

The Retail Energy Supply Association (RESA)

Stephen Bennett, Ohio Electric Caucus Vice-Chair

Ohio Energy Mandates Study Committee

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Co-Chairs Balderson and Roegner and members of the Energy Mandates Study Committee, thank you for inviting me to provide testimony before you here today. My name is Stephen Bennett, and I am the Ohio Vice-Chair of the Retail Energy Supply Association (RESA).

Founded in 1990, RESA is a broad and diverse group of more than twenty retail energy suppliers dedicated to promoting efficient, sustainable and customer-oriented competitive retail energy markets. RESA members operate in Ohio and throughout the United States delivering value-added electricity and natural gas service at retail to residential, commercial and industrial energy customers¹. The comments expressed in my testimony represent the position of the Retail Energy Supply Association (RESA) as an organization but may not represent the views of any particular member of the Association.

RESA in Ohio and the Benefits of Customer Choice

Many of RESA's member companies are licensed to supply competitive retail electric and natural gas commodity service to residential, commercial, and industrial customers throughout Ohio. These members and other Competitive Retail Electric Service (CRES) and Competitive Retail Natural Gas Service (CRNGS) providers bring market efficient pricing, customized energy products, and value-added services to Ohio's residents, businesses, government entities, and non-profit organizations. CRES and CRNGS providers in general and RESA members in particular excel at matching a customer's needs, priorities, and values with data on how the customer uses energy to create customized product offerings. The more usage data that is available, the more the retail supplier can tailor the product structure to provide optimal customer value. CRES and CRNGS providers also offer value-added services to their customers. These services include energy and usage audits, energy market intelligence, energy system and HVAC services, renewable energy credits (RECs), solar and distributed energy installation and maintenance, home services, programmable thermostats, and rewards programs just to name a few. These product offerings and value-added services exist because in Ohio, retail suppliers must compete to win customers and must innovate to retain them.

¹ More information on RESA can be found at www.resausa.org

In addition to being integral to Ohio's marketplace for energy, RESA is active in its regulatory proceedings and increasingly active at the Legislature. RESA and its members are active in regulatory proceedings ranging from the utility Electric Security Plans to the PUCO Commission Ordered Investigation into market enhancements and any other proceeding that impacts the competitive markets for energy. RESA advocates for an open and efficient competitive market in Ohio that removes barriers to supplier market entry and spurs product innovation. RESA also advocates for regulatory certainty and contract sanctity for customers. In addition, RESA has a vested interest in legislation, regulations, and policies that allow customer choice and efficient market forces to determine how electricity is generated and from whom it is purchased. RESA members make long-term investments in the competitive marketplace. We understand that the market and our participation in that market must benefit customers. Without customer benefits, our industry and our businesses will not survive. To that end, RESA advocates for rules and legislation that enhance the customer experience, provide effective customer protections, and create long-term market efficiency and viability.

Ohio Shopping Statistics

The latest statistics from the Commission show strong shopping statistics for industrial and commercial customers in Ohio. While overall residential shopping numbers are growing, they lag behind those of the larger customers. In its quarterly report ending December 31, 2014, the Commission calculates statewide industrial shopping at 87% of total load². Commercial shopping rates clock in at 84% of total load³. That same Commission report shows that approximately 2.2 million or 53% of Ohio's residential customers get their electric service from a CRES provider⁴. While it is common for commercial and industrial shopping rates to exceed those of residential customers, there are some barriers – many of which are under discussion at the PUCO Markets Development Working Group (MDWG) – that could be eliminated to increase customer choice at the residential level. Specific improvements include statewide implementation of Purchase of Receivables Programs, Customer Referral Programs, new customer enrollment directly with a

² <http://www.puco.ohio.gov/puco/assets/File/Summary%20of%20Switch%20Rates%204Q2014%20Sales.pdf>

³ Ibid

⁴ <http://www.puco.ohio.gov/puco/assets/File/Summary%20of%20Switch%20Rates%204Q2014%20Cust.pdf>

CRES provider (“instant connect”), streamlined enrollment processes (“enroll from your wallet”), and “seamless moves programs” that allow a customer to retain their supplier when moving to a new address. If even a few of these improvements can be worked out in the MDWG, Ohio should see an increase in residential shopping in the following months.

The Customer Choice Experience

The customer choice experience is notably different for industrial and large commercial customers in comparison to that of small businesses and residential customers. Given the significance of energy costs for the largest customers, these businesses almost always have dedicated energy purchasing personnel with experience in energy management and procurement. Industrials and other large businesses have complex energy requirements and use large volumes of energy. Thankfully, large customers also have access to very granular usage data, both internally and through the utilities. This data allows the energy purchasing manager and the CRES provider to partner together to develop highly specific and often creatively structured energy products that bring optimized value to the customer.

Conversely, small businesses and residential customers do not have dedicated energy managers and may not have much experience analyzing or managing their electric usage. For these customers, education on choice is a vital resource. Straightforward information on how to shop and what to consider when shopping should come from the Commission, the utilities, and the CRES providers. This sends a reinforcing message that a customer can, with a little due diligence, find greater value with a CRES provider than with Standard Offer Service. Importantly, customers in Ohio have access to Energy Choice Ohio, commonly known as the PUCO Apples-to-Apples site. The Commission has done an excellent job of providing a one-stop repository for educational material as well as comparison shopping. A customer can use the Apples-to-Apples site to see products and prices available to them in their utility territory. With a few easy steps, the customer can also narrow the offers down to only those offers that include the characteristics that are important to them (e.g. price certainty, cost savings, term length, inclusion of renewable credits, etc.).

