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A daily look at the forces shaping retail services

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Texas' chief regulator says the welcome mat is out for new retailers; aims for 'real price competition'

With hardly any reference to the turmoil in California, the chairman of the Public Utility Commission of Texas laid out to National Energy Marketers Assn. leadership last week just how his state intends to lay a huge welcome mat to electric retail marketers.

Pat Wood 3rd told the NEM leadership group meeting in Houston that the primary focus of the PUC right now is a review of the rules that, he hopes, will "foster real retail price competition." Much of the work concerning the wholesale market, Wood noted, has already been done.

It was left to NEM President Craig Goodman to mention that, "After the California debacle, we believe Texas has the chance to lead the power industry restructuring." Wood observed that he and fellow commissioners, as well as Texas state legislators, have traveled to Harrisburg, Pa., more than once to observe how the market opening there has proceeded.

"What we have seen and learned there has been very helpful in our establishing what we believe will be fair and non-partisan rules," he said. Texas now has slated a retail pilot project that will begin June 1 of next year, which is intended to cover some 5% of each customer class. The state's full market opening comes on Jan. 1, 2002. Depending on how many of the state's 63 rural cooperatives eventually sign up, it is expected that as much as 84% of the state's population will comprise the potential customer base.

From Pennsylvania, according to Wood, the commission in Texas has

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CUSTOMER RELATIONS

Communication is key, E Source advises, when dealing with outages

Communication with customers about outages is key to customer satisfaction ratings, good press and good relations with regulatory agencies, and, many utilities now feel, competitiveness, according to retail energy consultant E Source. Evidence shows customers will tolerate occasional outages, E Source said, if the provider lets them know why their power is off and accurately predicts when it will be back on.

"Outage communication often depends on call center and repair personnel to communicate with other entities as a secondary task while they are overwhelmed with their primary tasks—taking calls from customers or assessing and repairing a troubled distribution system," says E Source Utility Customer Care Series research associate, Maggie Boys.

"The result," Boys adds, "is that bottlenecks often occur in communication both within the company and between company and customer. Delayed communication slows repairs and frustrates customers. Outage communications within and across departments can be improved without a major rework of technological infrastructure."

Responsibility for telling the utility when it has an outage still falls on the customer. The difficulty of answering a high volume of outage calls from customers, especially in the outage's first minutes, has provoked several creative solutions. Among these are outage detection devices, home agents, Interactive Voice Response (IVR), hosted high-volume call answering, and the integrated outage management system (OMS).

Estimated implementation times for

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California PUC eyes SDG&E's gas service for adequacy

A request last summer by San Diego Gas & Electric to treat three large firm-generation customers as interruptible, temporarily, has prompted an investigation of the adequacy of the gas transmission systems of SDG&E and affiliate Southern California Gas.

While the proposed tariff revision was withdrawn by Sempra Energy, which owns the utilities, the California Public Utilities Commission said the filing raised questions about the ability of the systems to serve current and future gas requirements of SDG&E's customers. SoCal Gas was included in the inquiry because it provides

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Industrials like Detroit Ed bond plans: look 'pretty good to us'

The Michigan Public Service Commission late last week authorized Detroit Edison to issue up to $1.77-billion in securitization bonds under provisions of the Customer Choice and Electricity Reliability Act of 2000.

Under securitization, Detroit Ed will refinance some of its most expensive debt and equity in order to obtain lower costs.

Although the utility will charge customers to pay off the securitized bonds, including taxes, these costs will be fully offset by equivalent reductions in customers' electric bills so no ratepayer will see an increase.

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Quotable… "If it is harder than buying groceries, then the customers aren't going to do it. They simply won't want to do it. They aren't going to want to know about stranded costs, or any such intricacy." --Texas PUC Chairman Pat Wood, on impending retail competition

Utah Democrats try to kill bill that weakens consumer voice

Legislators in Utah are moving to overturn House Bill 320, a measure approved earlier this year that weakens consumer representation in utility rate cases.

The Republican sponsored bill, controversial from the start, also eliminates the Committee of Consumer Services, a quasi-government rate case oversight group.

Utah Gov. Mike Leavitt approved the measure, despite public outcry, but also asked the Legislature to fine-tune the measure to reflect voter sentiment more accurately.

A coalition of about 20 Democrats now claims a consensus on a rewritten HB 320 is not possible and its should be scrapped. Democrats want to rewrite the utility law, restoring the Committee of Consumer Services in the process.

