

Whither Retail Competition? : A Residential and Low- Income View



The Santa Fe Conference

New Mexico State University Center for Public Utilities Advisory Council

March 22, 2004

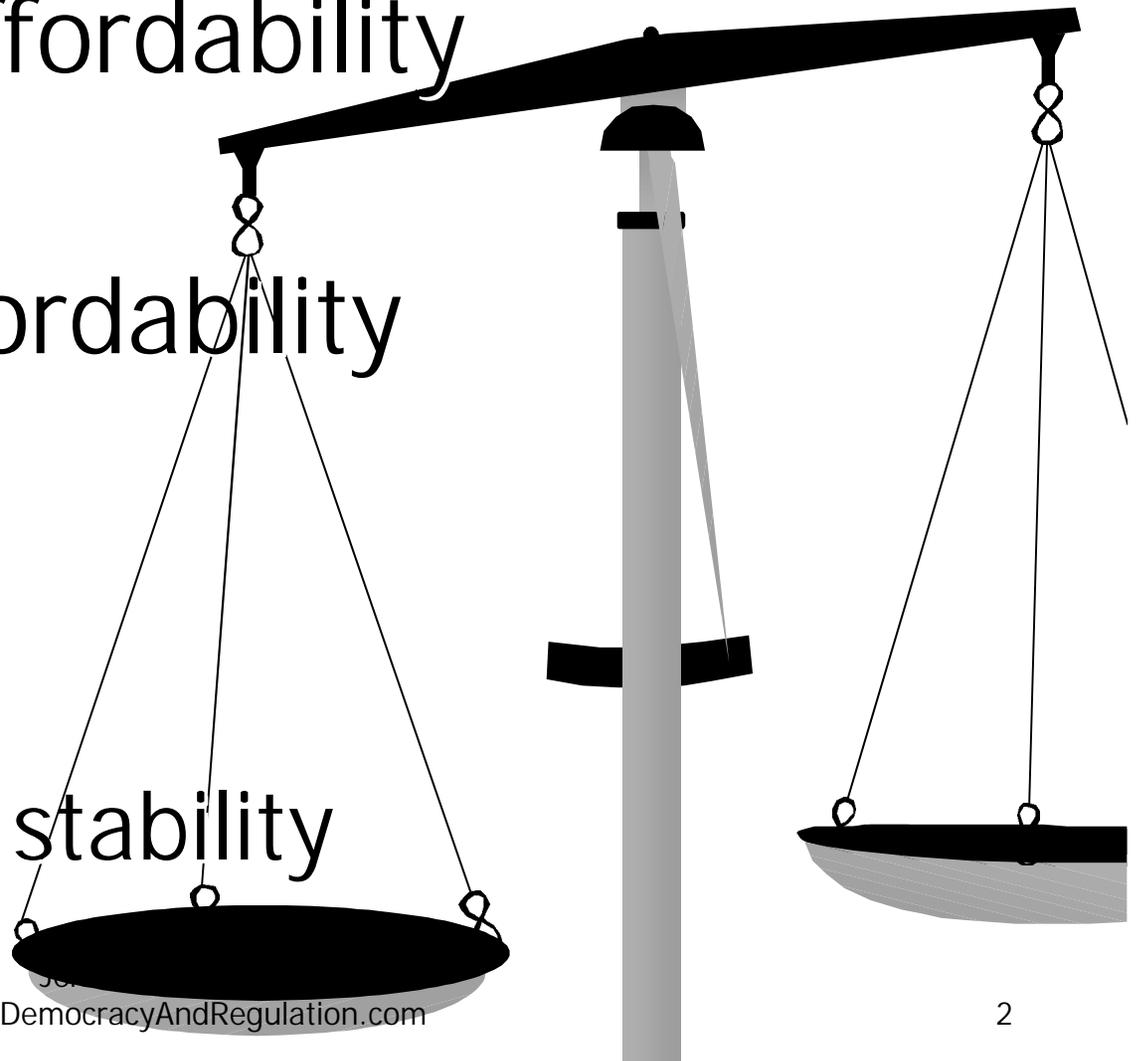
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978-283-0897

Competition and Choice

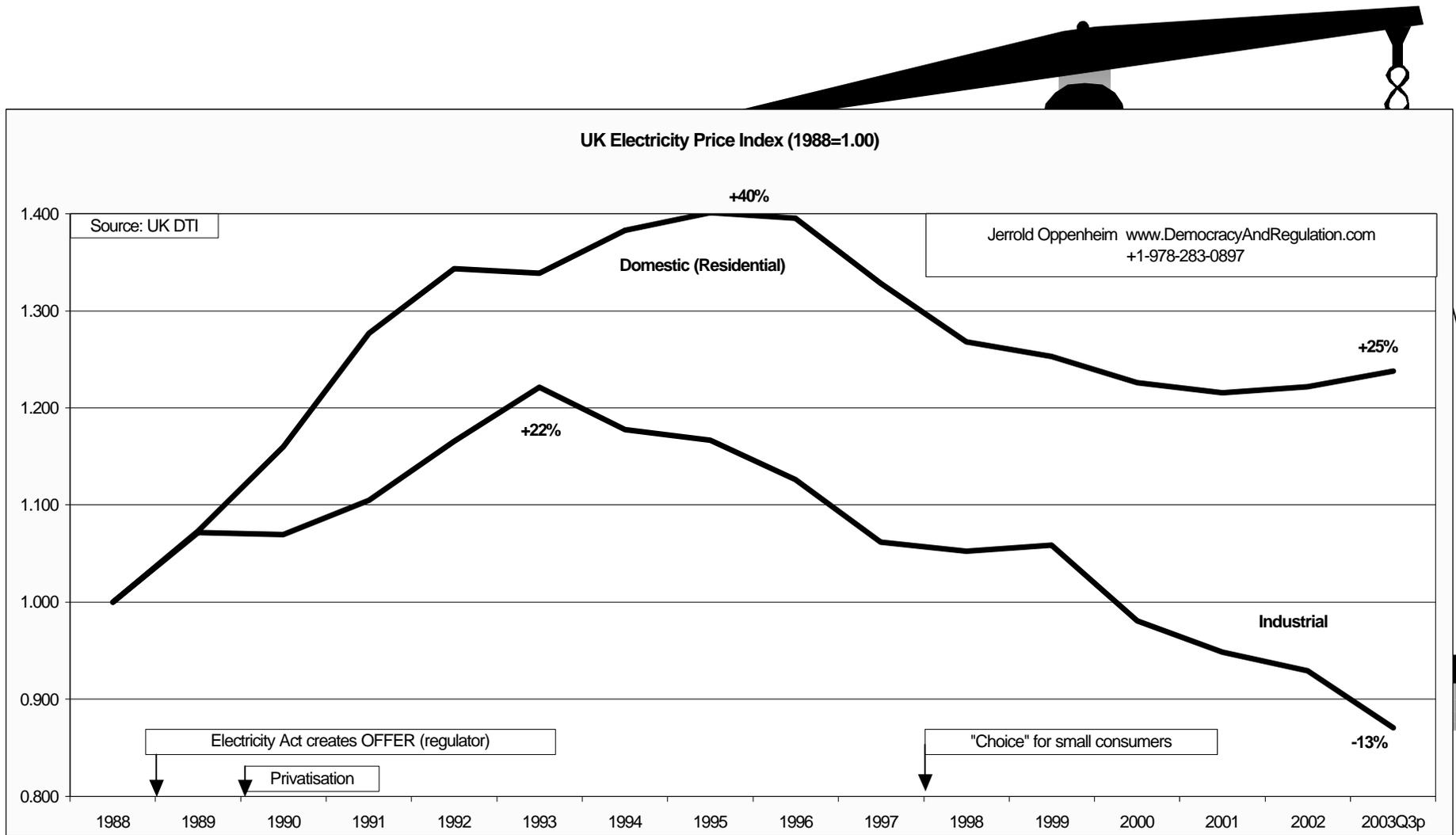
- Choice vs. affordability
- Tools for affordability
 - Regulation
 - Competition
 - Subsidy
 - Hedging for stability



