The University of Chicago

Electricity Market Deregulation in Illinois: What Did it Do for Residential Customers?

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Abstract

In the 1990s and 2000s, Illinois joined many American states in deregulating its electricity markets to create new, cheaper options for residential customers. Despite this, a competitive retail electricity market has not emerged in Illinois, where incumbent utility companies continue to supply lower-priced electricity than the Alternative Retail Electricity Suppliers (ARES) that were supposed to compete with them. I will draw from government statistics, expert interviews, and public documents to explain why ARES struggle to compete with incumbent utility companies and why some customers choose to switch to ARES despite the often higher prices. I will demonstrate that the incumbent utility companies' price advantage over ARES results from conditions in the energy market over the past decade, not from an inherent feature of Illinois's retail electricity market. In a country without a consensus on energy market deregulation, where different states have deregulated their energy markets to vastly different degrees, case studies such as this one help reveal how an individual state's combination of policies affects ordinary customers.

Introduction

If you have lived in Chicago for a long time, you may have had a stranger knock on your door and ask to see your electricity bill. Perhaps the stranger was wearing a vest or holding a clipboard. The stranger possibly invited you to opt into a program to 'save money on your electricity bill' or to 'remove hidden fees.' You may have asked reasonable follow-up questions (e.g., *"Do you work for my utility company?"*) only to receive confusing, long-winded, or evasive answers. If you have ever found yourself in this situation, I hope you turned the stranger away empty-handed— these unsolicited offers tend to be scams. However, even if you have never experienced this scenario first-hand, you may be curious about this phenomenon of door-to-door salesmen claiming they can get you a better deal on electricity.

These salesmen are one unintended consequence of the little-discussed policy of retail electricity choice, which Illinois has had since 1997. Retail electricity choice allows residential consumers to choose their electricity supplier. For the first time, Illinois consumers were not forced to accept the deal offered by their local utility company. Instead, they could price hunt across a whole market of different electricity suppliers, all competing to offer the lowest price. At least, that was what Illinois lawmakers had envisioned.

Now, years later, traditional utilities like Commonwealth Edison (ComEd) and Ameren Illinois (Ameren) continue to be the dominant and most economically attractive electricity suppliers for residential customers. A market of Alternative Retail Electric Suppliers (ARES) has emerged but struggles to offer competitive deals. Indeed, Illinoisans who chose to receive electricity from ARES cumulatively spent $1.11 billion more on electricity in the past five years[1] than they would have had they remained with a traditional utility (*Annual Report Office of Retail*

[1] From June 2019 to May 2024

Market Development 2020-2024). In other terms, the average residential ARES customer in Illinois overspent by about $157 per year[2] over the same period (*Office of Retail Market Development Annual Report 2024*, 20, 30-31).

Why didn't a competitive retail electricity market emerge in Illinois? Why don't ARES offer better rates than traditionally managed, incumbent utilities? Why do some residential customers end up choosing ARES anyway? This paper will address these questions by exploring the experience of residential retail market customers.

This investigation of Illinois's retail electricity market, its history, and its dynamics will reveal that the rate disparity between incumbent utilities and ARES mainly results from differences between how the two types of firms procure electricity. I will show that the price advantage incumbent utilities currently enjoy results from electricity market trends over the past decade and is not an inherent feature of retail electricity markets. Further, I will show how the deregulation of Illinois's retail electricity market had another unintended consequence: the adoption of predatory marketing practices by some ARES. Finally, I will argue that Illinois's ongoing efforts to end deceptive marketing practices are essential to ensuring that the retail electricity market becomes more transparent and fair for residential consumers.

Generation, Transmission, and Distribution

Before electricity is available for home or workplace use, it typically goes through the three steps of generation, transmission, and distribution:

[2] The average ARES customer in ComEd's service territory (North Illinois, including Chicago) overspent by about $178 per year during this period, whereas the average ARES customer in Ameren's service territory (Central and South Illinois) overspent by about $125 per year.

1. Generation: production of electricity at power plants. The photos depict a nuclear power plant, a fuel oil and natural gas power plant, and a wind farm.[3]

[3] Top left photo by Stefan Kühn (Wikimedia Commons, CC BY-SA 3.0), top right photo by King of Hearts (Wikimedia Commons, CC BY-SA 4.0), bottom photo courtesy of U.S. Department of Energy.

2. Transmission: high-voltage, bulk delivery of electricity, often across long distances. Electricity is often transmitted to substations, where it is converted to a lower voltage for distribution. Photo by Matthew T Rader (Wikimedia Commons, CC BY-SA 4.0).

3. Distribution: low-voltage delivery of electricity to end-users: the individual retail customers. Photo by the author.

An electrical utility company is described as "vertically integrated" when it is responsible for all three of these steps.

The Vertically Integrated Utility Company

From the early 1900s until the 1990s, the United States was dominated by vertically integrated utility companies, meaning that one company was solely responsible for generating, transmitting, and distributing electricity (Figure 1). State governments usually granted these vertically integrated companies monopolies in designated regions. Although vertically integrated utilities were often overseen by a state-appointed public utilities commission, they were, with few exceptions, private firms owned by investors, not the public (Tuttle et al. 2016, 2-3).

Vertically integrated utilities emerged in response to a growing consensus among early 20th-century policymakers that the electricity industry was a natural monopoly. Natural monopolies exist in markets where one firm operating without competition can produce and sell a product at a lower price than multiple competing firms. This dynamic contrasts sharply with most markets, in which more competition tends to lower the price of goods. However, during the 19th century, competing electricity firms often produced inefficient and wasteful outcomes, such as duplicate electrical infrastructure serving the same region but owned by different firms (Tuttle et al. 2016, 3). Given these outcomes, having one vertically integrated monopolist per region seemed more efficient to many observers. To prevent vertically integrated utilities from taking advantage of their monopoly to charge exorbitant prices, state governments also instituted price regulations (MacKay and Mercadal 2024, 7).

