

Electricity Restructuring and Educating the Consumer

With a number of states moving toward restructuring the electric utility industry, the ACCI Consumer Education Committee thought that ACCI members needed information and education programs designed to aid consumers' decision making. The panelists provided information on several different programs and approaches.

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Introduction

The panelists reported on consumer education initiatives in their respective states related to the restructuring of the electric utility industry. Consumers, who previously purchased electricity from the sole provider servicing their area, will now have to choose a provider among several competing for their business. All panel members commented on the incredible complexity of this new market reality and agreed that consumers need as much information and education as possible in order for them to make wise electricity-provider choices.

Panelists

Janee Briesemeister, Senior Policy Analyst, Consumers Union

Ms. Briesemeister provided an overview of utility restructuring and outlined Consumers Union's areas of concern. Restructuring is very complicated. This will be the first time utility customers have the opportunity to make a choice about which utility company provides their service. Price comparisons for electric service can get very complicated. For example, kilowatt hours may be priced differently at different levels of usage, e.g., one price for the first 200 kwh, another price for the next 500 kwh, and so forth. Or pricing could be done in "real time," i.e., different prices at different times of the day, and/or at different times of the year. In Texas, the cost of electricity is higher in the summer. Furthermore, some companies may market themselves as "green" which leads to the question of what a renewable resource is, and how to tell how "green" a company really is.

Consumer education issues are many. What does a utility customer need to know to choose a provider? How do the company and the utility customer differentiate between marketing and education? Education should be neutral, informative, and educational. There should be a standardized format for disclosing pricing information, terms, conditions, as well as environmental claims (something akin to the way nutritional information is provided). This is exceedingly important because electricity will be priced in new ways. Information has to be meaningful and useful to consumers and in plain language, with consideration for non-English speaking customers, and others who need accommodation like the elderly. Research will also be very important. What do consumers already know? What do they want to know? What do they understand? What messages work best?

Educational/informational campaigns will be useless if utility customers realize no savings, are getting ripped off, and paying higher prices in the end.

Jess Totten, Director, Office of Policy Development, Public Utilities Commission of Texas (PUC)

Mr. Totten spoke about what Texas is doing to educate consumers about restructuring. Texas electricity rates are in the middle nationally, but consumption is high, especially during the summer months. The utility restructuring law was passed in 1999, with competition slated to begin in January 2002. The law covers two levels of competition (production and retail sales) and includes mandates for renewable energy, new supply options (e.g., from a clean or green source), and customer protections. The PUC is anticipating that new specialized marketers (generating electricity through wind, for example) will also compete for customers. It is also possible that consumers in one community may be able to band together to buy their electricity collectively, thereby saving money.

Mr. Totten also mentioned that electricity may be generated by a wholesaler and delivered by a separate retailer. The restructuring legislation also includes a provision for "an electric provider of last resort," i.e., a back up supplier will be available in every region in case one supplier should go bankrupt.

The role of the PUC will be fairly traditional. Delivery remains a regulated service to ensure prices and conditions are reasonable. The purpose of restructuring is to move away from monopoly to a diverse mix of producers and retailers in order to bring prices down. The PUC has new powers to deal with "slamming" and "cramming." The PUC hopes to stifle these abuses before they get started, and is in the process of creating a "do not call" list for those switching electricity suppliers. The Texas PUC is also watching what is happening in other states.

Irene Leech, Virginia Tech University

Irene Leech talked about her involvement with the Virginia's State Corporation Commission (SCC) which regulates utilities. The restructuring legislation was passed about a year ago in Virginia. Like Texas, Virginia is not a high rate state (4¢ to 8¢ per kwh). The SCC mandated an education plan and created a panel to create and implement the plan. The plan, called "Energy Choice," was released on December 1, 1999. The purpose of the plan is to educate utility customers about the restructuring, their options, how to make comparisons, how to understand their energy consumption, and to motivate utility customers to become engaged in the decision making process. The panel that created "Energy Choice" felt that Virginia citizens needed to be educated *before* competition started so they would know something about the restructuring and their choices before they actually had to make decisions.