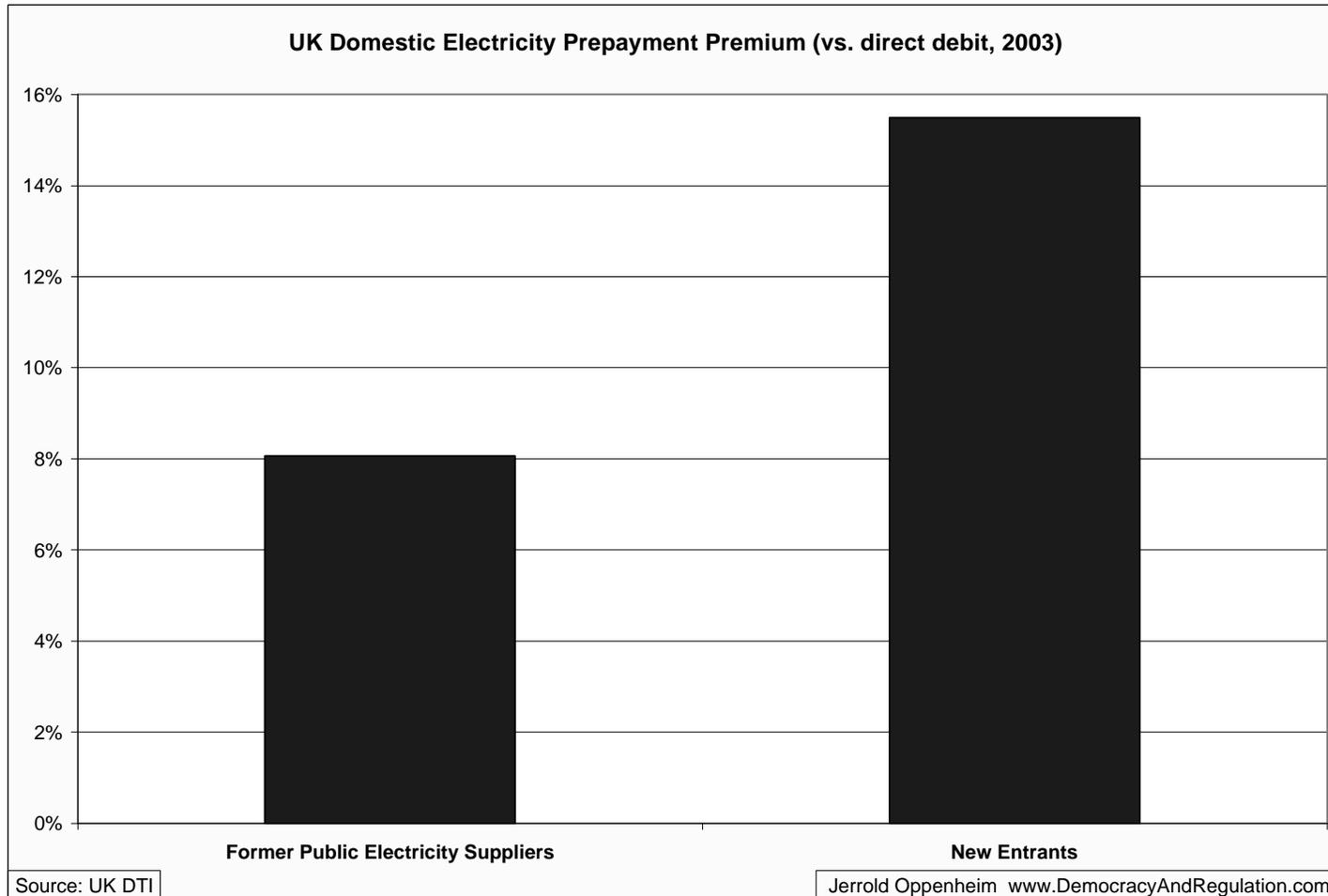
Do theoreticians know what consumers want? Do consumers *want* choice?

- Columbia/Stanford grocery store study: more choices, less buying
- Greenspan: variable rate mortgages cheaper
 - Homeowners: 75% choose fixed

