



The Regulatory Assistance Project

Green Power Newsletter

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It's the Market, Stupid!

People often ask, "How big is the demand for green power?" We tend to forget about the other half of the equation, the suppliers or marketers. One of the biggest challenges facing green power marketers is getting consumers to choose any supplier, let alone choose green power supply. Trouble is, getting a customer to switch is expensive, and the default generation service may be unreasonably priced for retail marketers to compete. Suppliers need market rules conducive to competition in order to get customers to switch. Green power choices will then follow.

Default Service

When retail choice is introduced, regulators will ensure that everyone continues to receive electricity. Consumers who don't choose will be served by a default supplier chosen for them by the regulators, or specified by restructuring legislation. While default service may be needed in the near term, its price may limit consumer choices and discourage retail marketers.

It is difficult for retail marketers to compete against a default service priced at the wholesale price of power. Retail marketers have to buy power at the wholesale price themselves, plus they have significant marketing costs and of course they would like to earn a profit. For the market to be competitive, retail marketers must be able to compete against a retail price.

In California, the default service is essentially priced at the wholesale price as determined by the power exchange. Some marketers are no longer selling to residential customers because they can't compete on price. Practically speaking, only green power is being marketed because green consumers are motivated by environmental benefits as much as by monetary savings. (With renewable energy subsidies, green power is now being sold at a discount to the wholesale market price. See below.) Still, consumer switching has been relatively slow. In effect consumers are told, "Restructuring is good for you. Don't do anything and you'll save money."

In Pennsylvania by contrast, the default service price is set closer to a retail price, determined by regulators for each distribution utility based on the utility's stranded costs. Consumers are given a shopping credit, or price to compare. If the shopping credit is high enough, retail marketers can come in and hope to compete on price as well as with value-added products. The message to consumers is also different: "You can save money only if

you get into the market and choose a supplier who can beat the shopping credit." As a result, participation in the market is higher (see Box Score).

It may be argued that California and Pennsylvania are not comparable, because the shopping credit in Pennsylvania is different for each utility service area. But by examining the Pennsylvania data more closely, the point is made even more strongly that marketing activity, as measured by customer switching, is correlated with the level of the default service price. PECO and Duquesne have the highest shopping credits, and also the highest percentage of customers who have switched, at 13.0% and 13.8%, respectively. In contrast, Allegheny Power has the lowest shopping credit and the lowest level of switching at 1.8%. Both consumer demand *and* retail supply must be strong to make a competitive market.

Box Score: California and Pennsylvania

State	Date Market Open	# Switched*	% Switched	Green Power as % of Res. Switchers**	Green Power as a % of Resid. Customers
CA	31 March 1998	85,168 Resid. 125,497 Total	1.0% 1.2%	40% (prior to price discounting)	0.4%
PA	1 January 1999	316,367 Resid. 395,887 Total	6.9% 7.6%	30%	2.1%

* California Direct Access Service Requests as of 2/28/99; Consumer Advocate of Pennsylvania as of 4/1/99.

**Estimates based on media reports and SEC Form S-1 filings.

Customer Acquisition Cost

It costs a lot to win a customer. Consumers are unfamiliar with decisions about electricity and market inertia is strong. This is another reason why mass marketing to residential customers has been curtailed or eliminated by some suppliers. But there are opportunities to overcome this hurdle by educating and informing consumers. Consumer education, backed by the information on which to base decisions, will encourage market participation, reduce customer acquisition costs and boost green power choice.

Every state that restructures has ordered a consumer education plan. Education messages should encourage switching and let people know that electricity choices affect the environment. They can explain renewable energy and alert consumers to green power choices. Pennsylvania does this in its consumer education plan. California has gone further by setting aside 1% of its \$540 million Renewable Resource Trust Fund for consumer education about renewables. The California Energy Commission will fund in part the activities of the Renewable Energy Marketing Board and the Center for Energy Efficiency and Renewable Technologies, both non-profit organizations, to administer the renewables education marketing plan. Matching funds are expected to leverage the state's expenditure. These opportunities--restructuring education and funding expressly for renewables education --should be seized whenever possible.

In addition to education about the new market and about renewable energy, consistent information about competing products also makes choosing a supplier easier. Most readers will be familiar with the idea of electricity labeling or uniform information disclosure. Either by legislation or rulemaking, 13 states have already adopted a labeling requirement, and an additional 17 states are considering it. California has adopted a power content label only (not price and environmental impacts), and it must be sent to customers quarterly. In Pennsylvania, detailed information must routinely be made available to consumers about price and terms of service, but the fuel mix is available to consumers only if they request it. Since fuel mix must be filed annually with the PUC, however, third parties can access it to create comparison charts.