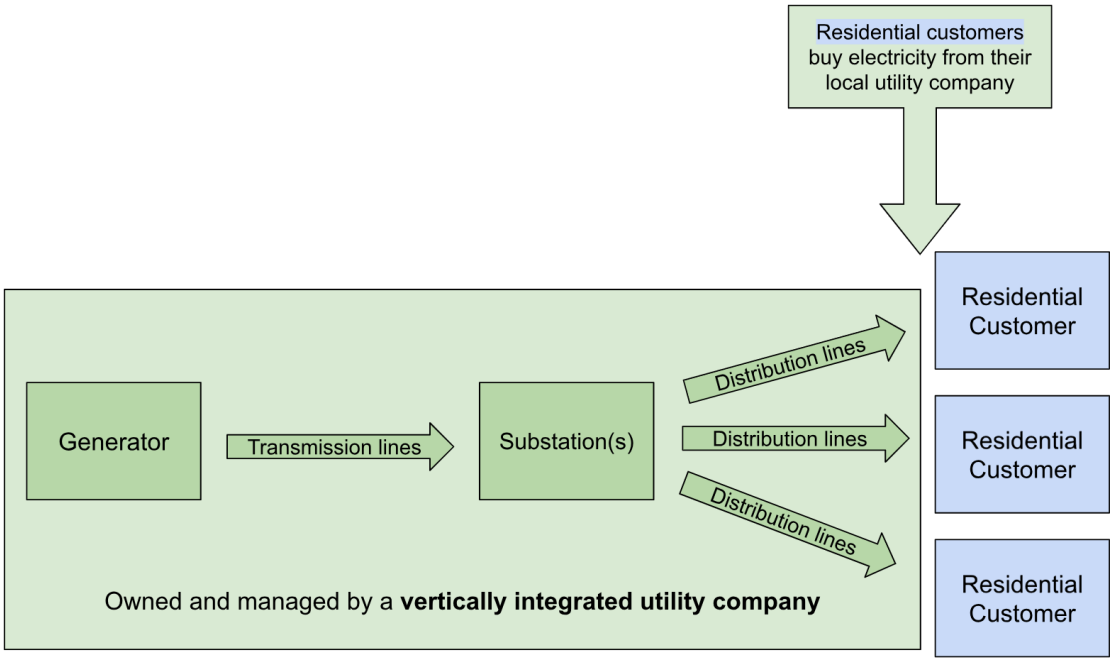


Figure 1: Vertically Integrated Utility Model. Image by the author.

Wholesale Market Deregulation: Decoupling Generation and Delivery

By the 1990s, this view of the electricity market became less popular. Instead, there was a growing belief that the vertically integrated utility system did not result in the best price for consumers (Penn 2023). Many policymakers and industry experts still believed that electricity *distribution*, and to some extent electricity *transmission*, were natural monopolies, but that *generation* was not a natural monopoly (Kellogg 2025). They argued that allowing market competition between generators could lower electricity production costs and ultimately make electricity cheaper for retail customers. On the other hand, deregulating distribution does not make sense because one distribution system per region is still more efficient than overlapping, potentially redundant grid infrastructure owned by competing firms— one of the problems that the vertically integrated utility system was designed to solve. According to Dr. Ryan Kellogg at the Harris School for Public Policy, "Nobody has a serious argument that we should have competition for distribution" (Kellogg 2025).

The solution was to decouple generation from transmission and distribution. Delivery (encompassing both transmission and distribution) could still be handled by regulated monopolies while opening generation to competition. Transitioning to this new model would require vertically integrated utilities to sell their generation assets and begin buying electricity from independent, competitive generators rather than generating it themselves.

This newly created market in which generators sell electricity to utilities or directly to large companies is called the wholesale electricity market (Figure 2), and it finally became open to competition after a wave of state-level deregulation in the 1990s. In much of the United States,

independent generators—previously excluded from the electricity sector—gained the ability to generate and sell electricity to utility companies.

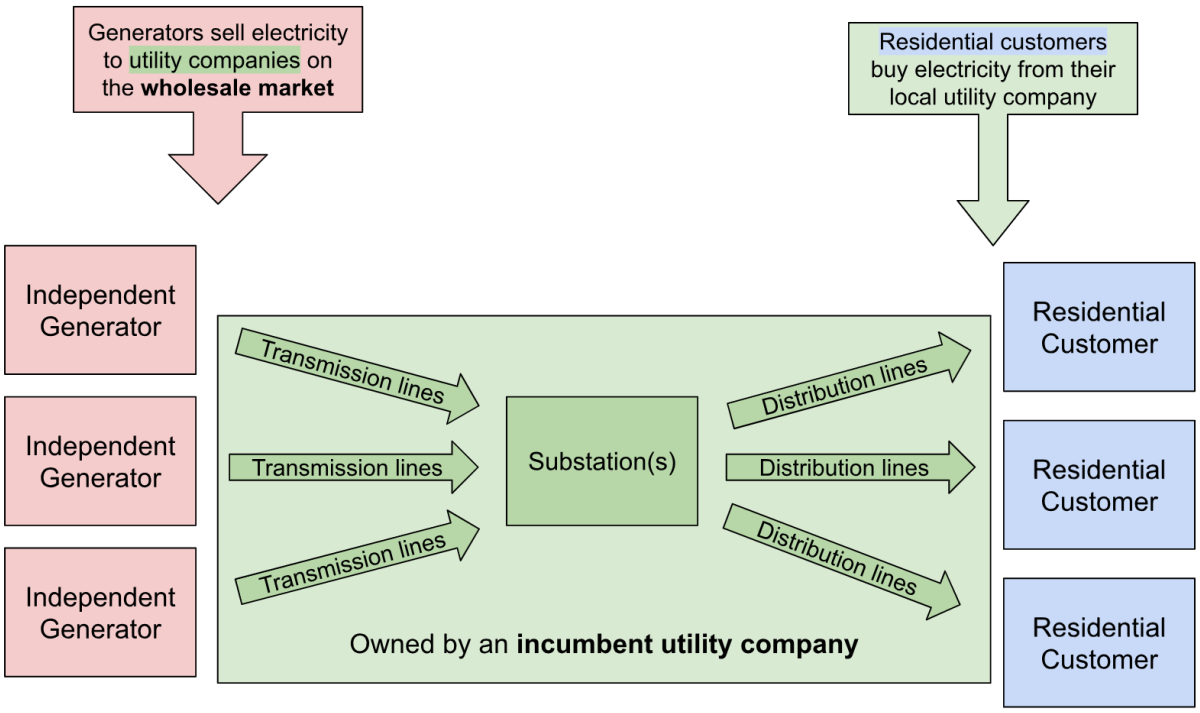


Figure 2: Wholesale Market Deregulated. Image by the author.

