How Deregulation is Impacting Low Income Households

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Outline

• What is deregulation?
  – Basic concept
  – Ways it is implemented

• Where is deregulation currently?
  – States with full residential choice
  – States with some choice
  – States with no choice yet

• Case studies
  – PA
  – IL

• Discussion
  – Does competition strengthen the safety net?
DEREGULATION Basics

- Delivery by traditional public utility infrastructure
- Suppliers sell energy to utility on customer’s behalf
- Gas & electric may work differently
  - Market differences
- Bill usually comes from traditional utility, but not necessarily
- Community aggregation
- Purchase of receivables
National Picture

• 29 states have choice of some kind
• Sometimes starts with commercial/industrial first
  – ??? was first
  – Tennessee is newest
• Gas choice is more widespread than electric
• Regional flavors –
  – Enrollment limited by time or number
  – CA special name
National News

• New York banned suppliers
• Ohio, PA bad press
What is the estimated impact on the full (actual) bill of OnTrack members?
Time Period Used: January 2012 – October 2015 (46 months or 3.8 years)

1. Average number of customers each month where the price paid was above the PTC = 9,626.
2. For those customers above the PTC, average price paid = $0.11048.
3. Average usage per month for customers above PTC was 1,197 KWH.
4. The average PTC across this timeline was $0.08475. If I did not shop I would have paid this.
5. Average monthly energy charge, if on PTC (actual bill) = $101 (1,197 x $0.08475)
6. Average monthly energy charge at the price above (actual) = $132 (1,197 x $0.11048)
7. Difference (each month) = $31
8. The (monthly) difference for all customers above the PTC = $298,406 (9,626 x $31)
9. The impact over 12 months = $3,580,872 ($298,406 x 12)
10. The impact over 18 months = $5,371,308 ($298,406 x 18)
Estimate the impact for customers at/below the PTC

What is the estimated impact on the full (actual) bill of OnTrack members?

Time Period Used: January 2012 – October 2015 (46 months or 3.8 years)

1. Average number of customers each month where the price paid was at/below the PTC = 7,750.
2. For those customers at/below the PTC, average price paid = $0.07772.
3. Average usage per month for customers at/below PTC was 1,294 KWH.
4. The average PTC across this timeline was $0.08475. If I did not shop I would have paid this.
5. Average monthly energy charge, if on PTC (actual bill) = $110 \( (1,294 \times 0.08475) \)
6. Average monthly energy charge at the price at/below (actual) = $101 \( (1,294 \times 0.07772) \)
7. Difference (each month) = $9
8. The (monthly) difference for all customers at/below the PTC = $69,750 \( (7,750 \times 9) \)
9. The impact over 12 months = $837,000 \( (69,750 \times 12) \)
10. The impact over 18 months = $1,255,500 \( (69,750 \times 18) \)
Estimate the net impact

Look at shopper non-savers versus savers, as compared to the PTC

Time Period Used: January 2012 – October 2015 (46 months or 3.8 years)

Those Paying Above PTC

7. Difference (each month) = $31
8. The difference, above = $298,406
9. The impact, 12 mos. = $3,580,872
10. The impact, 18 mos. = $5,371,308

Those Paying At/Below PTC

7. Difference (each month) = $9
8. The difference, below = $69,750
9. The impact, 12 mos. = $837,000
10. The impact, 18 mos. = $1,255,500

1. Net (each month) = $22
2. Net effect, monthly = $228,656
3. The impact, over 12 months = $2,743,872
4. The impact, over 18 months = $4,115,808
PA Retail Choice: PECO
PA OCA shopping principles

• Shopping ensure LI remain on LI program, meet payment obligations of LI program, and receive the benefits of LI program.

• Shopping should not increase the costs of the LI program to nonparticipating whether by increasing LI discounts or by increasing admin costs.

• Shopping should not increase program costs of LI program to nonparticipants by adversely affecting ability to pay.
PA Retail Choice: PECO
Affordability concerns

• No adverse impact of shopping on affordability.
• Affordability measurement:
  – Incidence of unaffordability
  – Depth of unaffordability
• Ambiguities (total rate less than LI rate)
  – Signing bonus not part of rate
  – Initial discount not part of rate
• Impacts of higher EGS prices beyond individual:
  – Higher uncollectibles
  – Higher credit and collection
  – Higher working capital
PA Retail Choice: PECO
Implementation issues

• EGS rate lower than price-to-compare.
• Maintain customers on LI rate until end of EGS contract.
• EGS customer enrolling in LI rate gets transferred without fees.
• EGS does/does not keep LI when customer ends LI participation.
• Issues relating to allocation of implementation costs of LI shopping.
PA Retail Choice: PECO Education Issues

• Risk of excessive “education”.

• Balance need for ongoing education vs over-burden.

