the same period. The upshot? Somebody's got to pick up the tab—and utilities aren't reaching for it, but might get stuck with it anyway.

Regulated utilities across the country are asking for permission to raise their rates from 9% to 29%, the paper reports, and rising fuel prices are the main culprit. Deregulated utilities have a straighter path—higher prices are passed onto households by the market. Either way, households that were insulated from recent price spikes in coal and natural gas thanks to utilities' long-term supply contracts are increasingly going to feel the pain.

That raises some interesting questions. How easy a sell will climate-change bills like Lieberman-Warner be for Congress, when the bills will add between 11% and 64% to the cost of electricity which is already going vertical?

What will higher electricity prices do to demand for juice? When gasoline prices spiked in recent months, demand slumped for once. Normally, demand for gasoline is pretty inelastic in the short-term. Only sustained high gasoline prices lead to big changes, like more fuel-efficient cars, carpooling, and the like.

Demand for electricity is even less responsive to price than demand for gasoline is. Spot market rates for electricity aren't posted across town, and you don't pay the power bill every week.

Indeed, the U.S. Energy Information Administration, in its analysis of the Lieberman-Warner bill last week, said higher energy prices [probably wouldn't change consumer behavior](#).

But no one really knows how elastic the demand for electricity really is. Recent studies show prices didn't influence demand. But the studies were done after years of flat power prices. The [Rand Institute suggests](#) higher prices could indeed dent demand.

Utilities are concerned. Energy executives like Ralph Izzo of PSEG, the New Jersey power company, expect regulators will crack the whip, the WSJ notes: "Regulators will be hard-pressed to allow the same returns on equity [for utilities] as in the past," Mr. Izzo said.

If nothing else, U.S. consumers can take solace—they aren't alone. [Russia just raised](#) its communist-era electricity rates by 25% to 40% to try to deal with higher market prices for natural gas.

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