Energy Choice: State Policy Considerations

Governor’s Committee on Energy Choice

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Glen Andersen
NCSL Energy Program Director
Status of Retail Choice

Source: Energy Information Administration
Illinois

- Customer Choice Act (1997)
  - Reduced residential rates by approximately 20 percent of 1997 levels and froze them for a decade
  - Retail choice was phased in from 1999 to 2002
- Amendments between 2006 and 2007
  - Offered $1 billion in rate relief
  - Created Office of Retail Market Development within the Illinois Commerce Commission
  - Allowed municipal corporate authorities to aggregate residential and small commercial retail electric loads in their jurisdiction and solicit bids for service
Illinois

- Amendments between 2006 and 2007
  - Illinois Power Agency Created in 2007
    - Default suppliers (ComEd and Ameren) use the Agency to procure supply on the market. Submit plans to PUC for rate cases.
    - Utility assumed payment collection and provided consolidated billing (line charges and supplier bill), then pays supplier. Alternative suppliers can’t turn off service but utility can.
  - Implementation completed around 2012, and suppliers entered the market
Illinois

- Between 56 and 67 percent of residential customers in Ameren zones have alternate suppliers while the rate is 35 percent in ComEd
- 2012-14 alternative suppliers were saving $139, but paying $87 more by 2017

<table>
<thead>
<tr>
<th>Planning year Ending in May</th>
<th>Annual Savings compared to ComEd’s PTC (in million)</th>
<th>Annual Savings inclusive of the PEA Impact (in million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$17.2</td>
<td>$24.2</td>
</tr>
<tr>
<td>2013</td>
<td>$250.8</td>
<td>$257.5</td>
</tr>
<tr>
<td>2014</td>
<td>-$40.2</td>
<td>$38.7</td>
</tr>
<tr>
<td>2015</td>
<td>-$12.3</td>
<td>-$73.4</td>
</tr>
<tr>
<td>2016</td>
<td>-$79.7</td>
<td>-$115.2</td>
</tr>
<tr>
<td>2017</td>
<td>-$131.4</td>
<td>-$152.1</td>
</tr>
<tr>
<td>Six-year Total</td>
<td>$4.4</td>
<td>-$20.3</td>
</tr>
</tbody>
</table>
By 2013, residential switching reached 25 percent.
By 2015, 70% residential market in ComEd switched, but decreased to 35% by 2017.
Slightly more than half were with municipal aggregators.
Texas

- Senate Bill 7 (1999)
  - Designated a Provider of Last Resort (incumbent utility)
  - Requires customers to start with an affiliated retailer – no default service
  - T&D provider still regulated
  - Established an effective date of January 1, 2002
  - Certification process for Retail Electricity Providers
  - Established “Price to Beat” for 2002-2007
    - Prevents incumbent providers from undercutting new entrants’ prices
    - Price floor for incumbents
Texas

- **Senate Bill 7**
  - Allowed munis and co-ops to opt into retail choice (just one co-op so far)
  - Mandated Energy Efficiency
    - Implemented by Transmission Distribution Utilities
    - Funded through surcharge on electric bills
    - Reduce customers’ energy consumption as well as electric peak demand
    - Legislation sets EM&V requirements and goals
  - In 2016, 109 retail providers were operating in ERCOT, providing 440 total unique products, 97 of which provided 100% renewable sources
Texas

- **Texas Power To Choose Website**
  - Providers will try to game search results and try to create plans that exploit search parameters
  - Electricity facts one pager summarizes offer is required to be posted.
  - Filters minimum usage fees (legislation to ban them failed)
  - Shows providers’ complaint records
  - Even with requirements, can be hard to compare plans: i.e. some charge is 1.5 cents per kwh up to 1,000 kwh and 8.8 cents for more than 1,000
Texas

- **Rates**
  - 92% of Residential and 98% of non-residential customers have switched providers since the market opened in 2002
  - Average across all available plans in the competitive market was 9.8 cents per kWh in 2016
  - Fixed and variable rates lower than nationwide average of 13.45 cents