Retail Market Deregulation: Giving Small Customers a Choice

After deregulating the wholesale electricity market, many policymakers thought that the logical next step was to deregulate the retail electricity market, in which utility companies sell electricity to small consumers. A deregulated retail market would allow small consumers to choose an electricity supplier other than their utility (i.e., an ARES), allowing small residential consumers to enjoy the benefits of market competition.

However, even under retail market deregulation, it was important to make sure that delivery remained a monopoly under the incumbent utility. ARES would not have to build their

own delivery infrastructure but would be allowed to use the incumbent utility's infrastructure without the incumbent utility showing any partiality.

Under retail choice, residential customers would see their bills split into three types of costs: supply charges, delivery charges, and taxes & fees. Customers continue to pay delivery charges to the incumbent utility; these charges help to maintain transmission and distribution infrastructure. Customers pay the supply charge to the incumbent utility or an ARES, depending on what company they select to supply their electricity ("Price to Compare - ComEd" 2024).

In practice, there is no way to distinguish between electricity owned by an ARES and electricity owned by the incumbent utility— it all gets mixed up on the grid. Retail electricity markets are based on the principle that if an ARES pays a generator to put some given amount of electricity on the grid, and a residential consumer consumes the same amount of electricity off the grid while paying the ARES for supplying it, the customer has bought electricity from the ARES; it does not matter whether the customer is literally only consuming electrical waves from a specific generator (Figure 3). This common way of conceptualizing electricity transactions has many benefits, enabling many suppliers to share the same grid infrastructure and allowing customers to switch to an ARES without needing to rewire their homes.

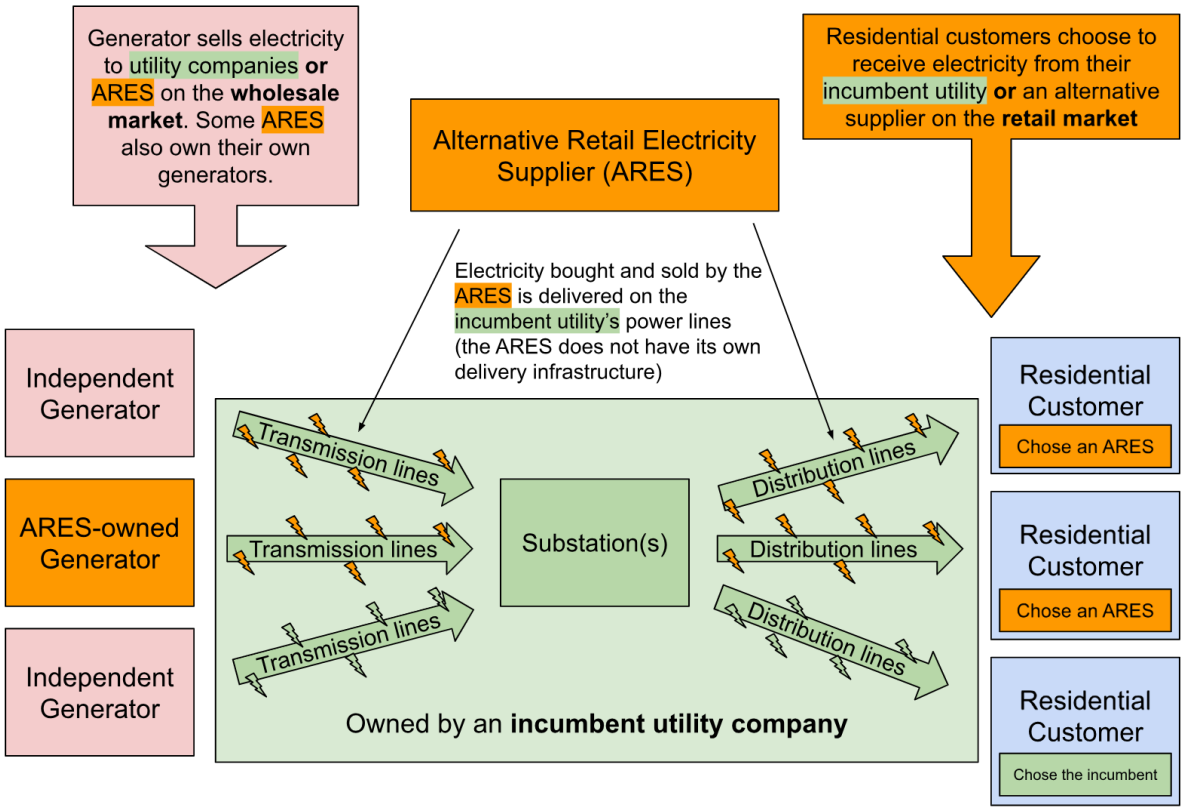


Figure 3: Wholesale and Retail Markets Deregulated. Image by the author.

Different states pursued electricity market deregulation to different degrees. Some states, such as Georgia, did not substantially deregulate their electricity markets and continue to have a vertically integrated utility model (Harrison and Welton 2021, 4-5). Other states, such as Indiana, only deregulated the wholesale market while leaving traditional utility companies as monopolists in the retail market ("Understanding Electric Rates" 2023). Under this model, utility companies have a choice of which generator to buy electricity from, but retail customers have no option of electricity supplier other than their utility company. Illinois is one of the states that opened both the wholesale and retail markets to competition.

Electricity Deregulation Policies in Illinois

Illinois's Electric Service Customer Choice and Rate Relief Law of 1997 created a wholesale electricity market while keeping two traditional utility companies—ComEd and Ameren—responsible for distributing electricity to customers. Illinois's Retail Electric Competition Act of 2006 attempted to expand energy choice (the ability to choose one's electricity provider) to small consumers in the retail electricity market (*Office of Retail Market Development Annual Report 2024*, 3). When Illinois deregulated its electricity market, the Illinois Commerce Commission (ICC), a state organization that had long been responsible for regulating Illinois's public utilities, began drafting rules, certifying ARES, and compiling statistics about the development of Illinois's electricity market ("Illinois Commerce Commission Centennial" 2021).

Vertically integrated utility companies, now demoted to "incumbent utilities," continued to operate electricity distribution infrastructure in their original regions, better known as their service territories (Figure 4). ComEd's service territory is in North Illinois and includes Chicago, and Ameren's territory covers Central and Southern Illinois.[4] In each service territory, the incumbent utility is responsible for delivering electricity to customers, regardless of whether that electricity was supplied by the incumbent utility or by an ARES.