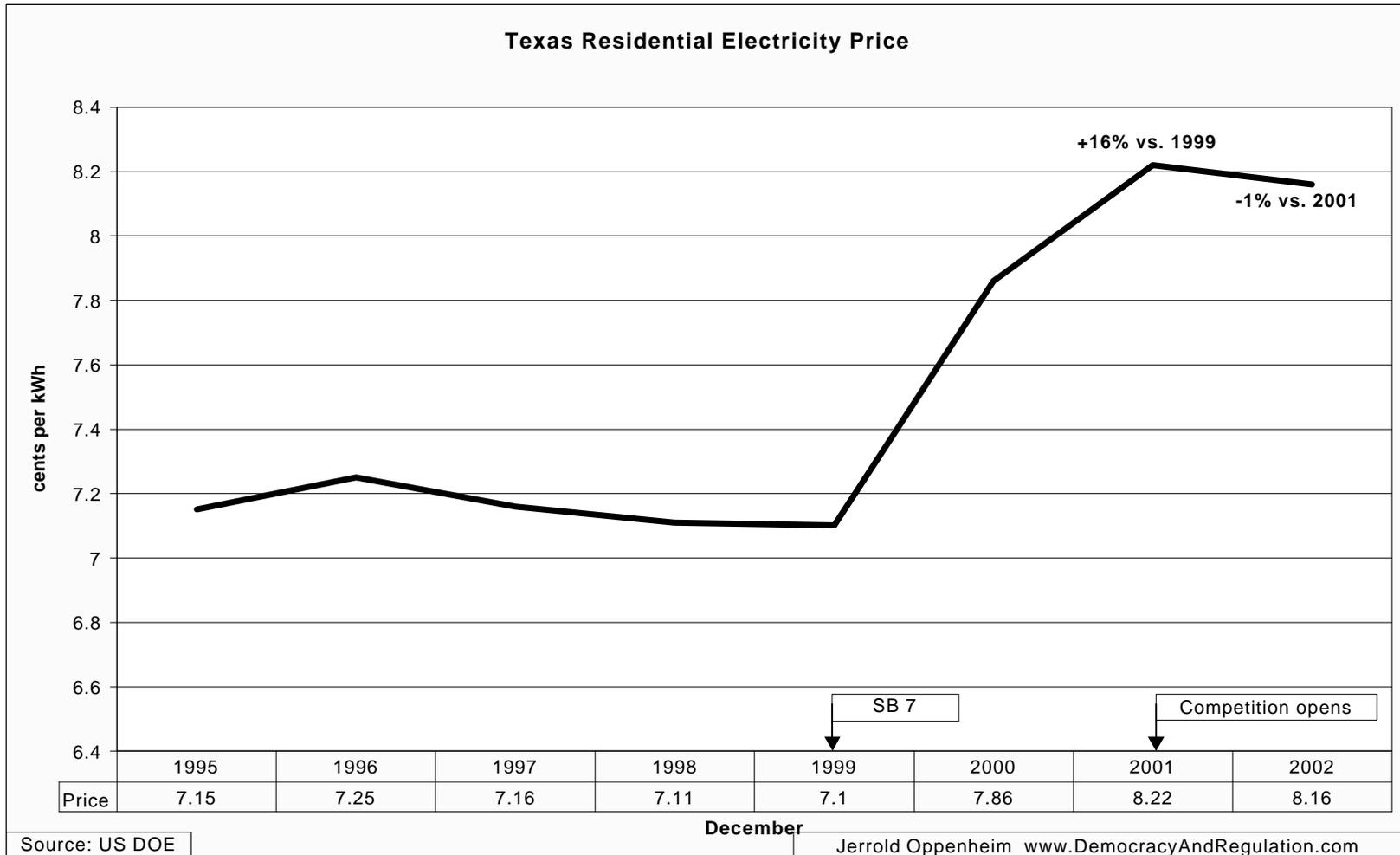
UK: Residential-Industrial Gap



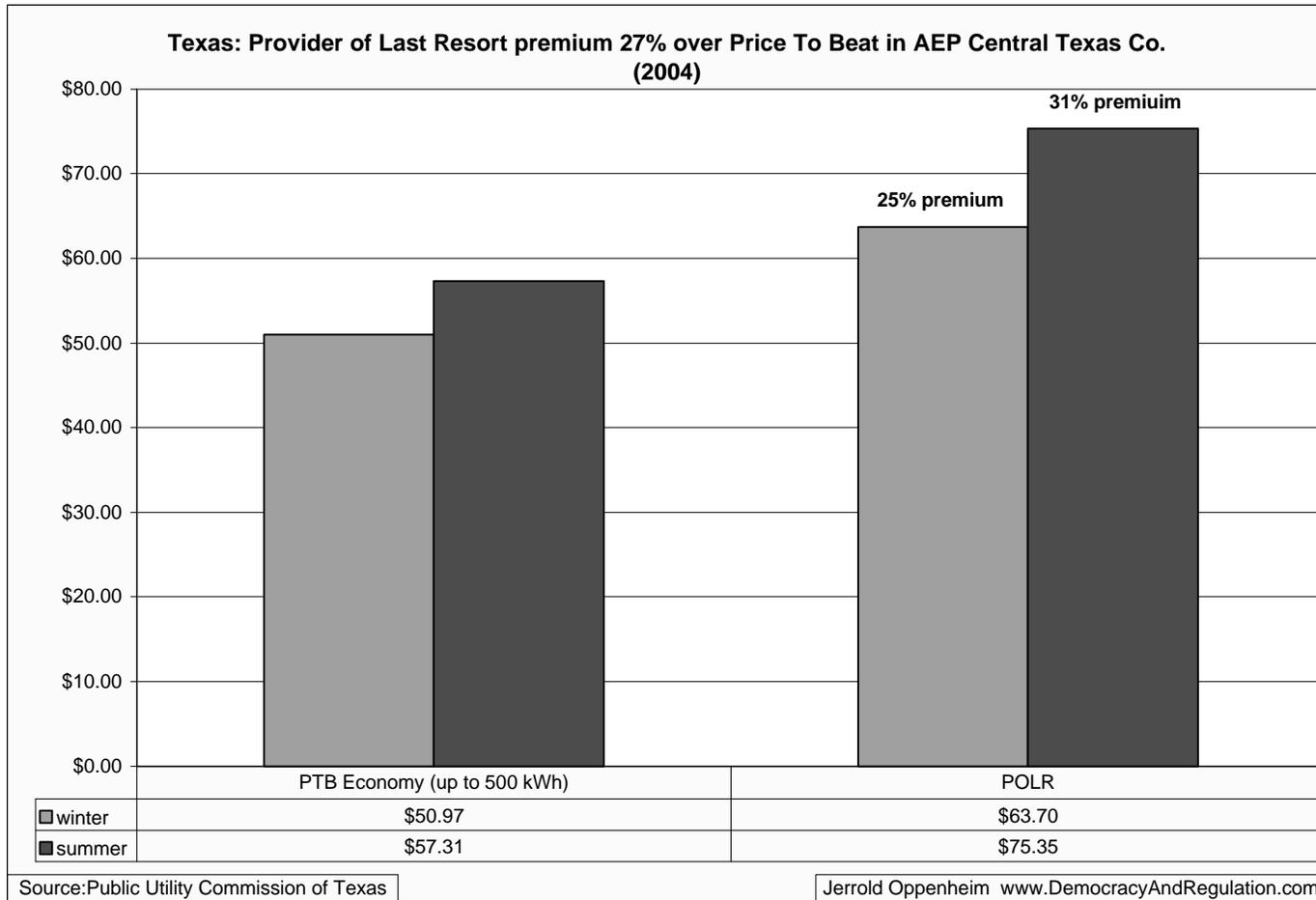
UK Redlining: Prepayment premium 15%



The Price of Texas Restructuring

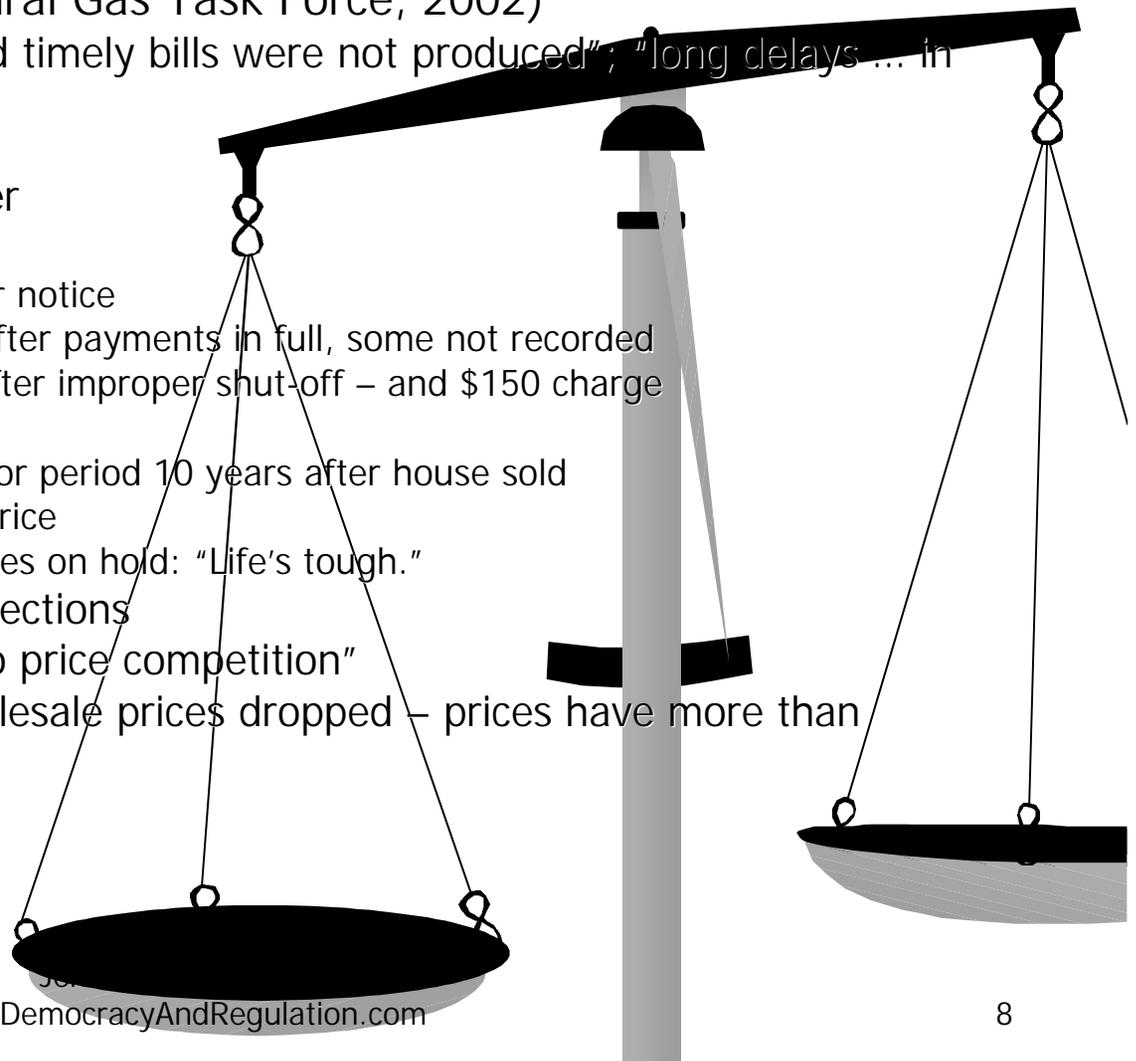


Texas Redlining: monthly POLR premium 27%



Chaos

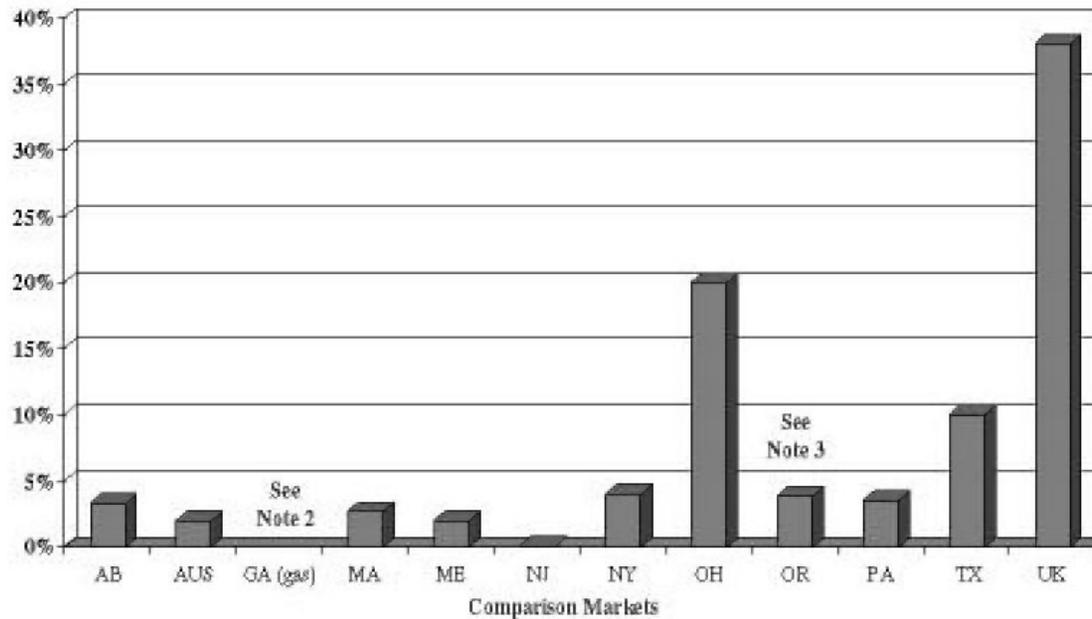
- GEORGIA (Blue Ribbon Natural Gas Task Force, 2002)
 - “for some time, reliable and timely bills were not produced”; “long delays ... in billing customers”
 - Slamming
 - Bankruptcy of market leader
 - Complaints grew 40-fold
 - Shut-offs without billing or notice
 - Shut-offs without notice after payments in full, some not recorded
 - Week to restore service after improper shut-off – and \$150 charge
 - 25%-100%+ late charges
 - Collection action for bills for period 10 years after house sold
 - Refusal to honor agreed price
 - Supervisor, after 77 minutes on hold: “Life’s tough.”
 - More than 100,000 disconnections
 - Oligopoly of 4 – “little or no price competition”
 - Prices rose even when wholesale prices dropped – prices have more than doubled [DOE EIA]
- TEXAS - Similar