• Impacts of LI rate churn.
  – Leave LI program but remain on system: implications.
  – Remain on LI program but EGS contract ends.
PA Retail Choice: PECO Consumer Protections

• Non-discriminatory offer of shopping services: not to “some but not all.”
• The control of termination / cancellation fees.
• Affirmative customer consent prior to switching from EGS contract with LI protections to one without protections.
• EGS may not indirectly exclude LI through creditworthiness tests or credit assurances.
PA Retail Choice: PECO
Aggregation Limits

• Compliance with state statutory limits; no change in electricity supplier without “direct oral confirmation” or “written evidence.”

• Impacts of fluidity of LI population (LI churn). Who is in and who is out.

• What happens to LI population at end of aggregation term.

• Opt-out favors large suppliers providing homogenous product.
  – Risk of winning an aggregation / risk of ceding back to DSP.
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roger@fsconline.com
“What is particularly noteworthy about the legal arguments of the PUC and Direct Energy is their focus on the PUC’s lack of authority to regulate rates EGSs charge customers. We are persuaded, however, by Petitioners’ contention that the absence of authority to regulate EGS rates alone does not compel the conclusion that the PUC lacks authority to adopt rules attendant to universal service programs that may have the effect of limiting competition and choice with respect to low-income customers.”
“[W]e conclude that the PUC has the authority under Section 2804(9) of the Choice Act, in the interest of ensuring that universal service plans are adequately funded and cost effective, **to impose, or in this case approve, CAP rules that would limit the terms of any offer from an EGS that a customer can accept and remain eligible for CAP benefits.** The obligation to provide low-income programs falls on the public utility under the Choice Act, not the EGSs. Moreover, the Choice Act expressly requires the PUC to administer these programs in a manner that is cost effective for the CAP participants and the non-CAP participants, who share the financial consequences of the CAP participant’s EGS choice.”
“Our conclusion finds support in the Choice Act’s legislative declaration of policy, which both encourages deregulation to allow consumers the opportunity to purchase directly their supply from EGSs and emphasizes the need to continue to maintain programs that assist low-income customers to afford electric service. 66Pa.C.S. § 2892 (7), (9), (10), (14), (17). So long as it “provides substantial reasons why there is no reasonable alternative so competition needs to bend” to ensure adequately-funded, cost-effective, and affordable programs to assist customers who are low-income to afford electric service . . . the PUC may impose CAP rules that would limit the terms of any offer from an EGS that a customer could accept and remain eligible for CAP benefits – e.g. EGS rate ceiling, prohibition against early termination/cancellation fees, etc.”
DEREGULATION in Illinois

Natural Gas 2002
33 ARGS certified by ICC

Electricity 2009
84 ARES certified by ICC
2,758,827 residential customers in Illinois have switched as of April 15, 2015 (ICC)

Purchase of Receivables
Community Aggregation

**No choice** for Muni/Co-op customers
An alternative supplier’s charges would appear in the “supply” section of your power bill.
Natural Gas Choice

Northern Illinois
  Consumer Alerts
  Gas Market Monitor

Ameren program still pending

No POR
  ARG5 charges can be removed from utility bill
  No ARG5 shutoffs

2009 marketing reforms
  30 day cancellation window
  $50 cap
CUB CONSUMER ALERT:
BEWARE OF NEW GAS COMPANIES

Almost all consumers lose money

New, unregulated gas companies are trying to convince customers to switch their gas service. Aggressive sales people pitch these offers door to door, by mail and over the phone. But according to a CUB analysis, 9 out of 10 of the plans offered so far by these companies are money losers, costing the average consumer hundreds of dollars a year. Beware! The best bet is to stick with your regulated gas company—Nicom.

HERE'S HOW TO PROTECT YOURSELF:

- Don’t give out your account number or other personal information to any salesperson at your door or over the phone.
- Don’t sign up for any new gas offer on the spot. These are legally binding contracts. You may be charged a hefty termination fee if you want out.
- Call Nicor at 1-888-642-6748 to get on a Do Not Market list for your gas service if you don’t want the new gas companies to bother you with sales pitches.
- Call CUB at 1-800-669-5556. CUB is keeping tabs on these companies and trying to identify marketing abuses. If they’re in your neighborhood, call us immediately.

Nine out of 10 plans are money losers, costing the average consumer hundreds of dollars a year more.

