

Electric Restructuring In Nevada: Protecting Customers

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Disclaimer

In preparing for this meeting I drew heavily from materials on this subject prepared for other state presentations. This includes using the Indiana and Pennsylvania experience in deregulation as an example of what you will face.

Overview of Fundamentals: Customer Protections are Meaningless Without These Elements:

- ▶ One Step at a Time – And Do the Analysis Before You Take the Step
- ▶ Restructuring takes time. For example, in Pennsylvania, this was a 16 year process. This may seem extreme but you have to not only have a structure in place but also deal with stranded costs in a transition to a competitive retail generation market
- ▶ Competitive procurement for the next addition of capacity and economic dispatch for the next kilowatt hour of energy
- ▶ Generation divestiture, with competitive wholesale procurement of all capacity and generation

Overview of Fundamentals...

- ▶ Strong, Independent wholesale Market Monitor
- ▶ Retail access to competitive generation markets through combination of retail shopping and strong default service protections

A Few Core Design Principles

- ▶ Start with rate caps to mitigate stranded cost impacts
- ▶ Develop a default service model
- ▶ Utilities must divest of generation for consumer protection
- ▶ Put NV PUC rules and regulations in place to protect customers with adequate resources to staff state and wholesale issues
- ▶ Consumer education (not advertising) is essential for customer understanding of the changes

Expectations of Deregulation

- ▶ Competition would drive down electric generation costs to the marginal costs of production and this would drive down unbundled retail generation rates
- ▶ Competition – or in Nevada the inability of incumbent utilities to participate in retail markets – would therefore “strand” existing utility generation investments. That is, future market prices were not expected to cover the high embedded costs of utility generating plants that had been built under the protection of regulation. Utilities therefore were permitted to recover stranded costs.
- ▶ More options for customers (e.g. access to clean energy, real-time pricing, and smart meters)

PA Final Stranded Cost Allowances

PECO	\$5.26 Billion
PPL	\$2.97 Billion
Duquesne	\$1.33 Billion
Met Ed	1.00 Billion
West Penn	\$670 Million
Penelec	\$429 Million
Penn Power	\$224 Million
TOTAL (Major Utilities)	\$11.88 Billion

But Just in Case ...

- ▶ Just in case the predictions of significant retail competition and lower electricity prices do not come true, many jurisdictions have incorporated long-term retail rate caps that prevented the utilities from charging higher rates for generation than they had been charging prior to restructuring.
- ▶ The rate caps are a defense against over-charging by the utilities. That is, the utilities would not be allowed to recover stranded costs (resulting from expected lower market prices) at the same time they were charging higher market prices for their generation. When stranded cost recovery ends for each utility, the corresponding rate caps ended as well.

What is the Impact of Rate Caps?

- ▶ The combination of stranded cost recovery for utilities and retail generation rate caps for consumers will delay the onset of significant retail competition. It will also mitigate rate shock.

What to Expect from Retail Shopping?

- ▶ As in most restructured states, the great majority of industrial and large commercial customers will switch to alternative retail generation suppliers, while the majority of residential customers will most likely remain with or returned to some type of default service (if available).

What to Expect...

Weekly PA Power Switch Update

Pennsylvania Public Utility Commission
www.PAPowerSwitch.com

CUSTOMERS SWITCHING TO AN ELECTRIC GENERATION SUPPLIER WEDNESDAY, FEBRUARY 26, 2014

Electric Utility	Date Updated	Total Switching Customers			Residential Switching Customers			Commercial Switching Customers			Industrial Switching Customers		
		#	%	% of Load	#	%	% of Load	#	%	% of Load	#	%	% of Load
Duquesne	2/22/14	261,947	44.2	84.9	232,532	44.0	55.4	28,663	45.8	97.5	752	66.6	97.8
Met-Ed	2/26/14	208,403	37.5	64.6	177,266	36.3	38.2	30,393	46.2	70.1	744	84.7	97.1
PECO	2/25/14	550,083	35.0	62.0	466,572	33.0	36.0	80,701	50.0	69.0	2,810	89.0	96.0
Penelec	2/26/14	227,016	38.5	67.7	186,974	37.1	40.5	39,327	46.3	66.7	715	79.1	94.9
Penn Power	2/26/14	61,639	38.1	63.5	52,631	37.2	38.5	8,837	43.5	66.2	171	97.3	97.3
Pike County	2/24/14	2,622	57.7	55.0	2,127	59.0	56.0	491	52.9	52.3	4	57.1	58.4
PPL	2/22/14	676,954	48.0	72.4	580,180	47.2	50.9	93,819	53.4	86.7	2,955	67.9	98.4
UGI	2/22/14	750	1.2	21.1	14	0.0	0.0	668	8.0	36.5	68	36.4	77.2
West Penn Power	2/26/14	238,513	32.4	60.3	198,925	32.2	34.4	39,022	33.0	63.5	566	86.5	87.7
Statewide Total	2/26/14	2,227,927	39.3	64.3**	1,897,221	38.1	38.7	321,921	47.5	72.2	8,785	86.7	94.5