The plan incorporates funding for research, information materials, grassroots programs (especially to reach the hard-to-reach), a toll-free phone center where people can get questions answered, a web site (www.yesvachoice.com), and an advertising campaign (radio, television, buses, billboards). The web site provides information about Energy Choice and has links to utility companies that have web sites. The total cost of the education program has been estimated to be \$0.89 per person per year.

Ray Forgue, University of Kentucky

Ray Forgue described a grant that he had submitted to educate Kentucky children about utilities in general, in the hopes that the children would then explain it to their parents. In Kentucky, the term that has been used is "re-regulating" rather than restructuring. Kentucky is also a fairly low cost state for electricity (3¢ to 3.5¢ per kwh).

The proposed curriculum consists of 15 lesson plans to explain basic underlying concepts by describing the economics behind the way utilities have traditionally been provided, and the new restructured approach. Several of the lesson plans would deal with the new "re-regulating" process for electricity, natural gas, water, and long distance provider decisions. Each lesson would be 45-50 minutes long with suggestions for activities and additional resources.

The grant was not funded. It became clear that the Kentucky PUC did not really know what they wanted. Kentucky is not very far along in its re-regulation process. Ray may resubmit the grant next year, or may investigate other funding sources.

Discussion

A member of the audience asked about the role of the Federal Energy Regulatory Commission (FERC) given that utilities will now be crossing state lines. Mr. Totten stated that there had been discussions at the federal level, but no one knows yet what the FERC's involvement will be. The Congressperson who is chairing the committee thinks that the feds should stay out of it. But this Congressperson is not running for reelection. Ms. Briesemeister said that it is Consumers Union's thinking that federal law should provide a floor for consumer protection, allowing the states to do more if desired.

A question was raised about the protections for low income consumers. States are implementing lifeline plans. Massachusetts has an open market on utilities now with a low income program, and every Massachusetts utility customer is part of this program. Texas's protection for low income consumers was part of the restructuring legislation and will provide, for example, credit when there is a heat wave. Virginia, on the other hand, has not implemented a low income lifeline program.

What will we actually be choosing? Consumers will be approached by *sellers* who may or may not be the electricity provider. The retail seller may or may not operate the other parts of the market. Customers may also be buying other products and services through the electricity seller. For example, future mergers of utilities may

combine electricity, natural gas, water, phone, cable, etc. This is referred to as commodities bundling. This has the potential for creating even more confusion for the consumer.

A key issue in customer education is the difficulty in helping consumers appreciate the underlying reasons for restructuring in the first place. People need help in determining how the new world is different from the old world, where government protection had been built-in for this service market.

Summary

While there was a general concern that this new competition will be difficult for consumers, several advantages were mentioned. First, restructuring electricity sales means people will be able to opt for alternative sources of electricity generation, such as solar or wind power. Second, most states have built-in consumer protection provisions so a "supplier of last resort" is available in case a particular provider goes bankrupt and ceases to deliver electricity. Third, many states are striving to provide utility customers with the information and education needed so that the transition to a non-monopolistic utility industry will be smooth. States are trying to level the playing field so that competition benefits everyone avoiding the problems consumers experienced with the deregulation of long distance telephone service. Fourth, some states are protecting consumers by ensuring that they can get off solicitation lists. Fifth, technology is allowing service providers and regulators to inform consumers through a variety of media: web sites, toll-free answer centers, printed materials, television and radio advertising, etc.

There was general agreement among the panelists and the audience that the restructuring of the electric utility industry is a very complex issue, and that consumer information and consumer education are an absolute necessity. All participants agreed that consumer education and information have to be an ongoing initiative as the restructuring trend continues into other parts of the utility market.

Endnotes

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