60%-99%

Choose Not to Choose

[Chart: Eric Cody, "Massachusetts Electric Restructuring: Beyond the Standard Offer" (DOER, 2003)]



Notes:

1. Data shown are for varying reporting periods between 6/03 and 10/03; data are for residential or small customers, depending upon market area.
2. GA gas market was forced to 100% level in 1989 via direct assignment of customers who had not made a choice.
3. Residential switching not permitted in OR – data represent % of customers selecting regulated portfolio options

Figure 2. Residential Customer Switching Rates (%) in 2003

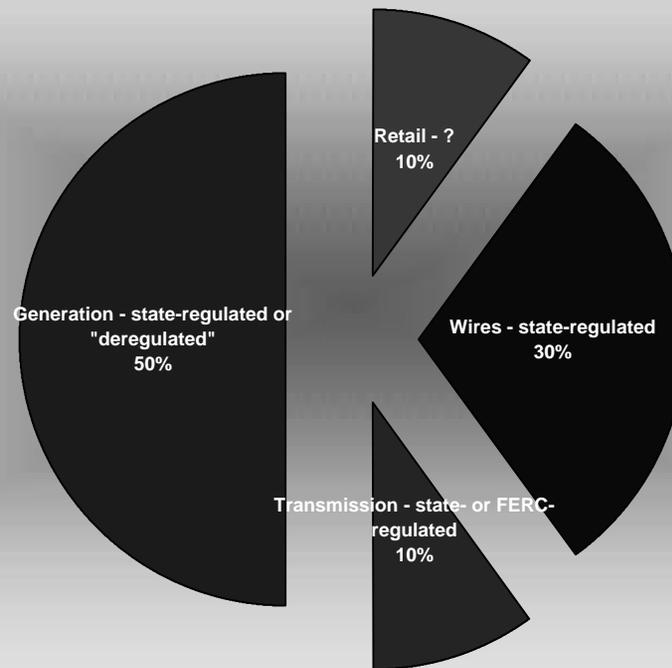
Ohio customers pay \$3.21 for every dollar they save

Cleveland		cents per kWh
"Shopping credit"		
From utility	3.37000	
From customer	<u>1.51650</u>	(deferred 5 years without carrying charge)
Total	4.88650	
Competitive price	4.59331	
Customer Saves	0.29319	6.00%
For which customer has paid, on a present value basis (10% discount rate)		
	0.94163	3.21 x savings
Net Customer Cost	(0.64844)	

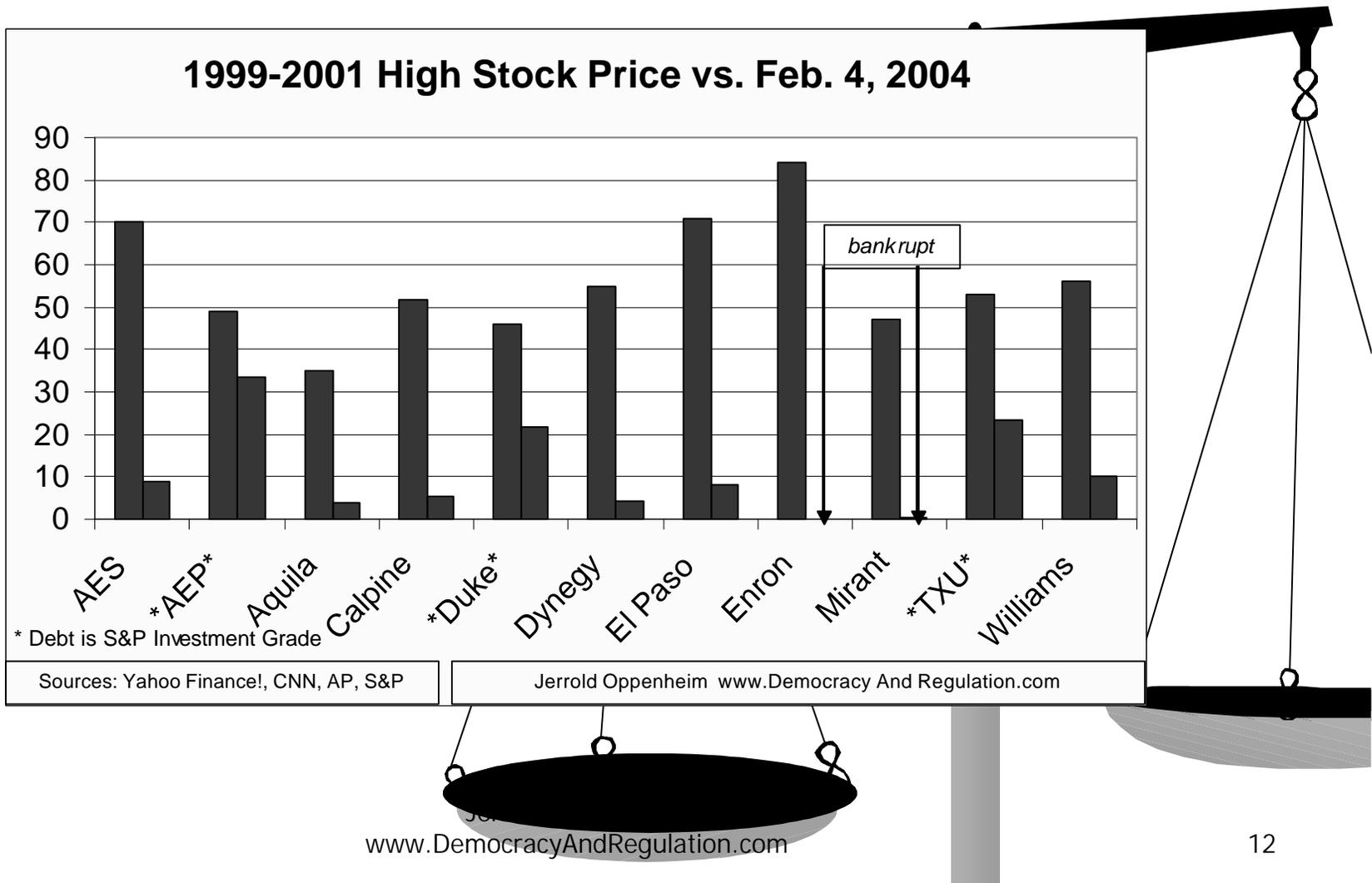
Sources: PUCO, CEI, GMP, NOPEC

Can retail competition ever significantly lower total prices?

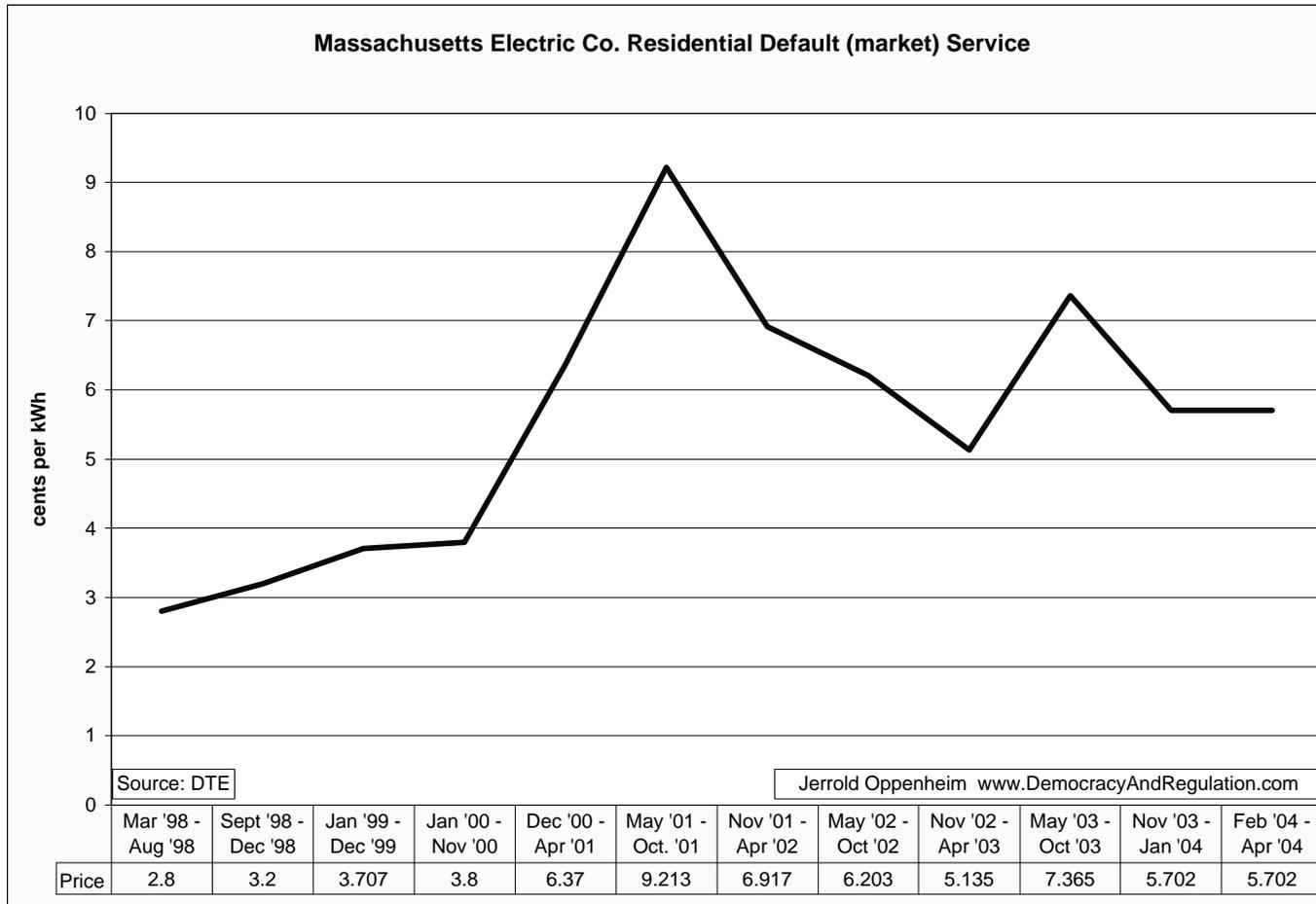
Elements of rates (generic)