The measure was written by Questar Corp., but extends to all utilities in the state, including Utah Power. Questar is primarily a natural gas supply company.

A bipartisan committee of House Democrats and Republicans continues to meet on HB 320, but the recent public statement by Democrats strongly indicates the consensus-building process is not going well.

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Michigan industrials, who often find themselves opposed to Detroit Ed actions, support the PSC's order in this case. "It looks pretty good to us," said Robert Strong, counsel to the Assn. of Businesses Advocating Tariff Equity. He based his comment on the positive aspects of the customer charge offset.

Savings from securitization are expected to be $254-million. The company will use $65-million to fund the 5% residential rate cut mandated in the restructuring law, and it will use $124-million to reduce commercial and industrial rates (including special contracts) by 5%.

Fifty million dollars will go to fund the low-income and energy efficiency fund, and $15-million will be put into a reserve to reduce future stranded costs and transition costs.

California PUC...begins page 1

transmission service to SDG&E's territory.

"We are concerned that the decisions to add load on to SoCal Gas' and SDG&E's system may have undermined SDG&E's ability to provide reliable service," the PUC said.

The investigation will include a review of SDG&E's planning and decision-making processes. Parties opposing the tariff revision noted that the utility itself had encouraged generators to opt for firm service to avoid interruption.

SDG&E countered that the difficulties stemmed from a change in the way the plants operated, with power shortages and high prices for bulk power resulting in them running for more of the day than in the past.

But in ordering that contingencies like larger-than-expected demand be addressed in the inquiry, the PUC said it was "unclear why SDG&E did not realize that converting these customers to firm service would decrease system flexibility, consequently making all other noncore customers more susceptible to curtailments."

NEWS SNAPSHOT

Challenge. A coalition of utility, labor, and consumer groups said it will challenge Alliant Energy's recent move to overturn part of the Wisconsin Utility Holding Company Act. In mid-October, Alliant filed a lawsuit seeking to nullify part of the act that restricts ownership and investment in utility holding companies. "If Alliant wins this lawsuit, our Wisconsin utilities will no longer be required to focus on their main business of serving Wisconsin electric customers," said the Customers First coalition. The organizations that have filed a joint request to intervene in the lawsuit include the Wisconsin Merchants Federation, IBEW locals, Wisconsin Public Power, Citizens Utility Board, the Wisconsin Federation of Co-ops, Municipal Electric Utilities of Wis., and Madison Gas & Electric.

First in Connecticut. About 450 customers in the Hartford-based Connecticut Energy Cooperative last week became the state's first residents to buy electricity from a new supplier. Some of these customers are paying a penny more per kilowatt hour for green power, but co-op members buying traditional power are saving a little, according to reports from the state. They are paying 5.25 cents compared with the 5.5 cents charged by Connecticut Light & Power.

Moving in on Ohio. Dominion Energy said Friday it has signed an agreement with Cleveland Thermal Energy Corp. and Cleveland District Cooling Corp. to buy Cleveland Energy Resources, a provider of steam and chilled water. The agreement, signed Thursday, is motivated by Dominion's push to increase its presence in the Ohio market, the company said. Cleveland Thermal Energy is owned by a subsidiary of IPALCO Enterprises.

Consolidating. NStar said it will consolidate four energy-distribution company names into two in an "ongoing effort to better serve the community." NStar Electric will consist of the former Boston Edison, Commonwealth Electric and Cambridge Electric Light units, while its Commonwealth Gas Co. unit will become NStar Gas. NStar Electric serves more than 1 million electricity customers in Massachusetts, while NStar Gas serves more than 250,000 natural gas customers in the state.

Whatever it takes. The Midwest Independent Transmission System Operator told federal regulators it will consider turning itself into a for-profit entity if such a form of organization would keep members from leaving and attract new ones. MISO is protesting the withdrawal of Illinois Power and Commonwealth Edison, who have said they will leave that group to join the Alliance, which is a for-profit operation. Meanwhile, regulators in Illinois have protested IP's plans to leave MISO; they want the Federal Energy Regulatory Commission to take a stronger hand in ordering large, strong regional transmission organizations. "Literally, the eyes of the industry are on this case," the ICC said.

Consumer advocate opening. Residents of the central Russian town of Novoulyanovsk are without heat and light after the local power utility disconnected consumers because of mounting payment arrears, NTV International reported. A company official blamed the debt on local authorities, which had levied the money but failed to hand it over. Schools are unable to serve meals and are closing early to allow children to complete homework in daylight hours, the report said, while parents with empty refrigerators and unable to cook are "close to nervous breakdowns" .

