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Energy Choice: State Policy Considerations

Governor's Committee on Energy Choice

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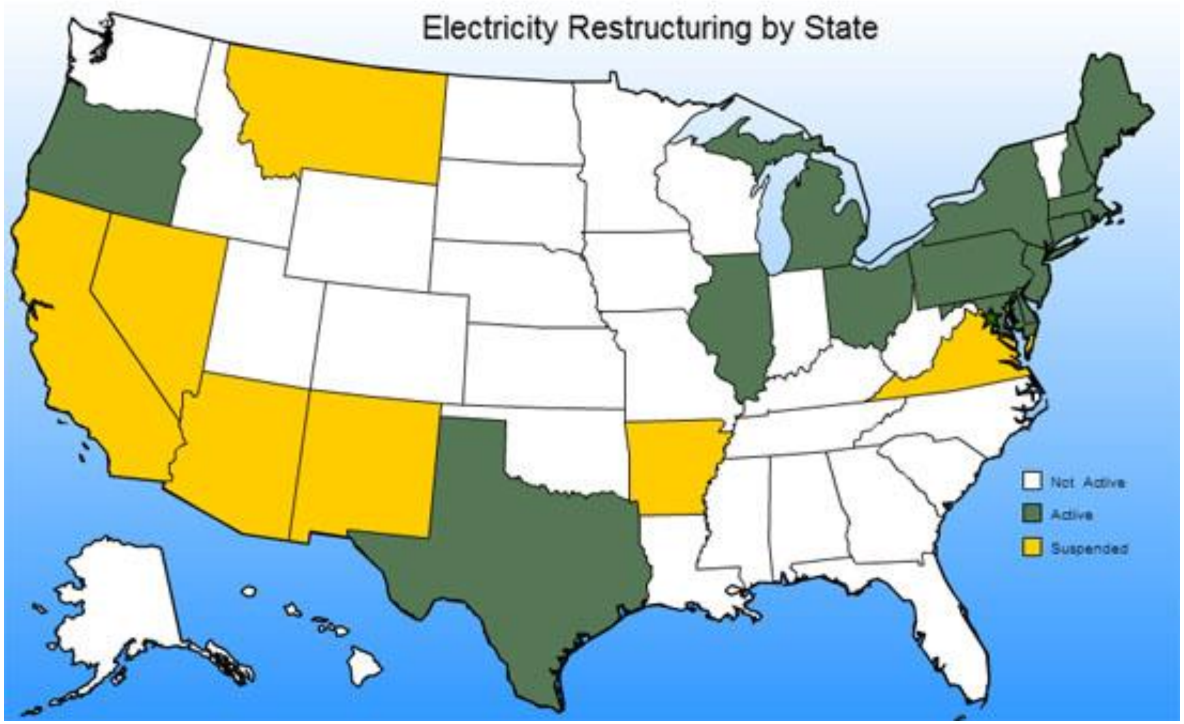
Status of Retail Choice



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 of 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

Planning year Ending in May	Annual Savings compared to ComEd's PTC (in million)	Annual Savings inclusive of the PEA Impact (in million)
2012	$17.2	$24.2
2013	$250.8	$257.5
2014	-$40.2	$38.7
2015	-$12.3	-$73.4
2016	-$79.7	-$115.2
2017	-$131.4	-$152.1
Six-year Total	$4.4	-$20.3

Illinois

- 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

Residential Customers on Competitive Supply

	May 2012	May 2013	May 2014	May 2015	May 2016	May 2017
Ameren Illinois Rate Zone I:	28,459	147,513	185,251	172,449	180,480	182,073
Ameren Illinois Rate Zone II:	12,752	138,163	140,439	129,211	126,871	127,439
Ameren Illinois Rate Zone III:	47,124	277,229	345,911	308,554	326,904	326,723
ComEd:	406,144	2,312,654	2,356,669	2,126,674	1,434,319	1,244,899
Total:	494,479	2,875,559	3,028,270	2,736,888	2,068,574	1,881,134
Ameren Illinois Rate Zone I:	8.7%	45.2%	63.9%	53.0%	55.6%	56.3%
Ameren Illinois Rate Zone II:	6.8%	73.2%	74.5%	68.5%	67.1%	67.4%
Ameren Illinois Rate Zone III:	8.7%	51.2%	63.9%	56.9%	60.2%	60.1%
ComEd:	11.9%	67.7%	68.5%	61.5%	40.9%	35.2%

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

TDU Service Territory[6]	Last Regulated Rate (2001), ¢/kWh[7]	Last Regulated Rate, Adjusted for Inflation	Current Lowest Fixed Price[8]	Percentage Change
AEP Central	9.6	13.1	5.6	–57.25%
AEP North	10.0	13.6	5.0	–63.24%
CenterPoint	10.4	14.1	5.4	–61.7%
Oncor	9.7	13.2	4.5	–65.91%
TNMP	10.6	14.4	5.0	–65.28%

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

- Montana Electric Utility Industry Restructuring and Consumer Choice Act (1997)
  - 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

Calendar Year	Weighted Average Prices ($/kWh) CEP	SOS	Percent Difference	Number of Customers with CEPs	Difference in Charges at CEP vs. SOS Price ($)
2016	$0.1011	$0.0649	55.8%	117,544	$28,739,752
2015	$0.1077	$0.0671	60.5%	136,139	$37,897,764
2014	$0.0834	$0.0744	12.0%	163,679	$11,032,570
TOTAL					**$77,670,086**

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."

- Montana Electrical Utility Industry Restructuring Transition Advisory Committee Report to the Governor and Legislature, December 2002.

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Additional Resources

NCSL Energy and Environment Database

NCSL Energy Program