[4] Two other companies, the MidAmerican Energy Company and the Mt. Carmel Public Utility Company, serve much smaller territories along the Northwest and Southeast edge of the state, respectively.

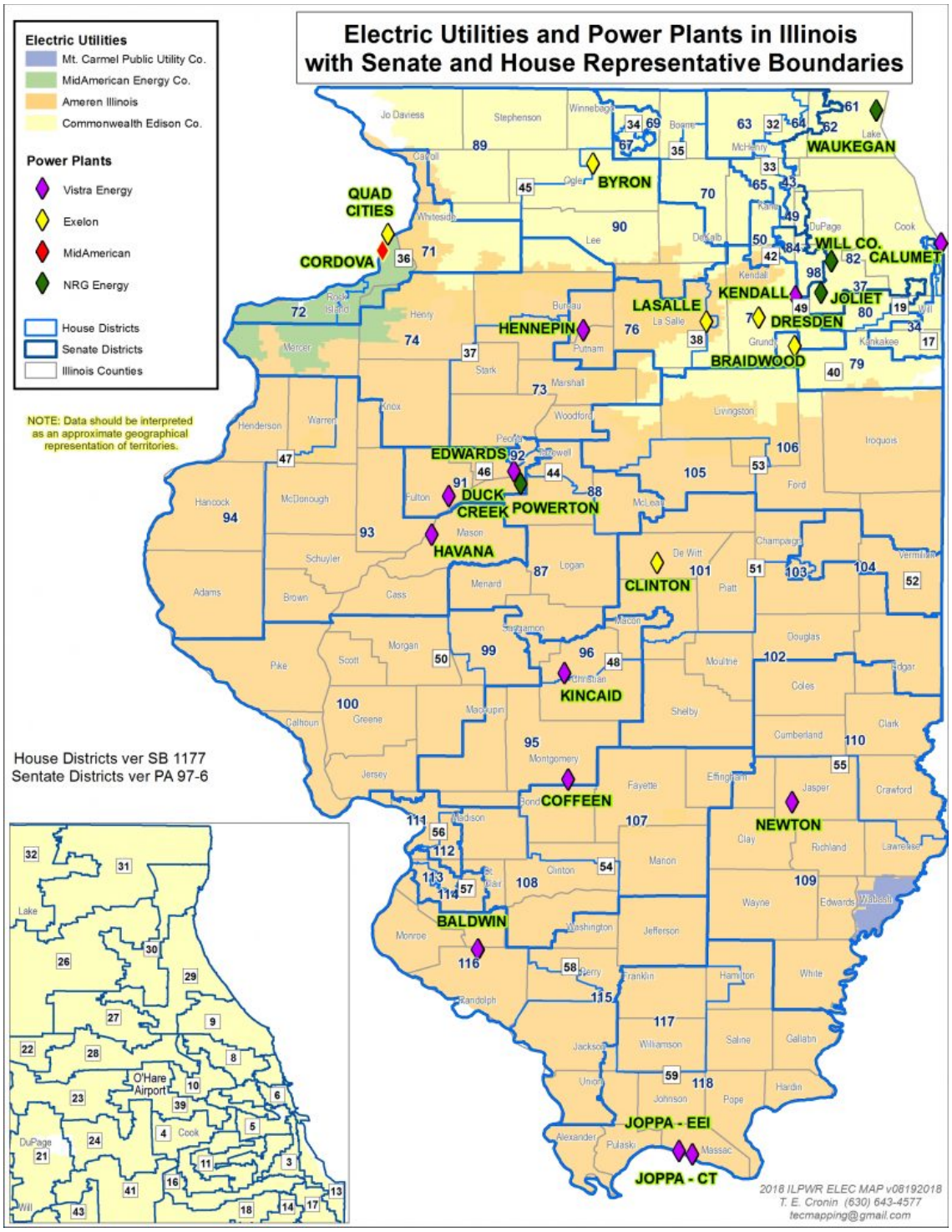


Figure 4: Map of incumbent utilities' service territories in Illinois. Image courtesy of Illinois Energy Association.

In Illinois, as with most other energy choice states, vertically integrated utility companies remained the default electricity supplier unless customers decided to opt into energy choice. This means that the incumbent utility automatically retains any customers who are unfamiliar with energy choice, unwilling to go through the effort of changing their supplier, or are afraid of switching away from the default option.

Under the deregulated electricity market, ComEd and Ameren were not supposed to generate their own electricity but rather buy it on the wholesale market. However, these incumbent utilities are not allowed to mark up the price of electricity to consumers. In the words of ComEd's Senior Manager of State Government Affairs, Luis Diaz-Perez, "It's a penny-for-penny pass-through. We don't make any profit on [electricity] itself." Instead, incumbent utilities profit from *delivering* electricity, not supplying it, and customers pay the same per-kWh delivery rate regardless of their supplier. As a result, incumbent utilities do not have a strong financial incentive to prevent customers from switching to ARES, and Diaz-Perez even remembers that shortly after energy choice began in Illinois, ComEd cooperated with Chicago's city government on a "big public education campaign […] getting out information about choice."

In Illinois, incumbent utilities had to divest their electricity generation assets either by selling them or transferring ownership to other companies. For example, in the late 1990s, ComEd sold all of its non-nuclear power plants, including many coal and gas-fired plants, to companies interested in buying generators in Illinois (Crown 1998). Then, it transferred ownership of its nuclear power plants to its parent company, Exelon (Scarr and Orcutt 2020, 12). Since then, ComEd has been a delivery-only company, not responsible for generating electricity.

The fact that ComEd's parent company owned substantial generation assets in Illinois created a serious conflict of interest for ComEd, which gained a perverse incentive to buy

overpriced electricity from its parent company and pass along the higher cost to customers. The government of Illinois tried to address this conflict of interest by freezing retail electricity rates from 1998 to 2007 and by creating a new regulatory organization in 2007: the Illinois Power Agency (IPA). The IPA's purpose was to "conduct a competitive procurement process to procure [...] wholesale electric[ity] to meet the needs of eligible retail customers in the service areas of [...] ComEd [...] and Ameren." (Illinois Power Agency 2021, 6). The IPA took away the incumbent utilities' ability to decide which firms to buy wholesale electricity from. (*2024 Electricity Gas Water Sewer Utilities Annual Report* 2025, 29). Exelon spun off the generation side of its business in 2022, meaning that ComEd is no longer affiliated with the firm that owns Illinois's nuclear power plants (Cornell 2022).[5] However, this situation is still illustrative of the conflicts of interest faced by incumbent utilities during the transition to a competitive market.

