



IssuesLetter

Retail Direct Access Customers

What Do Customers Want?

The arrival of retail direct access to electricity suppliers is approaching quickly in a number of states. In 1998, fifteen million customers will be eligible to choose their own electricity suppliers. Although many large users of electricity have long been sophisticated about their electricity consumption, choosing an electricity supplier will be new to smaller-use customers.

To understand what information residential and small commercial customers want and need to make knowledgeable choices among competing suppliers, the National Council on Competition in the Electric Industry has initiated a multi-step consumer research project. *See National Council sidebar.*

One phase of the National Council's consumer research project has relied on

consumer focus groups. Focus group are moderated discussion among a small number of randomly selected consumers. They are used to identify issues likely to be of concern among consumers in general. Focus groups are used in many settings. They are commissioned by competitive businesses as part of the development of new products and services and are used with increasing frequency by political parties to assess voter attitudes on political issues. Although focus groups do not yield quantitative information for example, they will not come up with a percentage of people who care about a particular fact or feature they do a good job of revealing concerns and trends.

The retail electricity focus group research has drawn upon the same expertise used by the U.S. Food and Drug Administration when it investigated how the Food Facts nutritional labels should appear on packaged food products. To date, there have been 14 focus groups in five states four

National Council on Competition and the Electric Industry Consumer Information Research Project

The National Council on Competition and the Electric Industry is made up of members from NARUC (National Association of Regulatory Utility Commissioners), NCSL (National Council of State Legislators), the U.S. Department of Energy and the U.S. Environmental Protection Agency. This consortium, which is dedicated to assisting state and federal decision makers to better understand the implications of the competitive changes and challenges facing the electric industry, has sponsored several research projects. The consumer information research project, which is scheduled to be completed by fall 1998, is premised on the belief that retail electricity markets need information and that a market operating without information will not be efficient. Recognizing the intangible nature of electricity, the very large environmental impact of the electric industry and the scant experience customers have had in choosing their own electricity suppliers, the research is aimed at identifying what information retail electricity customers need to make efficient decisions and what format best delivers that information.

RAP is the coordinator of the consumer research project for the National Council. Reports published to date are available on the NARUC web site <http://www.naruc.org>

in New Hampshire, two in Massachusetts, four in California, two in Washington (state) and two in Colorado.

In general, the results demonstrate that while consumers are not experts in electricity, they are expert shoppers. Most consumers have definite ideas both about what they want to know about their electricity choices and the most useful way information should be presented to them. They want information on price, supplier reliability, consumer protection, fuel source and environmental impacts of the electricity offered to them. Most importantly, customers want all sellers to *"talk the same language"* when providing these facts.

The collective findings from the focus groups are consistent with the information obtained from recent consumer polling in Maine, New Hampshire and Texas. *See Consumer Polling Results sidebar.*

New Hampshire and Massachusetts Focus Groups

Both New Hampshire and Massachusetts currently have retail pilot programs where customers were allowed to choose among competing electricity marketers. Focus group participants from both states were selected from customers taking part in the pilots. While these customers were familiar with the concept of choosing an electricity supplier, there was a marked contrast in customer satisfaction with the selection process. This was due to significant differences between the two pilots.

In New Hampshire, the constraints imposed on competing suppliers were few; they merely had to register with the PUC and meet a NEPOOL requirement. There were no PUC-imposed