* Percentage based on the total number of customers of regulated electric utilities in Pennsylvania as of 2/1/13.
 (4,980,186 Residential + 687,602 Commercial/Industrial = 5,667,788 Total Customers).

Default Service Protects Customers

- ▶ In nearly all of the restructured states, customers who do not choose an alternative supplier receive their generation service through a “default” or “standard offer” supplier – typically their incumbent electric distribution utility. Nevada does not permit the incumbent utility to provide this service.
- ▶ In most of those states, however, the utility does not provide that service from its *own* generation assets. Instead the utility purchases power in competitive wholesale markets and passes on the cost of that market-priced wholesale generation to its retail default service customers.

Default Service Model: Protecting Customers

- ▶ Preferred option: require all utilities to obtain their default service generation through competitive procurement processes in the competitive wholesale markets.
- ▶ Utilities must divest of generation to protect consumers. Without divestiture or full structural separation of utility generation, retail competition is difficult if not impossible to implement.
- ▶ Utilities should purchase the default service generation at wholesale and provide it to default service customers at retail at the same price – with no profit margin.

Default Service Model: Protecting Customers

- ▶ There is nothing wrong with the fact that many or most residential customers have not yet chosen to shop and may not do so.
- ▶ The current default service system assures that all customers receive the benefit of competitive wholesale generation, while allowing interested customers to shop for retail service if they choose to do so.
- ▶ Default service prices are market-based as supply is procured from the wholesale markets.
- ▶ Because cost recovery for utility default service in most areas is a dollar-for-dollar reconcilable pass-through, with no mark up, the EDCs are indifferent as to whether or not the customer shops.

What Is the Goal: Consumer Benefits?

- ▶ Retail shopping for electric generation service is not an end in itself. It is one possible means to the end of ensuring that consumers receive reliable service at reasonable prices.
- ▶ There should not be any profit from the provision of default generation service by a utility but simply pass on the cost of competitively procured wholesale generation to retail customers.
- ▶ If a competitive marketer can provide a more attractive service – either cheaper, or greener, or with better contract terms – customers are free to switch.

Caveat Emptor: Electric Shopping and extreme weather – Polar Vortex

- ▶ The risks of electric shopping are not just theoretical. For example, during a cold snap in 2014, tens of thousands of customers in the Mid-Atlantic region -- who had contracted to purchase monthly variable priced electricity from competitive retail marketers were hit with generation rate increases of 300% to 400% or more.
- ▶ For example, residential customers in Philadelphia who would have paid a default rate of 8.77 cents per kilowatt hour to their local electric company, PECO -- or who could purchase fixed rate generation service from competitive suppliers for as low as 7.90 cents -- were charged as much as 30 to 40 cents by some variable priced marketers. Some customers received monthly bills of over a thousand dollars. Many of those consumers had been attracted by introductory or “teaser” rates that were lower than the default price and other fixed price offers.
- ▶ The first notice that these customers received of these higher variable rates was when they opened their bills.

Caveat Emptor...

- ▶ Over 14,000 customers contacted the Pennsylvania PUC to express concerns about these variable rate price spikes and nearly 6,000 customers filed formal or informal complaints. Similar results have been reported in other Northeast states.
- ▶ What does a person living on Social Security do when her monthly electric bill suddenly exceeds her monthly income?

Does retail competition require participation in wholesale Generation Markets?