It is hard to conceptualize how Illinois's electricity market could function for consumers without an IPA-like organization overseeing the incumbent utility's purchasing decisions. Even when incumbent utilities are not affiliated with a generation firm, they lack a financial incentive to procure electricity at the lowest possible price because they do not profit from supply charges or by keeping customers on utility supply.

With more freedom for residential customers and rules to encourage fairness, deregulation should have resulted in a competitive retail electricity market in Illinois. However, in practice, the retail market does not seem to have become competitive, with the incumbent utilities, ComEd and Ameren, continuing to dominate the market and consistently provide better rates than competing ARES.

[5] The nuclear power plants now owned by Constellation continue to generate more than half of Illinois's electricity, even more than two decades after the wholesale market was opened to competition ("Illinois' Six Nuclear Energy Facilities Operated at Near Full Power During Winter Cold Snap" 2021).

The Problem: Illinois's ARES Are Not Price Competitive With Incumbent Utilities

Although switching to ARES helped customers in ComEd service territories save money between 2011-2013, it lost them money every subsequent year (Figure 5). From 2013-2024[6], ARES customers in ComEd's service territory paid $1.32 billion more for electricity than they would have had they kept ComEd as their supplier. ARES customers in Ameren's service territory also overpaid, spending over $622 million more on electricity from 2016-2024[7] than they would have using utility supply (*Office of Retail Market Development Annual Report 2024*, 34-35). This demonstrates that, on average, ARES customers get a worse deal than customers who stick with their incumbent utility. However, this does not necessarily mean that all ARES are inferior to the incumbent utility. Perhaps there are some good deals hidden among the mass of generally unfavorable ARES contracts.

[6] From June 2013 to May 2024

[7] From June 2016 to May 2024; the ICC did not report Ameren residential customer savings data before June 2016.

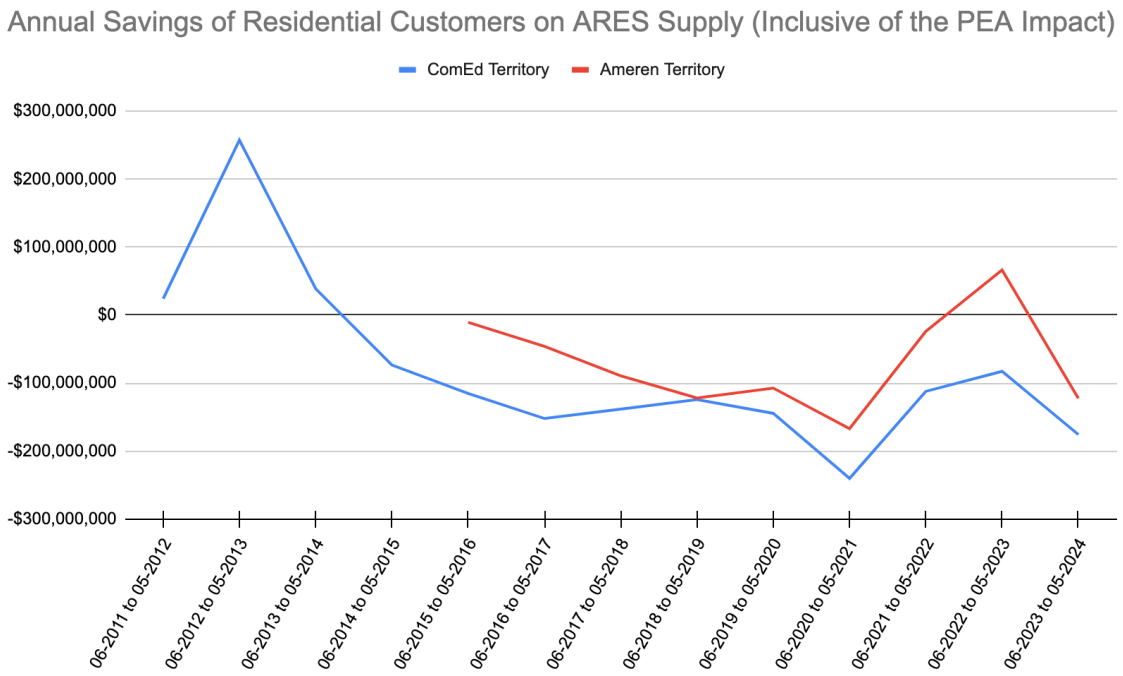


Figure 5: Data from the Office of Retail Market Development 2013-2024 reports (*Annual Report Office of Retail Market Development*).

Plug In Illinois is an ICC-run website that allows Illinoisans to compare ARES rates to their default, incumbent utility rate. As of January 2025, Plug In Illinois showed that, in every region of Illinois, the incumbent utility offered customers the best rate per kWh (kilowatt hour, a unit of electricity consumption over time). This analysis does not include "one month [...] intro rate[s]" and similar offers, which, in many cases, were still higher than the standard rate offered by the incumbent utility.

The Citizens Utility Board (CUB) is a consumer advocacy group that often opposes incumbent utilities' plans to raise delivery charges. However, despite frequently being at odds with incumbent utilities, the CUB encourages customers in Illinois to choose utility supply over an ARES. The CUB's online guide on electricity choice reads: "Remember, ComEd's supply price is often the lowest option. It is illegal for ComEd to make a profit off of what it charges

you for supply. [ARES] can charge whatever they want" ("Electric Competition in Illinois: A Guide For ComEd Customers" 2025).

Differences Between How ARES and Incumbent Utilities Set Prices

Incumbent utilities are subject to various regulations that do not apply to ARES. Many of these regulations restrict incumbent utilities' ability to make decisions on fundamental issues such as procuring and pricing electricity. As mentioned previously, incumbent utilities must follow an IPA-drafted plan when procuring electricity, but ARES may procure power however they choose. Incumbent utilities must charge customers the same rate that the utility paid to procure the electricity, but ARES can mark up the price of electricity in order to make a profit on supply charges.