<p>Consumer Polling Results</p>	<p>Customer polls conducted in Maine, New Hampshire and Texas reveal similar customer interest in price, reliability and the environment when choosing an electricity supplier. The statistically reliable polling techniques used in these three polls provide <i>quantitative</i> data, unlike the focus groups which are <i>qualitative</i> in their findings.</p>
	<p>The Maine Public Utilities Commission poll of residential and commercial customers was conducted in August and September 1996 by the University of Maine. The polling results found that the three most important factors to customers thinking about competitive electricity were reliability, rates and environmental impacts. Seventy-two percent of the surveyed customers said they would pay up to ten percent more for clean power and 86 percent wanted electricity companies to tell customers how their electricity is generated.</p>
	<p>The New Hampshire Public Utilities Commission polled customers participating in the retail pilot. The poll was conducted by the University of New Hampshire in January 1997. Eighty-four percent of those responding to the poll agreed that power suppliers should be required to provide uniform information on price, and 87 percent agreed that power suppliers should be required to provide comparable information in a standardized format on other issues including fuel source, contract length and air emissions.</p>
	<p>In April 1997, a poll commissioned by the Sustainable Energy and Economic Development Coalition in Texas revealed results similar to the Maine and New Hampshire polls. In Texas, 84 percent of the respondents agreed with the statement that electricity marketers should be required to disclose cost, sources of generation and emissions. Seventy-five percent indicated a preference to purchase power from clean energy sources such as wind, solar and natural gas. (Fifty-one percent prefer wind and solar, and 34 percent prefer natural gas, even when informed that wind and solar cost more.)</p>

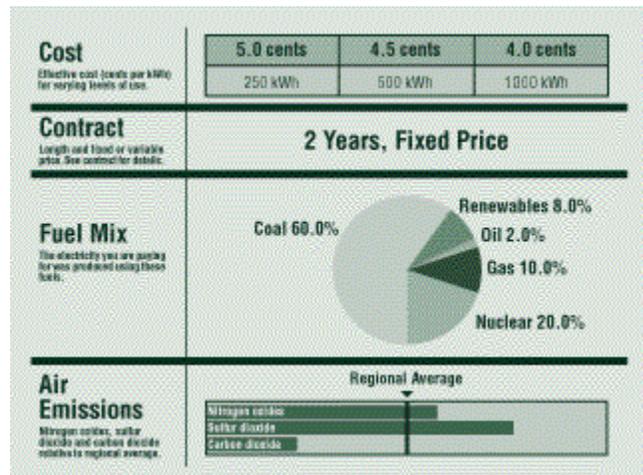
restrictions on the number of suppliers or on their claims and marketing techniques. The PUC appeared to be interested in testing the broadest range of market behavior. The Massachusetts pilot, on the other hand, limited the number of competing suppliers and provided all potential customers with a pamphlet giving standard information on each supplier. Comparative prices were listed, and comparative fuel source information was given for suppliers who made "green" claims.

These differences in pilot design were quite evident in the respective focus groups' discussions. The New Hampshire participants were frustrated because they had to spend a lot of time and effort trying to compare the products. Several respondents stated that the marketing literature forced them to make comparisons between apples and oranges. Massachusetts participants had little problem choosing their supplier, although some wanted to know the fuel source information for all suppliers, not just those making environmental claims. Participants in both states valued first and foremost standardized information on price and price-related terms. Information on environmental factors and fuel mix took a close second in terms of importance. All groups had difficulty understanding environmental emission information that used terms such as sulfur dioxide or nitrous oxide. They preferred non-technical terms such as acid rain or greenhouse gas, but not everyone understood those words either. There was a desire to see environmental information displayed by comparing actual emissions to emissions considered safe or healthy. Most regarded a green certification or trademark with skepticism. Customers were quick to discount or ignore claims that they regarded as puffery and apparently a green certification looked like puffery.

In terms of presentation, almost all focus group participants preferred the following graphical presentation showing fuel mix as a pie chart and emission facts as a bar graph.

California and Washington Focus Groups

Focus group participants in California (Fresno and Santa Clara) and Washington (Tacoma) had not participated in a retail choice pilot program, and the suggestion that they might be able to choose their own electricity supplier was a not particularly welcome piece of news. Given the significant media coverage in California over the



coming electricity market restructuring, it was remarkable how unaware California participants were of the fact that electricity would be a competitive business in a few months. Upon learning that choice of electricity supplier was arriving soon, many had a similar reaction: "Ugh! You mean I'll get all those same dinnertime phone calls that I now get for telephone service?" Most residential customers did not believe they had gained much from telephone deregulation (except hassles) and did not look forward to the prospect of choosing their own electricity supplier.