Massachusetts, on the other hand, has little market activity yet because of an artificially low standard offer (default service price), but it does have a comprehensive disclosure label covering price, contract terms, fuel mix and environmental impacts. It seems a daunting task to get the moon aligned with the planets for an auspicious start to competitive markets!

While most of the disclosure rulemaking has occurred as part of restructuring, two states that have not yet introduced competition have nevertheless recently adopted information disclosure provisions. The Colorado PUC adopted a uniform label for unbundled bills and fuel mix in January (to be provided to customers semi-annually), and in February the Florida PSC adopted a rule requiring quarterly disclosure of fuel mix, but without any prescribed uniform format. Although it would be helpful to also include selected environmental impacts in the labels, these rules are a step in the right direction because they prepare consumers both for green pricing options their utilities may offer as well as for the prospect of retail competition in the future.

California Green Power Market

In January, Commonwealth Energy caused a stir by announcing that it would convert all of its residential and small commercial customers to green power at a discount of 5% off the wholesale price (roughly 1% off the total electric bill). This is a major turn in the market for green power. Suddenly, 45,000 customers were added to the green power lists. How is this possible?

It goes back to California's renewable energy policy, in this case a surcharge that created the Renewable Resource Trust Fund. \$75.6 million of the fund has been set aside for a customer credit not to exceed 1.5 cents/kWh for in-state renewables sold to California customers. (This amount may be adjusted every six months and will end after 2001.) The credit is paid to the successful marketer, who is expected to share it with its customers. The lure of green money and a green environment may prove irresistible.

As of March 31, clean 'n green announced that it will provide only 100% green power sold at a slight discount to the wholesale price, and Green Mountain Energy Resources has introduced 100% Renewable Power^{2.0} also at 5% off the wholesale price. Other

marketers are likely to follow suit, to the extent their resources are eligible in-state generators.

But will green power customers experience sticker shock when the customer credit disappears after four years? Maybe not. As demand for green power grows, the credit will be reduced, gradually increasing the premium. Also, if stranded costs (or the Competition Transition Charge) have declined, consumers may see sufficient savings on their total bills to absorb the newly reinstated green power premiums that may come back at that time.

Green Marketing and New Renewables

Most environmental advocates want to see green power marketing drive new renewables into the market.¹

The addition of new renewables to green power products will lead to incremental environmental improvement by displacing less desirable resources. It will also increase the environmental credibility of the products.

Green-e, the certification program administered by the Center for Resource Solutions, has begun to address this issue. Beginning in 2000, certified green power products will be required to contain a minimum of 5% new renewables. This requirement will grow to 25% over five years. Some green power marketers have anticipated this requirement. Cleen 'n green states that its EcoSave 100% renewable product will contain a minimum of 20% new renewable resources. GMER just upgraded its Wind for the Future product, which promised 10% new wind, to Wind for the Future^{2.0} with a promise of 25% new wind. Its products in Pennsylvania range from 1% to 5% new renewables, all landfill gas at this point.

¹ Last October Public Citizen issued a report, *Green Buyers Beware: A Critical Review of "Green Electricity" Products*, which focuses in part on the lack of new renewables in green power products. For a summary of the report, look under California/ Headlines at a Glance on the Green Power Network website, www.eren.doe.gov/greenpower. Responses to the report will also be found there.

California New Renewables Funding

Resource	Total Conditional Funding, of which		a Subset Has Approved Project Awards	
	Capacity (MW)	# of Projects	Capacity (MW)	# of Projects
Wind	300	24	138	19
Geothermal	157	4	157	4
Landfill Gas	70	23	68	21
Biomass	12	2	12	2
Digester Gas	1	1		
Small Hydro	1	1		
Total	541	55	375	46

Adding new renewables in California will soon become easier, thanks to another aspect of California renewable energy policy. Thirty percent of the Renewable Resource Trust Fund (\$162 million) was set aside for development of new renewables. The funds were conditionally awarded via auction last summer to 55 new renewable projects for an average subsidy of 1.2 cents/kWh, which the new projects will receive over a five year period after operation commences. Forty-six of these projects have met development and construction milestones to have their preliminary awards confirmed. This will bring more new renewables into green power products sold in the West.