The IPA's power procurement plan places a large emphasis on the concept of hedging—a long-established strategy in which incumbent utilities procure "on and off-peak blocks of forward energy in a three-year laddered approach" (Illinois Power Agency 2021, 2). This means incumbent utilities aim to buy some fixed percentage of their power through three-year contracts, another fixed percentage through two-year contracts, some through one-year contracts, and the remainder through shorter-term contracts (Table 1 and Figure 6). The purpose of this strategy is to "addres[s] the volatility in power prices" on the wholesale electricity market (Illinois Power Agency 2021, 34). If wholesale electricity prices rise unexpectedly, the incumbent utility and its customers are partly protected because the incumbent utility already purchased much of its wholesale electricity at an earlier, lower rate. In this scenario, rates would still rise for the incumbent utility's customers, but not by as much as they would have if the incumbent utility

bought all of its electricity on a shorter term (e.g., year-to-year, month-to-month, or even day-to-day) basis.

Table 1-1: Summary of Energy Hedging Strategy for all Utilities[8]

Spring 2022Procurement			Fall 2022 Procurement		
June 2022-May 2023 (Upcoming Delivery Year)	Upcoming Delivery Year+1	Upcoming Delivery Year+2	October 2022-May 2023	Upcoming Delivery Year + 1	Upcoming Delivery Year + 2
June 100% peak and off peak July and Aug. 106% peak, 100% off peak Sep. 100% peak and off peak Oct. - May 75% peak and off peak	37.5%	12.5%	100%	50%	25%

Table 1 (Illinois Power Agency 2021, 2)

Figure 4-1: Ameren Illinois' On-Peak Supply Gap - June 2024-May 2029 Period - Base Case Load Forecast

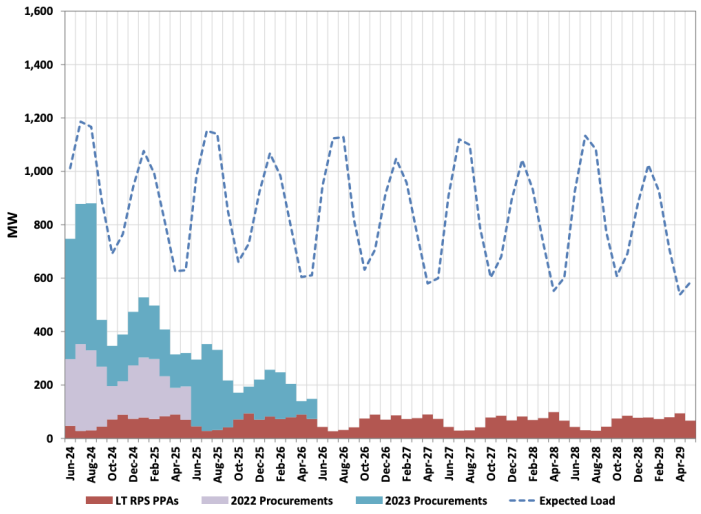


Figure 6: By the summer of 2024, Ameren had already bought a large portion of the electricity it expected to supply in April 2025. Some of this April 2025 electricity was procured in 2022, some in 2023, and some even earlier through long-term renewable portfolio standard power purchase agreements (LT RPS PPAs) (Illinois Power Agency 2024, 43)

A more consistent customer base makes it easier for incumbent utilities to sign longer-term, three-year supply contracts, which could be one possible cost-saving strategy. ARES may be less able to accurately predict the amount of electricity their customers will require (also known as "load"), forcing them to buy more energy on the real-time market at the present market price (Illinois Power Agency 2021, 72). Furthermore, ARES are at risk of bigger relative changes to the size of their load. Because ARES have smaller customer bases than incumbent utilities, a 1,000-person increase or decrease in the number of customers will be a bigger relative change for an ARES than for the incumbent utility even though the customer base changed by the same amount in absolute terms. The risk of bigger relative changes in load means that ARES cannot implement hedging strategies as effectively as incumbent utilities.

Dr. Kellogg explained that because the incumbent utility's retail prices are based on power purchase contracts acquired at several year intervals, "they're able to set retail prices based on some historical average cost, which might be lower than the true marginal cost of power. If you're an [ARES], your cost of wholesale electricity that you're buying to serve your customers, that's based on whatever the real marginal cost is today" (Kellogg 2025). This distinction sheds light on one of the fundamental reasons that incumbent utilities and ARES offer different rates for electricity even though they often procure electricity on the same wholesale market.

According to Anthony Star, the former director of the IPA, incumbent utilities "don't inherently have a price advantage, and there have been times when they haven't" (Star 2025). Figure 5 shows that from June 2011 to May 2014, ARES customers in ComEd's service territory were saving money compared to customers who remained on utility supply. Instead, Star

believes that trends in the electricity market can explain why ARES had a temporary price advantage during this period:

> In 2007, [incumbent utilities signed] swap contract[s] with Ameren and Exelon's generation unit[s] [...] they were five-year contracts [...] It seemed like the price of those deals was okay but not great, but at least they created some [price] stability. But, of course, in 2008, the economy [...] went through a recession, and power prices plummeted. Not just because of the recession but also because this was when shale gas was taking off. So suddenly natural gas, which in the early 2000s had been very expensive, suddenly became super cheap, and so power prices plummeted. [...] So they were saddled with these prices that ended up being very expensive. (Star 2025)

When the market price of electricity was lower than the price that the incumbent utilities had agreed to in their five-year contracts, ARES were able to offer cheaper rates. However, as the electricity market continued to evolve and the five-year contracts expired, incumbent utilities became more price-competitive. The advantage of procuring electricity years in advance is that "in a period of rising prices, those forward purchases are likely to be priced below market," giving incumbent utilities a price advantage over ARES (Illinois Power Agency 2024, 58).

If ARES Rates are Generally Higher, Why Do Residential Customers Switch Away from the Incumbent Utility?

In a retail market where incumbent utilities offer better prices to residential customers than ARES, it might seem strange that any customer would choose an ARES. However, many residential customers have chosen to switch to an ARES, including approximately 22.7% of those in ComEd's service territory and 53.5% of those in Ameren's territory[8] (Figure 7; *Annual Report Office of Retail Market Development* 2013-2024). There are three main explanations for why these customers switched to an ARES.