<table>
<thead>
<tr>
<th>TDU Service Territory</th>
<th>Last Regulated Rate (2001), ¢/kWh</th>
<th>Last Regulated Rate, Adjusted for Inflation</th>
<th>Current Lowest Fixed Price</th>
<th>Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>AEP Central</td>
<td>9.6</td>
<td>13.1</td>
<td>5.6</td>
<td>-57.25%</td>
</tr>
<tr>
<td>AEP North</td>
<td>10.0</td>
<td>13.6</td>
<td>5.0</td>
<td>-63.24%</td>
</tr>
<tr>
<td>CenterPoint</td>
<td>10.4</td>
<td>14.1</td>
<td>5.4</td>
<td>-61.7%</td>
</tr>
<tr>
<td>Oncor</td>
<td>9.7</td>
<td>13.2</td>
<td>4.5</td>
<td>-65.91%</td>
</tr>
<tr>
<td>TNMP</td>
<td>10.6</td>
<td>14.4</td>
<td>5.0</td>
<td>-65.28%</td>
</tr>
</tbody>
</table>

2017 Report to the 85th Texas Legislature: Scope of Competition in Electric Markets in Texas
Pennsylvania

- Electricity Generation Customer Choice and Competition Act (1996)
  - Legislature worked in close collaboration with the PUC in drafting legislation
  - Default Service Provider – regulated and must pass through cost of generation – can’t lowball or overcharge
  - Rate caps were removed by 2011, retailers started entering the market in 2010
  - One year pilot phase-in period for 5% of customer base to identify and sort out challenges

- Legislation to require choosing a retail provider failed in 2013 after polar vortex rate spikes
Pennsylvania

- **Key Reforms**
  - Quick Switching – allow customers to quickly switch back to default provider—within 3 days in PA
  - Marketing regulations – required suppliers to verify enrollment through 3rd party to minimize slamming
  - Disclosure regulations – craft rules that help customer navigate new offerings but don’t hinder innovation
  - Electronic Data Exchange Working Group – data exchange between utilities and suppliers is key to a functioning market
Pennsylvania

**Outcomes**

- Between 1996 and 2011, rate caps were removed in individual utility regions one after another
- Switching rates from January 2018
  - Residential 33%
  - Commercial 85%
  - Industrial 97%
- Low Income
  - Support of EE for lower incomes
  - Bills capped to percentage of income
  - 70% of the low income customers who switched from default service paid more (Kleinman Center for Energy Policy - University of PA)
Pennsylvania

- **Rate Impacts**
  - From 2011 to 2014, Commercial and Industrial rates generally lower than default service rates
    - 5 to 56% lower than 1996
  - Residential rate generally higher
    - 2 to 41% lower than in 1996
  - Distribution prices
    - Down for commercial and industrial sector
    - Up for residential sector

https://kleinmanenergy.upenn.edu/paper/electricity-competition
Montana

  - California crisis introduced major volatility into the market
  - Couldn’t insulate itself from regional market fluctuations
  - Price caps expired after 2003
- State responded by passing nine bills in 2001
  - Waived taxes and other incentives for new generation in the state
  - Voters rejected major bill to save the industry in a 2002 referendum, which ended restructuring efforts
- Reregulated in 2007 with the Electric Utility Reintegration Act
Rate Impacts in Other States

- The *Maine* Public Utilities Commission found that, from 2014 to 2016, competitive electricity provider customers paid $77.7 million more than what they would have paid for standard offer service.

- In January 2013, *New York’s* attorney general found that 91.5 percent of upstate low-income consumers who’d switched were paying higher rates than if they’d stuck with the default provider utility.
Issue to Consider

- Providing an accurate, informative, and fair presentation of offers; setting parameters
  - Ensuring customers can easily distinguish differences in cost, services and benefits
  - Balance tension between distorting market and provide enough information, but not too much
  - Requirements for all electricity companies to advertise their plans with the same pricing details (kwh charges plus T&D)
  - Minimum usage rates discourage conservation, hurt low-income consumers and increase T&D costs; effect energy efficiency
  - Address minimum fees, low intro rates, early termination charges, contract length, and other details
  - PA website requires all disclosures and 1 page contract summary while new rulemaking addresses introductory pricing
Issue to Consider

- **Switching**
  - Ensure customers receive clear signals when switching
    - In Texas, ERCOT sends postcard notice before switching
    - In Pennsylvania, third party verification of switching
  - Provide significant penalties for slamming and cramming
  - Set switch hold policy

- **Reporting**
  - Biennial report to legislature in TX: Scope of Competition in Electric Markets
  - No reporting required in PA
  - Legislative reports required in IL
Conclusion

“Restructuring of the electric utility industry is not for the impatient, the weak-kneed, or the fainthearted.”

Contact Information

Glen Andersen,
Energy Program Director
Phone: 303-856-1341
glen.andersen@ncsl.org

Additional Resources
NCSL Energy and Environment Database
NCSL Energy Program