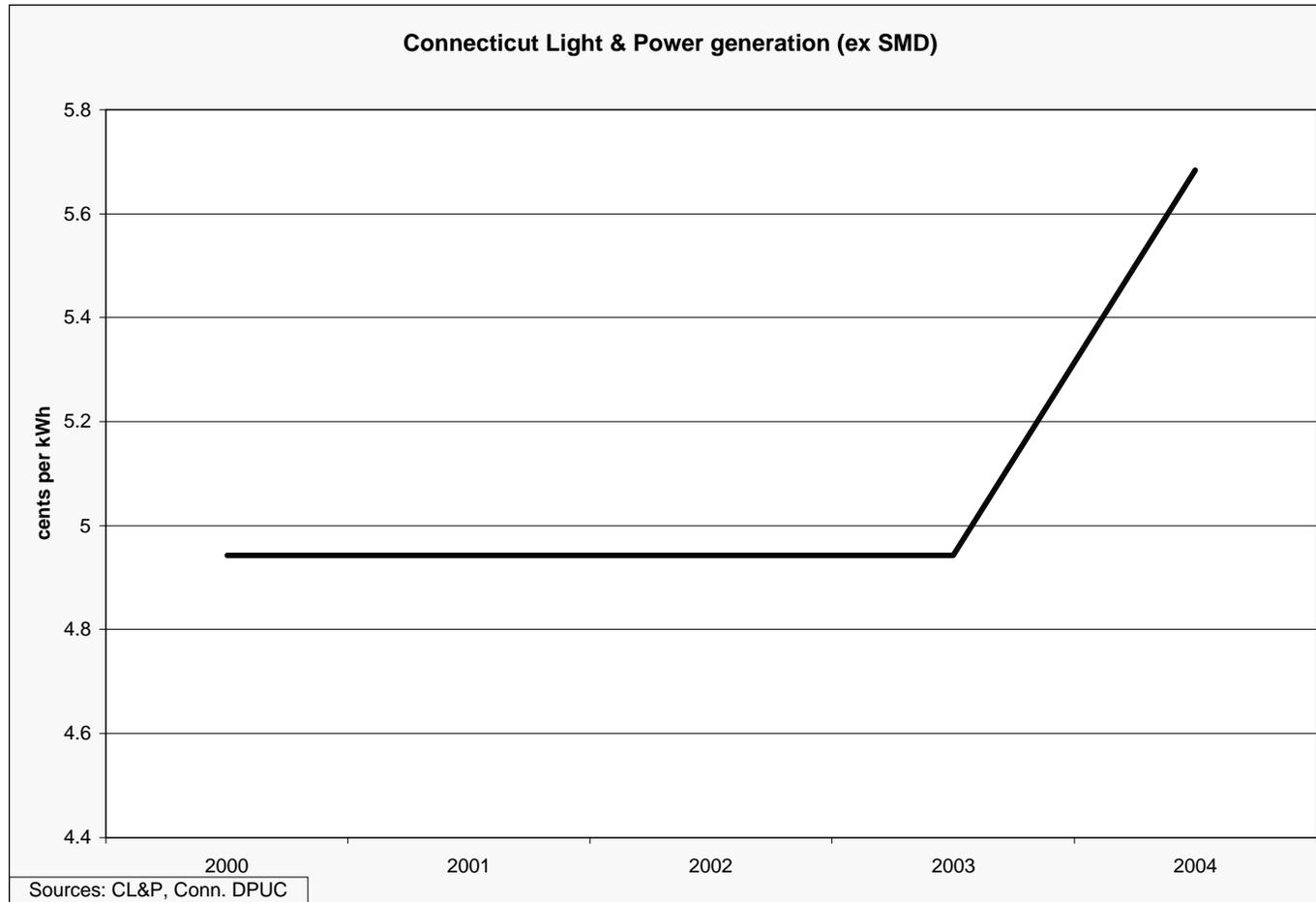
Is the market reliable?



