How Gas & Electric 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
  – Options to buy
• Bill usually comes from traditional utility, but not necessarily
• Gas & electric may work differently
  – Commodity & market differences
  – Community aggregation
  – Purchase of receivables
Traditional ComEd Service

Alternative Electric Supplier

Delivery through the electric grid

Electricity supply

Electricity generation

Alternative Electric Supplier
National Picture

• 29 states have choice of some kind
• Sometimes starts with commercial/industrial first
  – California was first: gas 1995
  – Tennessee is newest: electric 2016 (C/I)
• Gas choice is more widespread than electric
• Regional flavors –
  – Enrollment limited by time or number
  – Special names/ utility branding
  – Overlap with demand response programs
Source: www.electricchoice.com, a for-profit choice consulting firm
FMI: www.competitiveenergy.org, an industry trade association
Deregulation in Pennsylvania
Estimate the impact for customers above 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 **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  
   \((1,197 \times 0.08475)\)
6. Average monthly energy charge at the price above (**actual**) = $132  
   \((1,197 \times 0.11048)\)
7. Difference (each month) = $31

8. The (monthly) difference for all customers above the PTC = **$298,406**  
   \((9,626 \times 31)\)
9. The impact over 12 months = **$3,580,872**  
   \((298,406 \times 12)\)
10. The impact over 18 months = **$5,371,308**  
    \((298,406 \times 18)\)
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**

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**Those Paying At/Below PTC**

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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 overburden.
• 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.

• Need to avoid increased risk to default service providers.
  – Risk of winning an aggregation / risk of ceding back to DSP.
For more information:
roger@fsconline.com
Deregulation in Illinois
Electric Choice Availability
Electric Choice - Complex

- Competition introduced 2009
  - 64 ARES certified by ICC
  - 1,899,076 residential customers as of April, 2017 (ICC)
- Downward trend
  - Peak around 3 million in 2014
- Majority of the state
  - No choice for muni/co-op customers
- Purchase of receivables
  - Full utility collection & disconnection process
  - Seamless/“invisible” to LIHEAP system(s)
- Community Aggregation
  - “Opt out” model
  - As of 5/31/17
    - 746 communities involved
    - 402 discontinued/non-renewed
  - Chicago “Power Deal”
Your projected supply charges for months June 2017 through May 2018:

ComEd
$386.55

Alternative supplier plan
$524.46

You would save $137.90 if you chose ComEd as your provider over the alternative supplier.
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**Retail Electric Suppliers Complaint Summary**

*From: October 2016  To: March 2017*
Gas Choice Availability
IL Natural Gas Choice

- Competition since 2002
  - 46 AGS now certified by ICC
  - Northern Illinois only
  - Docket for Ameren program stalled at ICC

- 2009 marketing reforms
  - 30 day cancellation window
  - $50 cap

- No Purchase of Receivables (POR)
  - ARGS charges can be removed from utility bill
  - No ARGS shutoffs
  - Docket(s) for POR stalled at ICC

- No Municipal Aggregation
  - Bill stalled in General Assembly last year
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 may be to stick with your regulated gas company—Nicor.

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.

Who are these companies?

• Nicor Advanced Energy
  – Lock 12, Price Guard, Flex
• U.S. Energy Savings Corp.
• Peoples Energy Services
• Integrys
• Nordic Energy Services
• Santanna Energy Services
• MXenergy
• Dominion Retail
• Direct Energy Services

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

This alert comes to you from the Citizens Utility Board (CUB), a non-profit utility watchdog created by the state legislature to fight for lower utility rates. The results are based on CUB’s Gas Market Monitor. For more information, call 1-800-669-5556 or visit www.citizensutilityboard.org.

September 2007
Consumer Battles

• Price gouging
  – Just Energy Settlement
  – Seniors and Non-English speakers, many low-income
  – Santana “force majeure” & bankruptcy
  – 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...
Add-ons, signing bonuses attract low-income consumers

IDT Energy Affinity Program

IDT Energy’s Affinity Program offers an opportunity that can be a win-win for your organization and its members. By offering special rates to your members, you will increase your membership retention and generate additional revenue. With IDT Energy, you may customize a retail energy supply program to fit your member needs. Our Affinity program is ideal for businesses, organizations, associations, places of worship, and other entities looking to expand their membership and revenue opportunities.

Designed With You In Mind

**Generate Funds:**
Your organization will receive ongoing residual compensation for every member/employee who signs up with IDT Energy for their energy supply. Organizations have the potential to earn thousands of dollars every year!

**Added value to your members/employees:**
Provide value with exclusive offers on electricity and natural gas supply. Offer the opportunity to select programs with electricity supplied by 100% renewable sources and

Key Affinity Benefits

- Unique Fundraising Opportunities
- Increase Membership Retention
- Attract New Customers
- Non-dues revenue
- Revenue Sharing
- Large Earning Potential
- Exclusive Low Energy Rates For Members

Your unique program will be easily tracked by our dedicated team.
Nonprofit “incentives” target LIHEAP partner organizations, churches, etc.

Source: community flyer
Retailer infiltrates LIHEAP Energy Fair

- Taking down contact info for LIHEAP applicants
- Enrolling or recruiting?
  - Upcoming “meeting”
  - “Free Energy”?
  - Fees to become a seller
Retailer infiltrates 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

• “Typically”
  – 1,088 therms per year
  – 75% Nov-Mar
  – $456 DVP = 912 therms
  – 84% of annual supply
Natural Gas Client Impact

- ARGS client locked at $.79/therm:
  - $456 DVP = 577 therms
  - 53% of annual supply
  - RA cycle starts earlier (NO POR)
Electricity Client Impact

• “Typically”
  – 10,100 kWh per year
  – Utilities around $.075/kWh
  – $246 secondary DVP = 3,280 kWh
  – 32% of annual supply
Electricity Client Impact

- ARES client locked at $.095/kWh:
  - $246 DVP = 2,589 kWh
  - 26% of annual supply
  - *Electric shutoffs deplete RA funds (POR)*

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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
PIPP Environment

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

![Bar Chart]

- Total Budget
  - Year 1: $56
  - Year 2: $128

- PIPP Benefit
  - Year 1: $38
  - Year 2: $50

- Client Portion
  - Year 1: $19
  - Year 2: $78
### PIPP Impact

- Even small changes in state benefit amounts add up quickly

<table>
<thead>
<tr>
<th>Price Difference</th>
<th>Monthly bill impact</th>
<th>Cost per 100 PIPP clients per year</th>
</tr>
</thead>
<tbody>
<tr>
<td>($0.02)</td>
<td>($13.47)</td>
<td>($16,164)</td>
</tr>
<tr>
<td>$0.01</td>
<td>$8.42</td>
<td>$10,104</td>
</tr>
<tr>
<td>$0.04</td>
<td>$31.14</td>
<td>$37,368</td>
</tr>
</tbody>
</table>
Chicago Aggregation Context

- Chicago aggregation contract later cancelled due to unfavorable rate increase
- Of the 80,179 active PIPP accounts in PY14
  - 10,127 (12%) were with Integrys
- Average annual budget bill increase ("true-up") for utility-supplied electricity: $6.03
  - Integrys average true-up $6.97
  - Translation: $114,232.56 in added program costs to state because of one otherwise unremarkable city contract
For more information:
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Discussion
Appendix – Pennsylvania
“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.”