Texas competition…begins page 1

learned five key things: there must be real retail price competition; the advantage of incumbency has to be mitigated; wires companies have to be removed and separated from the retail business; costs need to be cut using uniform business standards; and, for the customers' sake, the market has to be kept simple.

"Ultimately, of course, it is all about the customer. Our conclusion is: If it is harder than buying groceries, then the customers aren't going to do it. They simply won't want to do it. They aren't going to want to know about stranded costs, or any such intricacy."

The customers in question are all 1-MWt consumers, or less. Inspired by Pennsylvania's shopping credit, Texas' "price to beat," or PTB, will be what Wood calls the "centerpiece of the retail pricing system."

The PUC passed rules governing the PTB Oct.19. "We've seen in Pennsylvania that summer prices are historically higher than winter prices due to differences in seasonal fuel price," he said. "Therefore, there will be competitive headroom versus traditional rates, where there is a difference in seasonal rates, when it is more costly to buy power in July and August than in December." The price to beat, minus wire charges, will produce the headroom.

Wood noted that a sample customer in winter may face a price to beat of 7.8 cents/kWh, minus 2.9 cents for wire charges, with a headroom price of 4.9 cents/kWh. In summer, the price to beat could go to 10.1 cents.

Moreover, Texas is making default rules for those customers who choose not to choose between retailers. "If you are a consumer and you paid $1,000 last year, and you decide to stick with your old company, that company, under our legislation, is able to discount that rate by only 6%. That company can't raise those rates for five years. For three years it can't discount or lower the rate either, unless or until that company loses some 40% of its customers."

"We did not have too many problems approving this rate schedule, though, to be honest, many competitors didn't like it," Wood said. It will be hard to compete, he observed. "But it is also very difficult for us to justify raising the rates of some of the incumbents just to make it easier for others to come in and compete with them."

The PUC's assessment now, he said, is that "only 10 to 25% of the customers will likely switch over the first 12 to 18 months. And a certain percentage of those will depart.... But we think this "price to beat" is what differentiates us. It is not a rate cut, per se. But we have set it up this way to promote competition. To get new competitors into the market, we will be holding incumbents back for three years. Its tough, actually. We are basically telling incumbents 'you've got to lose some market share, or you will continue to be under some shackle.'"

Over the next few weeks, Wood indicated, the PUC will be resolving consumer protection issues, among them what to do with customers who don't pay their bill to one provider and then switch to another. "My guess is that we will end up allowing customers to skip."

Also, to avoid slamming, the Texas system will give the responsibility for confirming when a customer wants to change to the state's independent system operator, the Electric Reliability Council of Texas.

A number of retailers at the NEM meeting responded to Woods, and mostly in positive tones. Karen O'Neil, vice president of regulatory affairs at Green Mountain Energy, noted that under the Texas plan, no customers in the future will be getting power from distributors, only from affiliated retail energy providers, (or REPs), and that all costs assigned to the retail business—consolidated billing, customer service, marketing, bad debt, and regulatory compliance—will come out of wires charges.

She noted that under the state's provider of last resort (POLR) rules, the state will use competitive bidding to determine the POLR for each customer. Bidding, which will begin late this month, will use "the seasonally differentiated hedged rate," which, she said, will reflect market realities. "In time, too, we feel the headroom will increase as wires charges decrease."

When running down the "intangible factors" affecting the future Texas market, George Philips, manager of regulatory support at MidAmerican Energy, ranked the presence of such dominant utilities as Reliant and TXU as not a positive, while gave a "very good" grade to the state's rules for moving customers from bundled supply to competition.

Communication…begins page 1

outage management systems are growing shorter, ranging from nine to 18 months, but E Source found that actual deployment often takes longer than projected.

Preparing customer and distribution system data for use in such systems often requires a large commitment of resources. The complexity of the systems, the fact that they touch on so many different departments, and longer-than-anticipated training phases and debugging periods account for many of the delays.

Savings in time and operating costs can be significant with an integrated OMS. One company reported reduced average outage time from four hours to one hour, and forecasts operating cost reductions of $1-million in 2000, E Source said. Outage management systems can cost as little as $200,000 for a small electric cooperative to several million dollars for a utility with a very large customer base.

Although managers report depending on operating cost reductions to justify the expense of OMSs financially, they also credit pressures to secure customer loyalty with finally persuading corporate decision-makers to invest in an integrated OMS.

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