MECo: 79% price variation in 4 years under Mass. rules



Connecticut: 4 stable years, then Mt. Everest

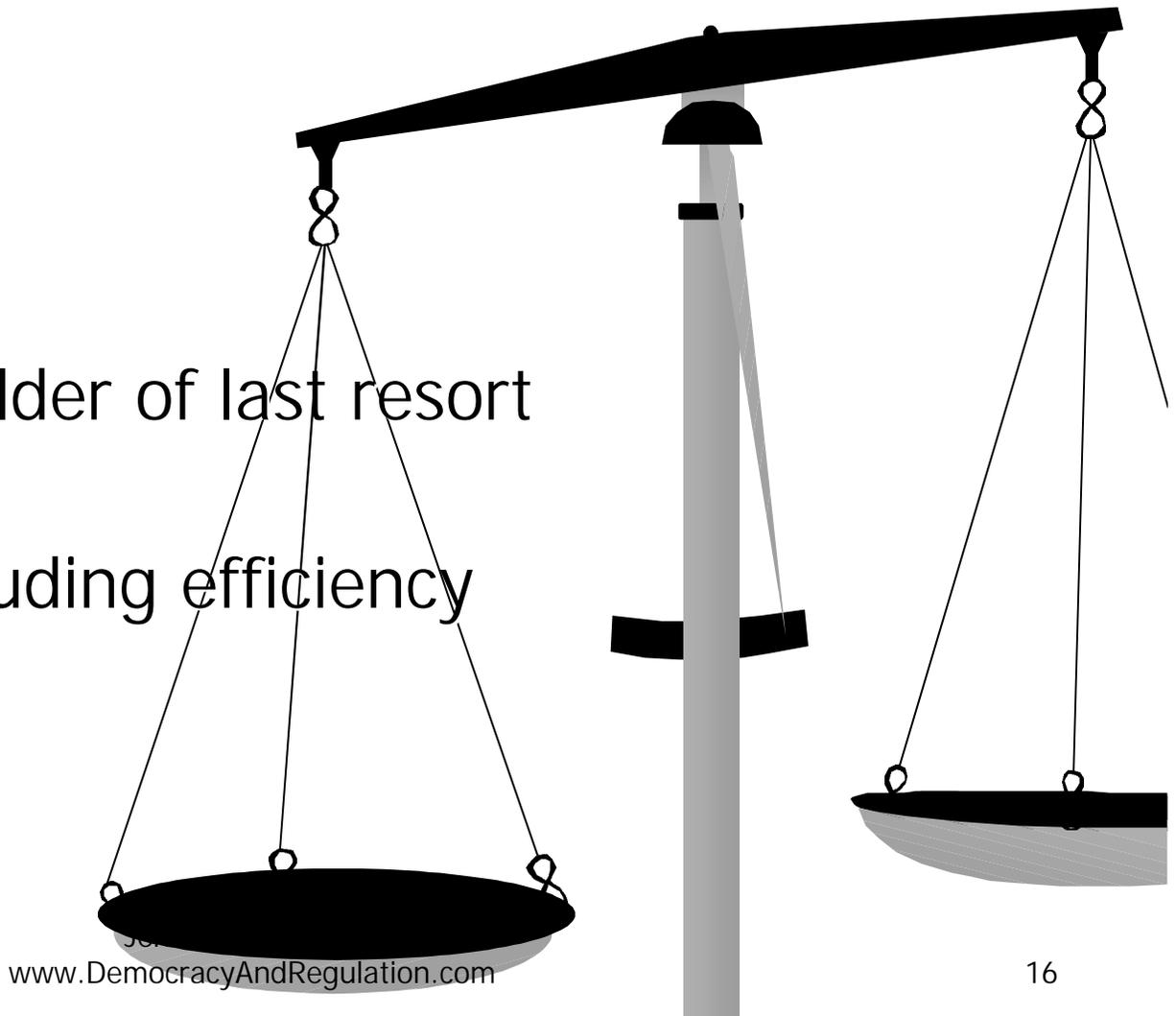


Connecticut legislative solution: “Laddering” vs. price volatility

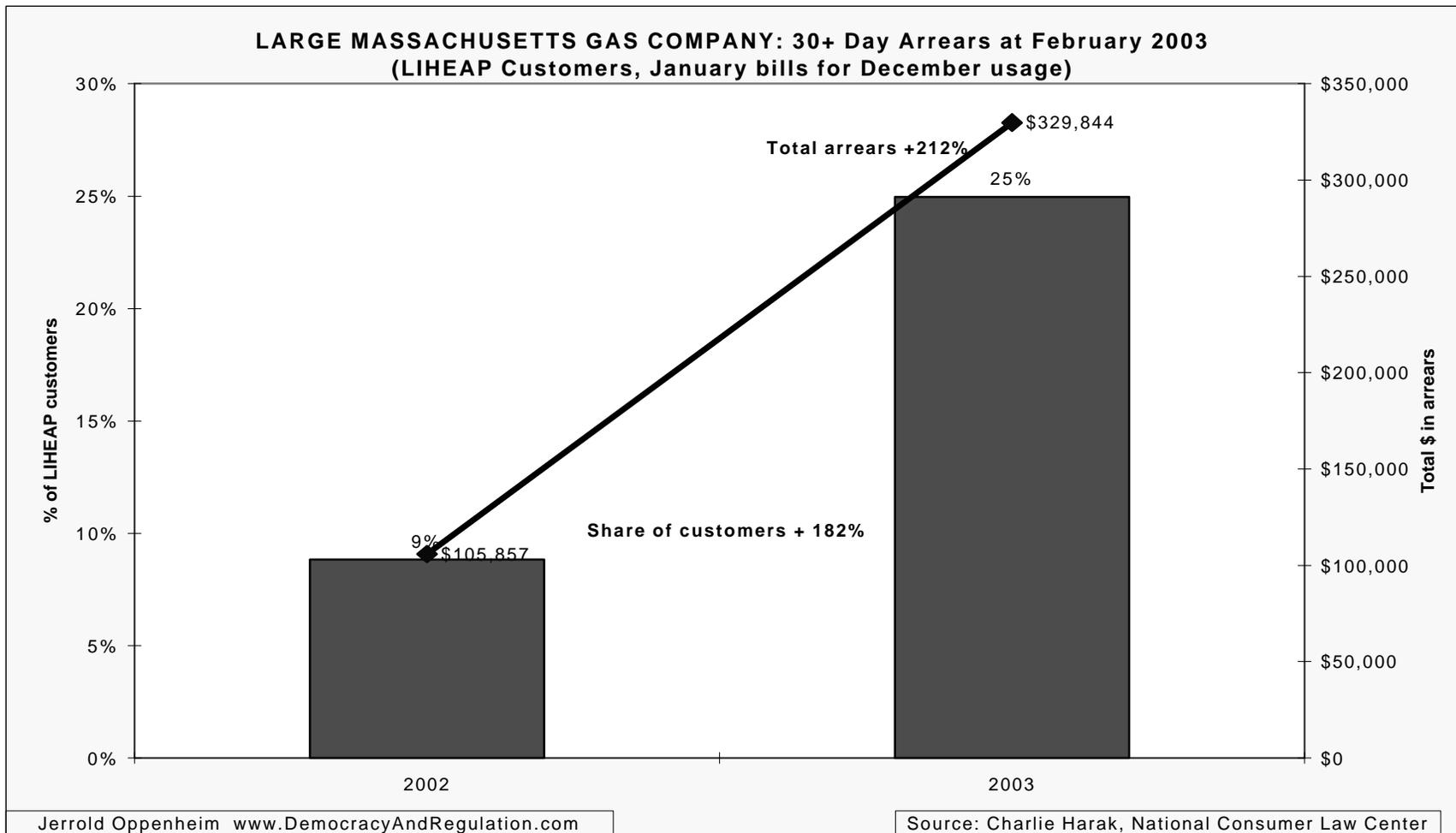
- The department shall mitigate the variation of the price of the default service by requiring each distribution company to procure electric generation contracts in the manner prescribed in a plan approved by the department. Such plan shall require the procurement of a portfolio of contracts sufficient to meet the projected load of the default service. Such plan shall require that a portfolio of multiple contracts be procured in an overlapping pattern of fixed periods at such times and in such manner and duration as the department determines to be most likely to produce just, reasonable and reasonably stable retail rates. The portfolio of contracts shall be assembled in such manner as to invite wholesale competition; guard against favoritism, improvidence, extravagance, fraud and corruption; and secure a reliable electricity supply while avoiding unusual, anomalous or excessive pricing. The portfolio of contracts procured under such plan shall be for terms that vary between six months and the maximum number of years reasonably procurable. (Proposed in Mass.)
- Section 16-244c of the Connecticut General Statutes, Public Act No. 03-13 (2003)

Portfolio management

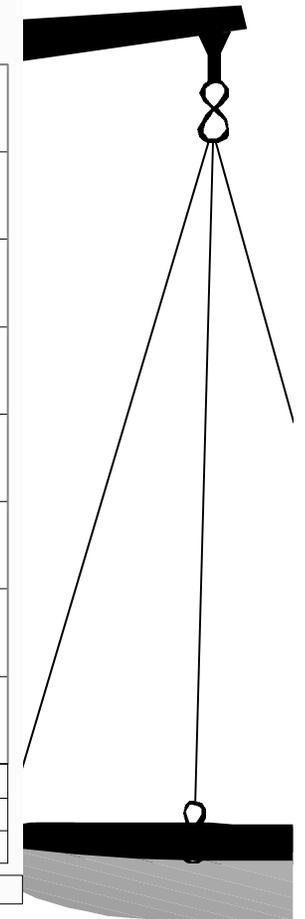
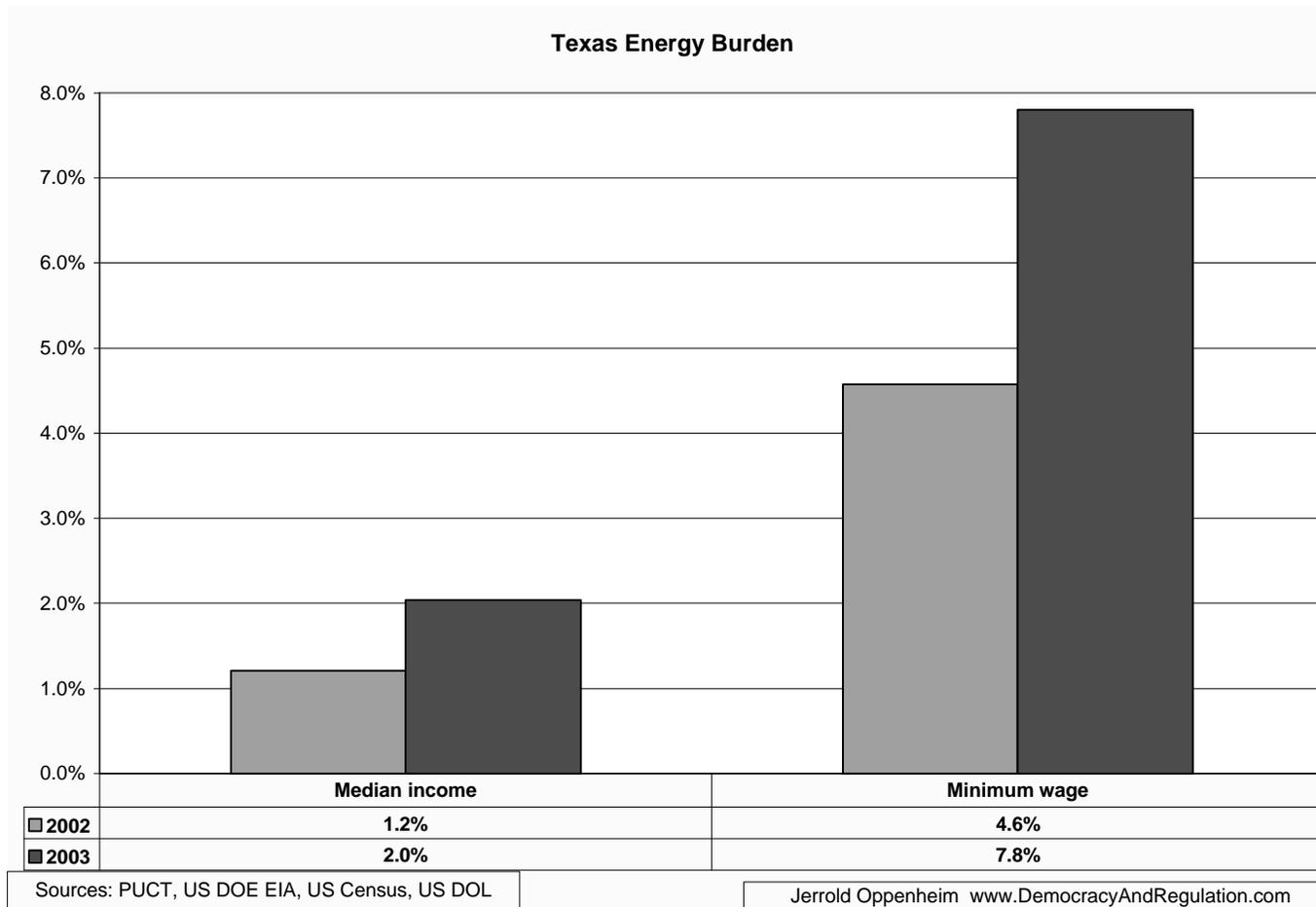
- Price stability
- Allocate risk
- Reliability – builder of last resort
- Least-cost, including efficiency
- Renewables