- ▶ It should – wholesale participation provides the best value for customers.
- ▶ To what extent do the benefits of competitive wholesale markets and Regional Transmission Organizations depend on retail restructuring in the states? No causation.
- ▶ Development of a **strong, independent** wholesale market monitor is critical to consumer protection.

Essential: Resources to Ensure Consumers are Protected

- ▶ Additional resources (\$\$) are required to ensure consumer interests and protections are enforced
- ▶ Staffing up PUC to license/certify competitive suppliers and handle increased customer complaints
- ▶ Consumer Advocate and PUC funding to participate in wholesale market stakeholder process
- ▶ Funding to participate in FERC cases

The Rules Must Protect Customers: Issues For Retail Competition

- ▶ Privacy: The balance between customer privacy and facilitating retail choice will have to be struck in a manner that adheres to constitutional principles, protects customer safety and identity, and is accepted by those whose private data is being released.
- ▶ Marketing
 - Is Caveat Emptor how we should approach marketing for this essential service?
- ▶ Competitive Retail Providers must be Licensed or Certified

Consumer Protection Policies

- Laws, rules and guidelines must provide standards to help assure that marketing is conducted in good faith and does not harm consumers. For example:
 - Affirm that existing laws, that govern marketing, consumer protection, and telemarketing **continue to apply**. Such laws include the federal “Do Not Call” list, cooling off period and Consumer Credit Protection Act
 - Establish standards for agents, and employees (performing door-to-door marketing and other sales activities) including the necessary criminal background checks
 - Establish training requirements for agents and employees that includes training on responsible and ethical sales practices

Consumer Protection Policies – Examples

- Require the establishment of transaction processes to assure and verify that the customer has authorized the transaction
- Ensure that agent and employee compensation does not promote, encourage, or reward behavior contrary to the regulations and the general obligation of fair dealing and good faith
- Require agent identification through identification badge with trade names, logo, photographs and agent name
- Prohibit the use of branding elements similar to the utility company and prohibition against use of local distribution company bills, marketing or consumer education in a way that suggests a relationship

Consumer Protection Policies – Examples

- Establish the hours for door-to-door marketing from 9:00 am to 7:00 pm in the winter and 9:00 am to 8:00 pm in the summer unless a local ordinance is more restrictive
- Require notification to the Commission and the local distribution company when marketing or sales activity is to be undertaken in the service territory.

Consumer Protection Policies – Privacy

▶ Customer Privacy

- Can Eligible Customer Lists (ECL) containing extensive customer data obtained by the utility in rendering utility service be made available to all licensed providers?
- ECL contains personal information such as name, billing address, service address, account number, telephone number, usage data, rate class, load factor, peak load contribution, and more
- Customers are not allowed to restrict the release of most of this information and are provided an “opt out” method of restricting the release of their billing address, telephone number and historic usage information

Consumer Privacy Policies...

▶ Customer Privacy

- With the deployment of smart meters, usage data compiled on customers will become more detailed and revealing of customer operations for large customers and lifestyle for residential customers
- With door-to-door marketing and other sales initiatives, the data on the customer is being more widely disseminated to sales personnel and could even be maintained on hand held devices used by sales staff operating in the field

Customer Education is Essential

- ▶ The worse customer education is, the more customers will be on default service: this requires **education, not advertising.**
- ▶ Price to Compare (default service vs. competitive)
 - Serves as an important information and education tool to the customer by giving the customer a reference price to compare competitive offers
 - Quarterly adjustments provide a more current price but present difficulty for customers in evaluating offers. Customers want to be sure they make the right choice which can be difficult with frequent adjustments
- ▶ PUC website should have educational materials for customers

Takeaways

- ▶ Retail shopping is not an end in itself but one means to the end of reliable service at reasonable prices
- ▶ Default service should remain reasonably priced and stable.
- ▶ At the same time, rules should be in place to allow competitors who can offer lower prices or other value –such as renewable products, fixed prices, dynamic prices – to do so

Takeaways

- ▶ So how do we measure success?
 - Service that is reliable
 - Rates that are just, reasonable and affordable
 - Customer representation in the wholesale markets, retail markets, and at FERC
 - Systems and rules that support a variety of retail offerings
 - Appropriate consumer protections for essential service
 - Competitive wholesale prices passed on to customers and a strong, independent market monitor.

Questions?

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