[8] As of May 2024

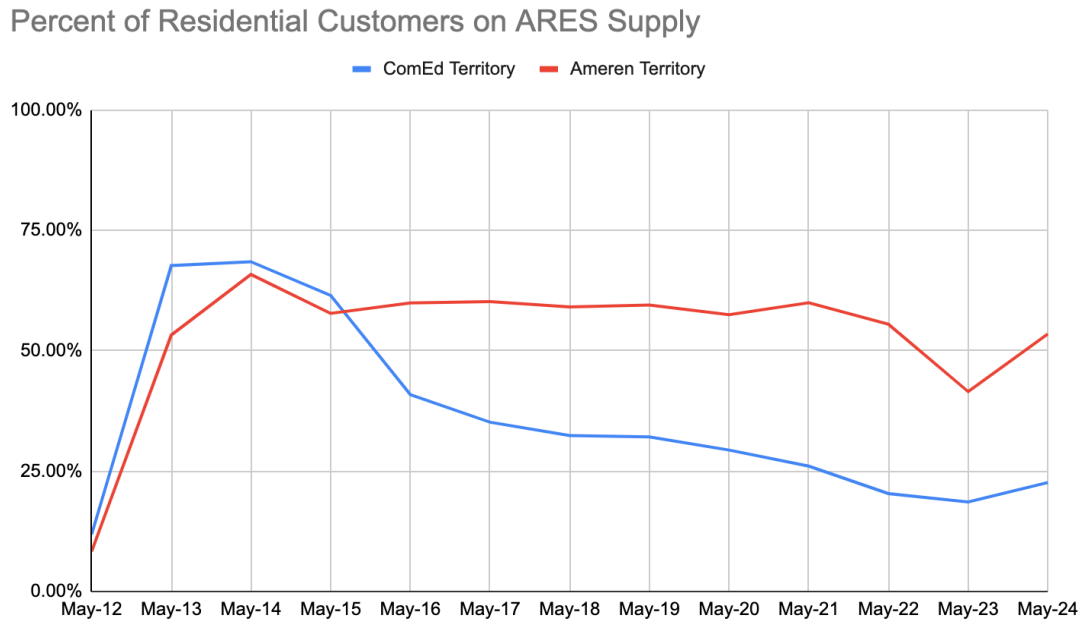


Figure 7: Data from the Office of Retail Market Development 2013-2024 reports (*Annual Report Office of Retail Market Development*).

1. Some customers may have found a better deal (either on their own or through municipal aggregation)

The most straightforward reason that somebody would choose an ARES is that they may have found an ARES that offered a better price than their incumbent utility. Although ARES customers collectively overpaid for electricity in the past decade compared to customers who chose the utility supply service, this only reveals that the *average* ARES customer was paying a higher rate for electricity, not that *every* ARES customer was.

In addition to finding a good ARES rate on their own, some customers may have paid a lower price for electricity by participating in a municipal aggregation program. Municipal aggregation describes when a municipality or county pools the buying power of its residents and small businesses to negotiate an electricity supply contract for the entire community collectively.

Municipal aggregation programs in Illinois typically last for one to three years before they have to be renewed, and they usually include an option for individual residents to opt out and return to utility supply ("Municipal Aggregation" 2025).

2. Some customers may be willing to pay a premium for clean energy

Some ARES offer plans for electricity that are "100% Green," "25% Clean," or some similar guarantee ("Compare Offers" 2025). Although these plans are often more expensive than utility supply, environmentally conscious customers may be willing to pay a premium for energy that was generated through environmentally friendly methods.

The CUB's website warns, "Signing up for a green plan does NOT mean renewable energy will be powering your home. In reality, these companies are purchasing renewable energy certificates (RECs) from renewable generation facilities" (Minic 2023). This is true: as mentioned previously, changing your ARES will not literally change where the electrical waves in your distribution line come from. Yet, environmentally conscious customers may still be satisfied knowing that their supply charges are helping to subsidize renewable energy projects rather than fossil-fuel power plants.

3. Some customers may have been the victim of deceptive marketing

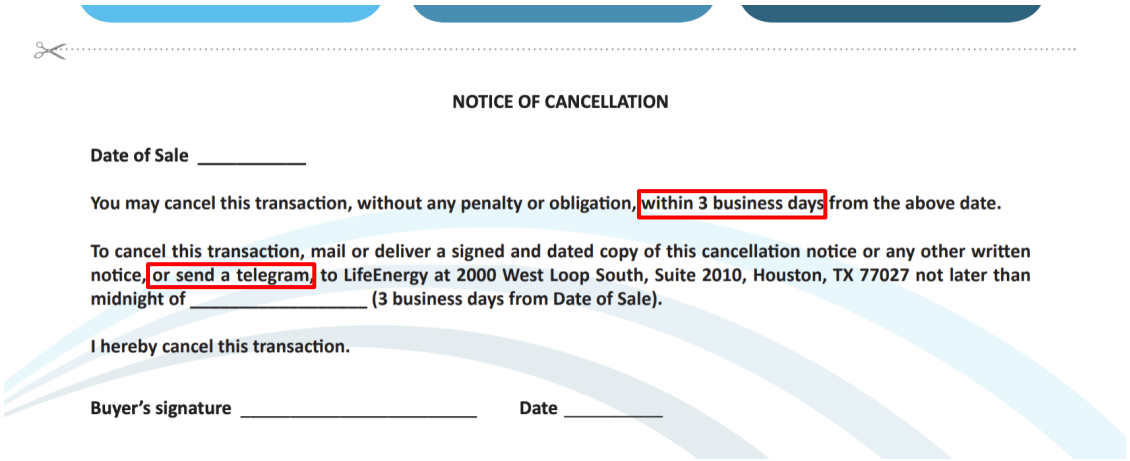
Many ARES in Illinois and other states with energy choice have been known to use deceptive practices to get customers to sign up for unfavorable plans. One common tactic is to lure consumers in with attractive rates, then suddenly increase their rates after the customer has enrolled. Customers facing these predatory practices have sometimes struggled to cancel their

contracts or have had their contracts illegally restored by an ARES after cancellation (Patterson and McGinty 2021).