Crisis: Low-income arrears triple

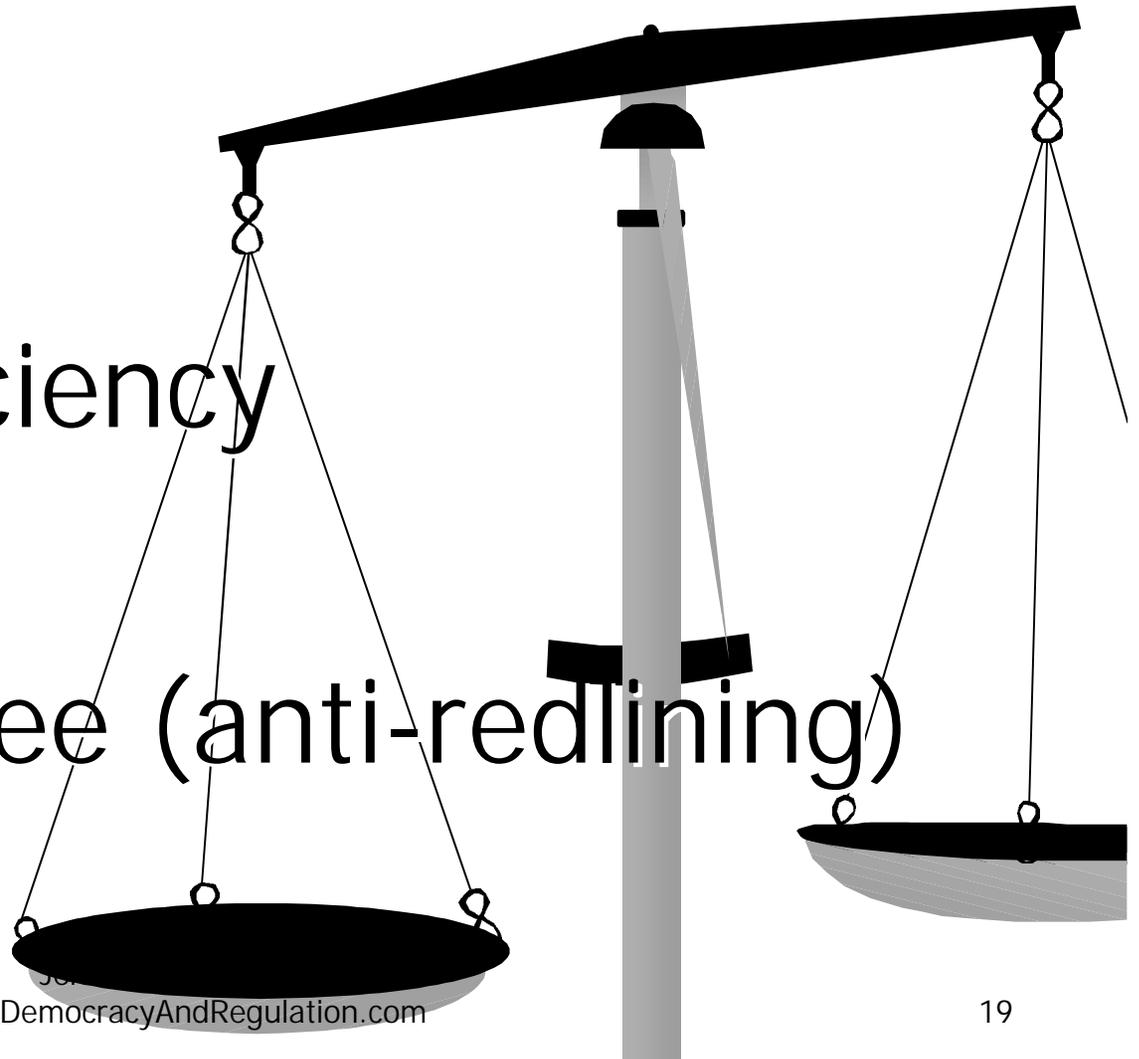


Energy burden



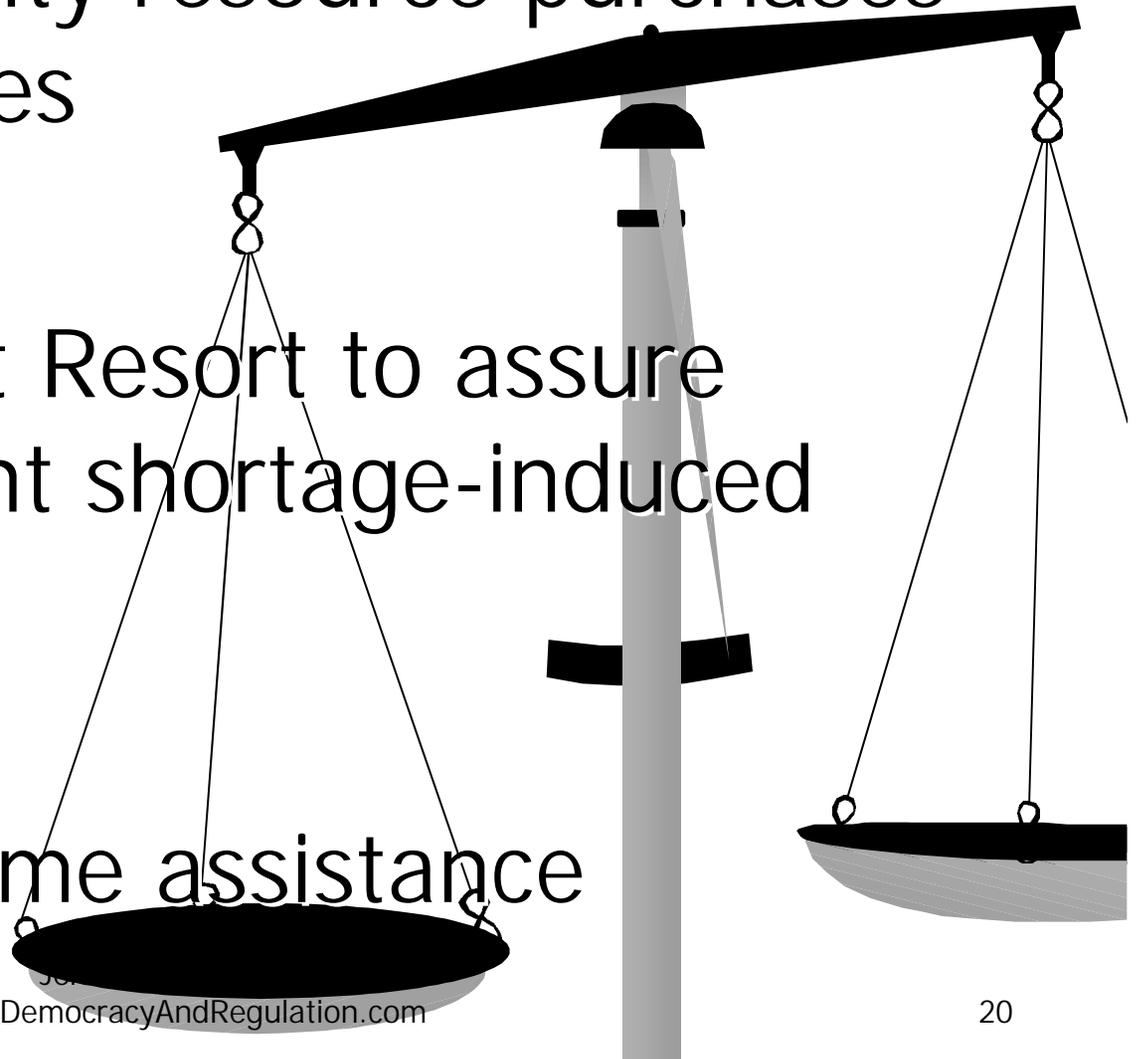
Low-income protections effectively administered by public utilities