The results of the West Coast focus groups affirmed the importance of price. Even customers who appreciated non-price attributes (environmental or social considerations) felt the bottom line was the most important decision-making factor. Participants wanted price information standardized and provided in terms of unit price (price per kWh).

The majority felt that environmental attributes, specifically fuel mix, were important in their energy decision and should be included as a part of mandatory disclosure. Others felt that the environmental information, although important enough to be required, did not need to be included in a mandatory mailing but could be disclosed in other venues (e.g. libraries, newspapers, websites).

In Washington, how participants viewed environmental impacts shifted depending on the information they were given. When shown just fuel information, participants drew conclusions as to which choices were better for the environment. When fuel source information was augmented with emissions data, participants saw that some of their assumptions as to what resources were cleaner had been wrong. These results point to the value of providing emissions data as part of environmental disclosure.

Washington participants initially wondered about the value of green certification but thought it could be useful if a credible environmental organization served as the certifying agent.

Consumers liked the idea that energy efficiency options could be included as part of the pricing disclosure. They understood that energy efficiency services could raise the unit price for electricity but reduce overall bills.

Focus group members wanted to know about the stability of the energy supply and service reliability, and several wanted to know complaint procedures.

Participants wanted standardized information displays to easily compare offers. As in New Hampshire and Massachusetts, almost all focus group participants liked the pie chart representation of fuel mix and the bar graph for air emissions.

Consistent with outcomes from other polling research, California and Washington focus group participants were uncertain or misinformed about their existing energy resources. Those in California thought most of their electricity came from hydropower and that it was quite clean. In fact, while hydropower makes up a share of California's resource mix, a much larger portion of electricity is produced from nuclear, coal and oil. In the Northwest, hydropower represents a larger percentage of the resource mix than in California, but there were some Washington participants who asserted that there was no coal and nuclear power in their resource mix. It is true that one nuclear plant in the Northwest did close several years ago, but one remains in operation. There is also a large coal plant operating in western Washington not far from Tacoma a fact only one participant knew, and energy is imported from Montana-based coal plants.

Colorado Focus Groups

The Colorado (Denver area) focus groups while having generally similar responses, added a new dimension to the concerns voiced elsewhere. As in other states where there had not had been a retail choice pilot, focus group participants had given no thought as to how they would choose an electricity supplier, and they were largely in the dark as to the fuel source that produced their electricity. There was skepticism as to the benefits and concern about the hassles of having competitive electricity choices. Many did not welcome the thought of another reason for home telephone solicitations. However, over the course of the three hour focus group discussion, the idea of choice became increasingly acceptable.

What made Colorado distinctive was that one of the two groups held a different view as to how comparative price information should be displayed, what environmental information was most useful and how to achieve uniformity of presentation. The group was not as interested in fuel

information as in emissions data and wanted price provided in terms of total bill rather than on a per kWh basis. Participants questioned whether it was necessary for government to require uniform information and thought that competing suppliers might provide it of their own accord. As an example of markets doing it on their own, participants cited disclosure for mutual funds. (In fact, this disclosure is required by government.) Neither Colorado group expressed difficulty with using the more technical emission terms, such as nitrous oxide instead of smog, and there was a feeling that green certification could be helpful.

As in Washington, participants found that their perception of what was clean changed when fuel mix data was supplemented with emissions data.

Similar to the responses in previous groups, there was a willingness to pay a small amount of money to achieve standard reporting of information. A few cents a month was commonly accepted, and some were willing to pay even more.

What Has Been Learned From The Focus Groups?

Focus group members care most about price, reliability of supplier, environment and consumer protection. There is a strong and consistent interest in having standardized displays of information for price at typical usage levels, fuel sources and environmental emissions. Pie charts and bar graphs are preferred to displays that list ingredients by percentages. There is a willingness to pay a small amount to receive standardized information and an understanding that the cost would be rolled into the price of the electricity. Green certification or trademarks received a mixed response but were considered more credible when provided by an established environmental entity.

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