Pennsylvania Green Power Products

Pennsylvania green power marketing can be characterized largely by the promotional efforts of one company, Green Mountain Energy Resources. It has been one of the most visible and successful marketers, according to XENERGY's ongoing study of retail competition. GMER's products are differentiated by the percentage of new landfill gas and the amount of existing renewables. GMER sells only green power products.

Conectiv Energy also offers green power but has not been promoting it as aggressively as GMER. Conectiv's products are differentiated by the percentage of renewables, which are generated in Virginia. Unlike GMER, Conectiv also sells non-green power products. The Energy Cooperative Association of Pennsylvania (ECAP) resells the Conectiv product at a discount to its members.

Penn. GP Products	Product Content		
	New Renewables	Existing Renewables	Non- Renewables
Green Mountain			

Eco Smart	landfill gas 1%	large hydro or natural gas 99%	
Enviro Blend	landfill gas 3%	unspecified 47%	lg hydro or nat gas50%
Nature's Choice	landfill gas 5%	unspecified 95%	
Conectiv			
Nature's Power 50%		sawdust & woodchips 25%, small hydro 25%	coal nuclear lg hydro oil natural gas
Nature's Power 100%		sawdust & woodchips 50%, small hydro 50%	
ECAP		same as Conectiv	

Green Pricing News

The Center for Resource Solutions, responding to requests by regulated utilities, is considering offering certification for green pricing programs. Whether it will be the Green-e or an alternative brand has not yet been decided. In late February, CRS solicited comments on a draft set of certification guidelines. This was followed by a series of conference calls and a meeting in late April of stakeholders including utilities, environmentalists and green power marketers. The Green Power Board is expected to decide later in the spring whether or how to proceed.

Through this process, CRS will determine the feasibility and desirability of establishing a program to certify utility green pricing programs; and the feasibility of designing a certification program that is compatible with Green-e and does not undermine efforts to create viable competitive markets if and when current monopoly markets open to competition.

The proposal has drawn a generally negative reaction from green power marketers, who argue that Green-e was established to support choice in competitive markets, and they have invested in the Green-e program with that understanding. They feel that certifying utility programs will only solidify the market power of incumbent utilities when their markets are open.

If green pricing certification moves ahead, it appears likely that it will require:

Meaningful stakeholder participation in the development of the utility program.

100% new renewables for programs that allow consumers to choose the number of blocks of energy or capacity, or 50% new renewables for programs that supply a participant's full requirements.

Limitations on cross-subsidization of green pricing programs by utility ratepayers.

The most difficult issues are those relating to curbing utilities' market power, and secondly to establishing objective criteria for reasonable premiums, adequate marketing efforts and satisfactory program performance.

With or without certification, utility programs continue to multiply. There are now about 40 programs offered to the customers of about 100 distribution utilities. A few of the utilities listed below (e.g., PSCo, SMUD, WPS) offer two or three distinct green power products to their customers. In several cases utilities offer the same program through a parent company (HEI) or through a wholesale cooperative to many distribution cooperatives (EnPower, Tri-State and Great River--a merger of Cooperative Power and United Power Association). In addition, another eight to ten utilities are known to be planning green pricing programs.

Green Pricing Utilities

(number of participating or eligible utilities indicated in parentheses)

- Arizona Public Service
- Austin Electric Utility
- Bonneville Power Administration
- Clark PUD
- Colorado Springs Utilities
- Detroit Edison
- EnPower (Dairyland) (27)
- Eugene Water and Electric Board
- Florida Power & Light
- Fort Collins Utilities
- Gainesville Regional Utilities
- Great River Energy (29)
- Gulf Power
- Hawaiian Electric (3)
- Holy Cross Electric Cooperative
- Indianapolis Power & Light
- Lincoln Electric System
- Los Angeles Dept. of Water & Power

- Madison Gas & Electric
- Moorhead Public Service
- Nebraska Public Power District
- Nevada Power
- Pacific Northwest Generating Co (4)
- PacifiCorp
- Portland General Electric
- Public Service Company of Colorado
- Public Service Company of New Mexico
- Sacramento Municipal Utility District
- Salt River Project
- Southwestern Public Service-New Mexico
- Traverse City Light & Power
- Tri-State G&T (32)
- TU Electric
- Washington Water Power
- West Texas Utilities/CSW
- Wisconsin Electric
- Wisconsin Public Service

Electronic Distribution

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