Deceptive Marketing Practices in the Retail Electricity Market

LifeEnergy, LLC was an ARES that exemplified many of the retail electricity market's predatory marketing practices. LifeEnergy's sales agents would knock on customers' doors multiple times within the same 24-hour period and make deceptive claims to convince customers to enroll to receive electricity from LifeEnergy (Zenoff 2021, 6, 14). Their marketing materials misrepresented the tradeoffs between utility supply and LifeEnergy's supply plan, with one page describing LifeEnergy's plan as "a safe choice" and utility supply as only "maybe" safe. One ICC official worried that in the context of utility services, the term "safe" could "easily be misconstrued" as referring to physical safety, not a comparison of rates, which in this particular case would also be "problematic [...] unless [...] the utility rate somehow experiences wild volatility that the Illinois market has not seen in several years" (Agnew 2019, 27-28).

LifeEnergy's marketing materials also contained misinformation about consumer rights, falsely claiming that consumers had only "3 business days from [the] Date of Sale" to rescind their enrollment. In fact, the Illinois Administrative Code (Title 83 section 412.210) guarantees consumers the right to rescind within 10 days with no penalty (Agnew 2019, 28). Even when customers submitted a request to rescind their enrollment within the deadline, LifeEnergy would frequently ignore it (Zenoff 2021, 35). With their requests to rescind ignored, recently enrolled customers would have to choose between either staying on LifeEnergy's plan or paying a $50 early-termination fee ("Exhibit ICC DR 1.02D: Door-to-Door Leave Behinds" 2019, 6).



NOTICE OF CANCELLATION

Date of Sale _____

You may cancel this transaction, without any penalty or obligation, within 3 business days from the above date.

To cancel this transaction, mail or deliver a signed and dated copy of this cancellation notice or any other written notice, or send a telegram, to LifeEnergy at 2000 West Loop South, Suite 2010, Houston, TX 77027 not later than midnight of _____ (3 business days from Date of Sale).

I hereby cancel this transaction.

Buyer's signature _____ Date _____

Figure 8: LifeEnergy's deceptive Notice of Cancellation form falsely claims customers only have "3 business days" to rescind their enrollment. Bizarrely, the form also gives customers the option to rescind their enrollment by "send[ing] a telegram" ("Exhibit ICC DR 1.02D: Door-to-Door Leave Behinds" 2019, 3).

In practice, deceptive marketing by ARES disproportionately harms racial minorities, low-income people, and the elderly. A Wall Street Journal investigation found that "about 12% of New York City's households are in ZIP Codes where Black and Hispanic people make up more than half of the population, but those ZIP Codes accounted for 47% of the retail suppliers' electricity customers," suggesting that retail electricity suppliers may focus their marketing campaigns in such areas. The investigation similarly concluded that low-income customers for whom "electricity bills account for larger shares of income," and particularly "cash-strapped elderly consumers," might be uniquely "receptive" to an ARES's promise to lower a customer's electricity bills (Patterson and McGinty 2021).

These predatory marketing strategies directly result from opening Illinois's retail electricity market to competition. Customers may be particularly vulnerable to deception in such a new and technically complicated market.

Illinois has taken steps to address predatory marketing practices in the retail electricity market. In 2019, Illinois passed the Home Energy Affordability and Transparency (HEAT) Act,

which prohibited many of these deceptive practices and required all ARES advertising material to "disclose the current utility electric supply price to compare."[9] The ICC has also conducted multiple investigations and enforcement actions against ARES that use predatory practices, including LifeEnergy. The ICC's enforcement action resulted in LifeEnergy surrendering its certificate to operate as an ARES and paying a fine of $1 million (Zenoff 2021, 1, 26).

Conclusion and Significance

The United States has not yet reached a consensus on how electricity markets should be structured, as is evidenced by the fact that some states have aggressively deregulated their electricity markets while others have not even started to deregulate. Given that this is an unresolved policy issue that financially affects almost every American, it is crucial that researchers and policymakers look back on three decades of electricity market deregulation when deciding on future policy directions. Furthermore, because individual states have adopted different policy approaches to deregulation, state-level analyses such as this project can uncover valuable insights that may be applicable to other states struggling to define their energy policy.

This project contributes to a growing body of research into the real-world effects of electricity market deregulation. One 2021 study compared trends in electricity prices between states that pursued deregulation and states that did not pursue deregulation. This comparison revealed that wholesale electricity prices increased faster in the states that pursued deregulation, which "can explain a substantial portion of the increase in downstream retail prices" (MacKay and Mercadal 2024, Abstract, 2). Furthermore, in 2023, the New York Times reported that "average retail electricity costs in the 35 states that have partly or entirely broken apart the

[9] Home Energy Affordability and Transparency (HEAT) Act. 220 ILCS 5/16-123. 2019.

generation, transmission, and retail distribution of energy into separate businesses have risen faster than rates in the 15 states that have not deregulated" (Penn 2023). This does not constitute proof that electricity market deregulation raises prices, as there could be hidden variables or differing pre-trends that affect relative electricity costs in these two groups of states. However, those who advocated for electricity market deregulation were probably hoping for more clearly appreciable benefits.

It is evident from the Illinois example that deregulation is not a panacea. Opening markets to competition lowers prices in theory, but in practice, it produces unexpected results and does not necessarily guarantee that customers will emerge with lower prices or better options. In addition to the generally inferior rates offered by ARES, deregulation in Illinois also led to other unforeseen complications, such as a surge in predatory marketing practices and conflicts of interest for incumbent utilities affiliated with electricity-generating firms. Although Illinois has taken concrete steps to address both of these complications, they highlight that deregulation is not a straightforward process and does not mean the government can abdicate responsibility for public welfare. The Illinois government had to draft new regulations and create new regulatory bodies, such as the IPA, to keep these complications from further compromising the fairness and competitiveness of the electricity market. Therefore, the term "deregulation" is arguably a misleading term for what has happened in Illinois, and some industry experts use the term "restructuring" instead or else use both terms interchangeably (Craig 2016; MacKay and Mercadal 2024, 1).

Although ARES have generally offered residential customers worse rates than incumbent utilities, a closer investigation shows that this is not an inherent feature of Illinois's retail market, nor has it always been the case. As trends in the electricity market continue to change, ARES

may once again outperform incumbent utilities, especially if wholesale electricity prices unexpectedly fall. In the meantime, environmentally conscious customers can choose an electricity plan that financially supports renewable energy projects, which would be more difficult, often impossible, in a vertically integrated retail market.

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