- Discount
- Energy efficiency
- Bill guarantee (anti-redlining)



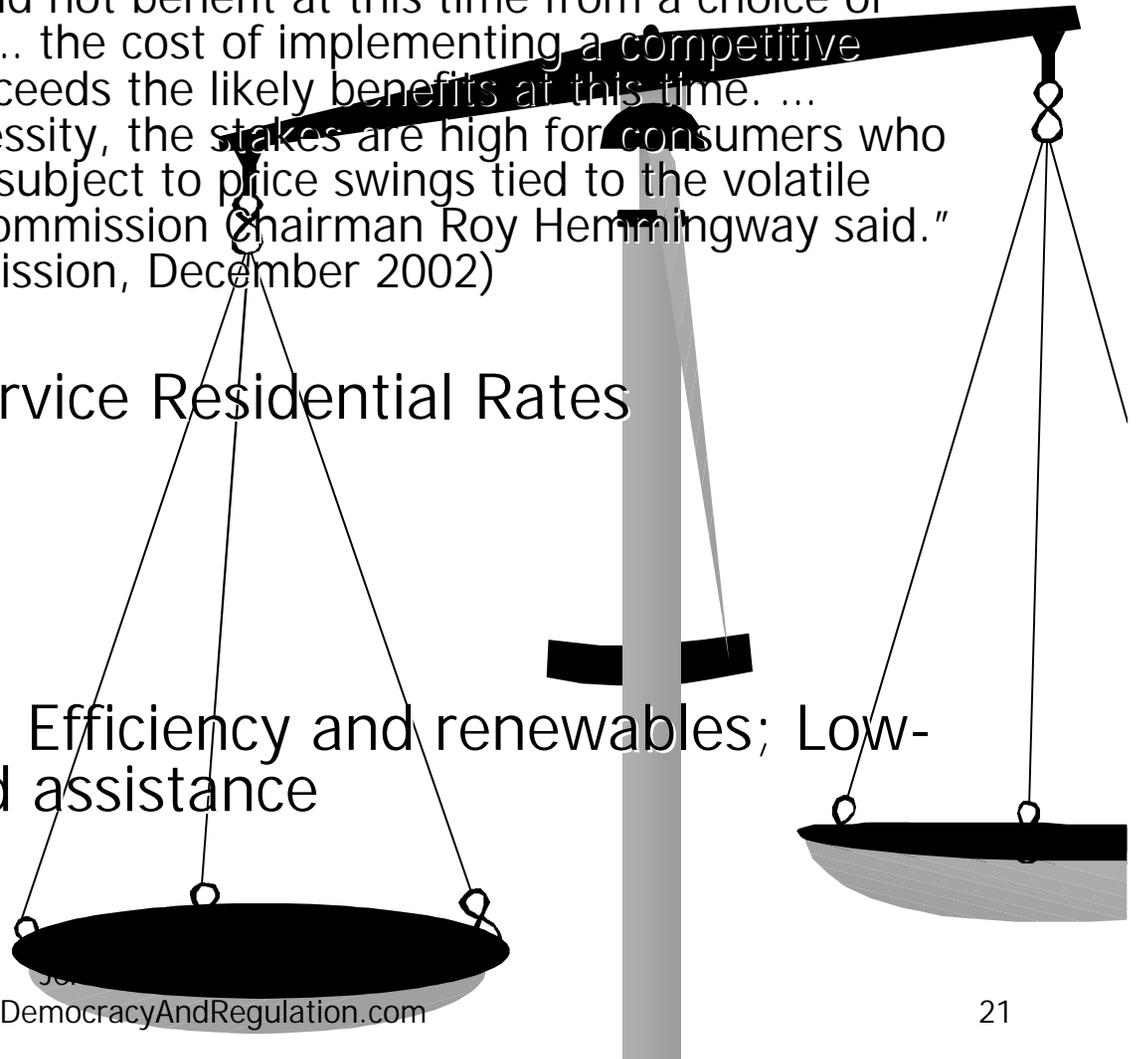
What should we do?

- Long-term utility resource purchases for stable prices
- Builder of Last Resort to assure supply, prevent shortage-induced price spikes
- More low-income assistance



Oregon Model

- “Residential consumers would not benefit at this time from a choice of competing power suppliers ... the cost of implementing a competitive residential power market exceeds the likely benefits at this time. ... ‘Because electricity is a necessity, the stakes are high for consumers who unwittingly find themselves subject to price swings tied to the volatile wholesale power market,’ Commission Chairman Roy Hemmingway said.” (Oregon Public Utility Commission, December 2002)
- Regulated Cost-of-Service Residential Rates
 - Long-term contracts
 - Utility green options
 - Utility TOU option
- Market option
- System Benefit Fund: Efficiency and renewables; Low-income efficiency and assistance



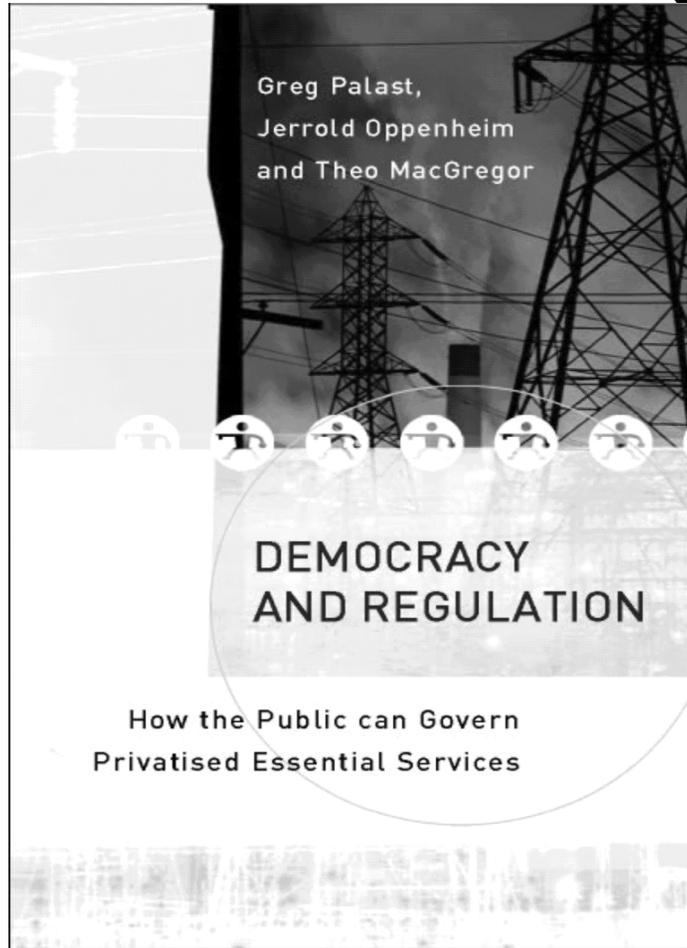
Competition or affordability?

...it must be emphasized that the *creation of competition is beneficial only if it produces savings for ratepayers*. The payment of higher prices to create a competitive market, just for the sake of having a competitive market, is economic logic turned upside down. The Commission rejects it.

...If a competitive residential market is going to develop, it should be through a natural development, not through the imposition of artificially inflated prices designed to benefit the marketers and suppliers to the detriment of residential ratepayers.

- Narragansett Electric Co., 216 PUR4th 232, 246 (RI PUC, Feb. 15, 2002) (citation to quoted 1998 orders omitted, emphasis in original)

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About the Speaker

Jerrold Oppenheim is an independent consultant and attorney who has advised and represented low-income and other utility consumer advocates, labor unions, government agencies, and utilities across the country for more than 30 years. A graduate of Harvard College and Boston College Law School, he led utility litigation and argued precedent-setting cases for four Attorneys General in New York State and Massachusetts and for Legal Services in Boston, Chicago and New York City. He has spoken and published on four continents, including *Democracy And Regulation* with Theo MacGregor and Greg Palast, published by Pluto Press (London).