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# How governments enable companies to distort prices

*Electricity companies want to keep consumers in the dark. Regulators are helping them do it*

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by **David Cay Johnston** (/profiles/j/david-cay-johnston.html) -

One of humanity's greatest inventions is the economic concept of price (<http://www.britannica.com/topic/price-economics>). It enables us to consider how much, if any, of our resources to spend on this or that product or service and to compare offerings.

These days, unfortunately, government works hard to help various industries obscure prices, sowing confusion. Legions of highly paid lobbyists work the halls of Congress and state capitols to secure government policies that make it hard for customers to know if they are getting a fair price or could get a better price by shopping around. Sometimes even the actual price paid is buried in secret data.

These policies are especially prevalent in banking, insurance and utilities, but also infect the markets for college education and home buying. Corporate executives have also persuaded the Securities & Exchange Commission, as well as the Financial Accounting Standards Board, to help them obscure the real total cost paid for their services by shareholders.

Let's focus on two blatant examples of this: one following up on my last column (<http://america.aljazeera.com/opinions/2015/9/new-yorks-electricity-market-is-a-scam.html>), which exposed the government-run cartel that is the New York State wholesale electricity market, and the other a brilliant exposé of car insurance advertising and pricing by Consumer Reports.

## **No secret to 10 year olds**

The wholesale electric market in the Empire State should produce lower prices because of an abundant supply of capacity to generate electricity. Instead prices are 40 percent higher than the average in the 48 contiguous states.

The state Public Service Commission, which regulates utilities, helps keep prices artificially high by requiring that data on heat rates of power plants, which determine their efficiency and thus their costs to produce power, be an official secret. The commission, the power companies and the Independent System Operator that runs the so-called market all agree that this data must be secret or the market cannot function.

Yet this “secret” data is all available from other sources, sometimes even from the companies' themselves, my column showed (<http://america.aljazeera.com/opinions/2015/9/new-yorks-electricity-market-is-a-scam.html>), citing work by Robert McCullough, an Oregon economist who specializes in demolishing utility industry claims with facts.

The day after my column was published, Donna M. Gilberto, the commission lawyer whose title is Records Access Officer, issued a letter saying the commission “has become aware that information that lightly regulated utilities (LRUs) meant to redact from their annual reports,

can be obtained from public sources.”

Now you might think the logical response to this would be to give up on secrecy and admit that since the data has long been public that any rationale for secrecy is nonsense.

Wrong. Instead the commission staff announced that it had “removed from public view all of the” documents it had put online for the last three years.

This official falls so deeply into the category of “you can’t make this stuff up” that I kept laughing out loud as I wrote this column.

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**“ Prices should not reflect the political power of companies to shape government policies in their favor by sowing confusion about pricing.”**

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McCullough observed that “the secret filings required to keep secret the secret bids were not secret, since they were available on Google and, after all, the bids themselves could be decoded by a barely competent 10 year old.” He then mused about whether the state would soon be “rounding up all of the barely competent ten year olds in New York” to keep secret the non-secrets of electric power plant heat rates.

### **Bad news on car insurance**

Such government-induced price confusion is all around us, but rarely makes the news as most journalists report only what the powers that be want and only the amount of criticism those powers can tolerate. After all, what journalist wants to have (<http://ajrarchive.org/Article.asp?id=5509>) an AT&T vice president assigned to intimidate him about his accurate work or contend with many executives from the Texas utility Reliant complaining about error-free reporting in the Galveston County Daily News? It is so much easier to just report on something else.

Price confusion is especially abundant in the insurance industry, aided and abetted by government policies, as Consumers Reports showed (<http://www.consumerreports.org/cro/car-insurance/auto-insurance-special-report/index.htm>) in its September issue.

By checking more than two billion price quotes, with help from an outside vendor using disclosure reports that few people know about and hardly anyone knows how to decipher, the nonprofit magazine found that auto insurance premiums often have less to do with your driving record than your credit score.

In one example it showed that a Florida driver with excellent credit would pay \$1,409 for coverage that would cost someone with a bad credit score \$3,836.

The amazing fact, however, was this: The same driver with a drunk-driving conviction would pay \$2,274. How many people would know that a bad credit score costs you 68 percent more in car insurance premiums than a drunk driving conviction?

The insurance companies all know each other's prices because they enjoy an exemption from antitrust laws. Consumer Reports shows how that works against consumers and helps Allstate, Progressive and Geico charge much higher prices for the same coverage as State Farm and USAA.

## **Call your representatives**

Prices should reflect the willingness of buyers to choose a product or service rather than an alternative, including going without. Prices should not reflect the political power of companies to shape government policies in their favor by sowing confusion about pricing.

We should savor the moments when layers of official policy written in obtuse language about arcane policies designed to make public policy unintelligible to most people are so clearly exposed as nothing more than government scams to help an industry engage in price gouging.

But we should also get angry and act. Pick up the phone and call your state legislator, your representative in Congress and both your senators and tell them to stop enabling price gouging by utilities, car insurers and anyone else. Demand formal investigative hearings. And then call your friends, family and neighbors to give them the telephone numbers you called so they can do the same.

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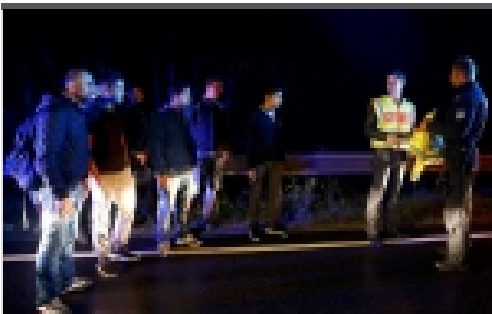
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