Who are these companies?
- Nicor Advanced Energy
- Lock 12, Price Guard, Flex
- U.S. Energy Savings Corp.
- Peoples Energy Services
- Integris
- Nordic Energy Services
- Santanna Energy Services
- MXenergy
- Dominion Retail
- Direct Energy Services

As of March 23, 2015
Summary of plans

Lost 91%
Saved 9%
Average $1375.40 Loss
Read below for more detailed information.
Electricity choice

- Purchase of receivables
  - Full utility collection & disconnection process
  - Seamless/“invisible” to LIHEAP system(s)

- Community Aggregation
  - “Opt out” model
  - As of 6/9/15
    - 738 communities involved
    - 123 discontinued/non-renewed
  - Chicago “Power Deal”
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"Illinois Gas and Electric" – IN, OH, KY, MI, PA, NY, DC, MD, NJ, CT, MA
As Commonwealth Edison Co.'s power price has dropped, it's getting tougher for municipalities to find supplier deals for their constituents that are cheaper. Some recent deals have resulted in prices higher than ComEd's 5.51 cents per kilowatt-hour.*

*ComEd imposes a variable monthly assessment of up to 0.5 cents per kilowatt-hour that can either be a charge or a credit on customers' bills. That can raise ComEd's price up to 6 cents or lower it by as little as 5 cents in any given month.

**Arlington Heights, Buffalo Grove, Lincolnshire, Long Grove, Wheeling, Palatine, Vernon Hills

***Was extended five months

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<td>Hanover Park</td>
<td>5.56%</td>
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<td>Franklin Park</td>
<td>5.85%</td>
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<td>Oak Park</td>
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<td>Dolton</td>
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Northwest suburban consortium**
5.58 cents (Expires May 2014)

Chicago
5.59 cents per kilowatt-hour after recent 0.17-cent price increase by supplier Integrys (Expires May 2014)

Your projected supply charges for the months October 2014 to May 2015:

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<th>Supplier</th>
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<td>$318.89</td>
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You would pay $96.29 more with Integrys.

"...the alternative retail electric supplier shall give the customer written information that adequately discloses, in plain language, the prices, terms and conditions of the products and services being offered..." - Illinois Public Utilities Act
Consumer battles

• Price gouging
  – Just Energy settlement
    • Seniors and Non-English speakers, many low-income
  – Santana “force majeure” & bankruptcy
    • Current issue in Texas
  – Major Energy Settlement
    • 35c=6x utility!

 Marketing tactics
  ▪ Utility branding
  ▪ Door-to-door sales
  ▪ Multi-Level-Marketing
  ▪ “Green” options
  ▪ Teaser rates
  ▪ Slamming
    ○ TPV
    ○ Current rulemaking: video…
LIHEAP Context

• Marketing as “discounts” or “assistance program”
• Trespassing inside subsidized senior buildings
• Skulking around LIHEAP intake locations
  • Tabling alongside LIHEAP agencies
  • Tabling INSIDE LIHEAP agencies
  • Direct marketing to LIHEAP agencies!
• Intake workers frustrated, confused
  • “Funny Bills” from other companies
  • Normal-looking bills that won’t go into the system (PIPP)
  • Not sure what to tell clients
• Recruitment of sales agents in low-income neighborhoods...
- Nonprofit incentives
- Churches, community groups

- Groups recruit their members, receive $$
- Teaser rates expire
Ambit at LIHEAP Energy Fair

• Taking down contact info for LIHEAP applicants
• Enrolling or recruiting?
  – Upcoming “meeting”
  – “Free Energy”?  
  • Fees to become a seller
Ambit at LIHEAP Energy Fair

- Electric offer: “guaranteed” 3% discount – Dubious
- Gas offers:
  - 43.1 c/therm
  - 91.41 c/therm
  - Utility: 35.85
- Exorbitant gas rates far outpace any electric savings or “credits”
Natural Gas Client IMPACT

- 1,088 therms/year
- 75% Nov-Mar
- $456 DVP = 912 therms
- 84% of annual supply

- Client locked at $.79/therm
- $456 DVP = 577 therms
- 53% of annual supply
- RA cycle starts earlier
Electricity Client IMPACT

- 10,100 kWh/year (IL)
- Utilities $.075/kWh
- $246 DVP = 3,280 kWh
- 32% of annual supply

- Client locked at $.095/kWh
- $246 DVP = 2,589 kWh
- 26% of annual supply
- +Electric shutoffs deplete RA
PIPP Context

• PY 2014:
  – 80,719 active PIPP accounts
  – 35,033 (43%) have an alternative electric supplier
  – Of the 35,033, 25,302 (72%) had switched within the most recent program year

• Average annual budget bill increase (“true-up”) for utility-supplied electricity: $6.03
  – For ARES accounts: $17.48 (nearly 3x higher)
  – As high as $76.58

Source: IL Department of Commerce and Economic Opportunity, report to the LIHEAP Policy Advisory Council

CHICAGO PIECE

- Chicago aggregation contract with Integrys
- 10,127 (12%) were with Integrys
- Integrys average true-up: $6.97
- Translation: $114,232.56 in added program costs to state because of one city contract
PIPP Environment

- Supplier price spikes cost more for clients AND state
- Price spikes are imperceptible and unpredictable
PIPP Impact

- Even small changes in state benefit amounts add up quickly

<table>
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<th>Price Difference</th>
<th>Monthly bill impact</th>
<th>Cost per 100 PIPP clients per year</th>
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