Competition Influences Renewable Energy Development

Wind, solar, and other renewable energy developers often point to competitive markets as the best place to do business. The restructured wholesale market administered by PJM provides transparent, locational price signals and open transmission access. Price signals allow renewable developers to determine if they can build and operate generation profitably in their proposed location. While it can be argued that certain social policy initiatives like tax incentives and renewable portfolio standards (RPS) skew these price signals in favor of renewable generation, the price transparency a competitive market provides helps to determine the value or cost of these policies. Once these price signals have been analyzed, open transmission tariffs then allow any generation unit that meets standards for connectivity and reliability to enter an interconnection queue and eventually connect with the bulk power grid.

CRES providers and the competitive retail market also play roles in the development of renewable energy. Like the Ohio utilities, CRES providers are required to meet mandates for renewable energy purchases specified in the state's RPS. However, many CRES providers offer products that include renewable energy purchases over-and-above what is mandated through the RPS. In fact, some CRES providers may even offer "100% renewable" products that include enough RECs to offset a customer's total usage. In fact some municipal aggregations in Ohio will require the CRES to serve an entire municipality with a certain percentage of renewable sources, such as the programs in Cincinnati and Cleveland. CRES providers market these renewable-based products to meet the demand from customers that prioritize renewables as part of their total energy value proposition. To that end, CRES providers and these renewable-based products could play an important transitional role during the Senate Bill 310 study period. Customers that want to support renewable energy can shop for a product that includes RECs above the RPS mandate. CRES providers must structure their products using market prices so even with effective risk management and hedging practices in place, renewable-based products often include a premium associated with the cost of the REC purchases. However, this market-based pricing provides transparency into the costs

associated with renewable generation and allows the customer to base their purchasing decisions on both personal and monetary values.

Comparing Ohio's Electricity Rates

The U.S. Department of Energy's Energy Information Agency provides data that allows one to compare Ohio's average retail electricity prices to its neighboring states. For this testimony, I researched Ohio's prices in comparison to Kentucky, Indiana, Michigan, Pennsylvania, West Virginia, and the national average. I looked at average prices for residential, commercial, and industrial customers from 2009 to 2014. I include data tables in an appendix but will provide a brief overview of the 2014 data here.

Ohio ranks fourth in comparison to its neighbors in average residential pricing, besting Pennsylvania and Michigan. Ohio is just below the national average for residential prices. However, Ohio has the second lowest percentage price increase from 2009 to 2014 among its neighboring states, losing by a single percent to Pennsylvania.

Ohio also places fourth in average commercial pricing, this time beating out Indiana and Michigan. Ohio is well below the national average for commercial prices. Encouragingly, Ohio is tied with Pennsylvania for the lowest percentage increase from 2009 to 2014 (2%) with the other states ranging from 18% to 22%.

Ohio ranks third in average industrial pricing, losing out only to Kentucky and West Virginia. Ohio is below the national average for industrial prices. Notably, Ohio industrial prices are 1% lower in 2014 than they were in 2009, easily earning top marks against the neighboring states and the national average.

The Impact of Utility Riders on Competition

When discussing utility riders it is helpful to think of them in two categories: bypassable and non-bypassable. A bypassable rider is one that is applied only to customers that remain on Standard Offer Service. That is to say, a shopping customer "bypasses" the costs associated with that rider. A non-bypassable rider is one that is applied to all customers regardless of who provides their commodity service. Ideally, all market-based charges directly associated with commodity

service should be structured as bypassable riders. Conversely, all non-market based charges and those charges associated with regulated distribution service should be structured as non-bypassable riders.

Problems arise when one kind of charge is included in the wrong kind of rider. This is especially true when charges that should be bypassable are assessed through non-bypassable riders. When this occurs, cost attribution and price signals become skewed, customers are frequently “double charged” for commodity-related services, and CRES customers end up subsidizing incumbent utility services. While there are several examples that could show the harm associated with improperly structuring a rider, the most basic one is the inclusion of direct generation costs in a non-bypassable rider. When a customer selects a CRES provider, they are making the choice to receive all of their generation (energy and capacity) from that supplier. Regardless of whether the customer chooses a product with a fixed or variable price, from renewable or traditional sources, and includes value added services or just basic generation, the customer has made a choice to get their generation supply from someone other than the utility. If the utility were to then include generation in a non-bypassable rider that is assessed to that shopping customer, that customer is now paying for their entire generation need as supplied by the CRES provider as well as superfluous generation included in the utility rider. The extra generation does not provide a hedge to the customer and it certainly does not provide a service that the customer has selected as part of customer choice. All the non-bypassable rider does is saddle the customer with extra generation service and its related costs that they did not choose and accordingly, very likely does not need or want.

Customer Choice and Ohio’s Energy Future

RESA believes that customer choice and competition in the energy marketplace is the best way forward for Ohio now and in the future. Competitive markets, by definition, allocate resources efficiently and provide price signals to guide investment, usage, and conservation decisions. Maybe more importantly, competitive markets transfer the risk of those decisions away from customers and place them on company shareholders, where they belong.

As advanced meter infrastructure and “smart grid” technology becomes more available the quality and granularity of customer usage data will improve, especially for small customers. If the resulting data is managed under the auspices of customer ownership and made available to agents authorized by the customer, Ohio will see more product innovation and customization available to those small customers. With the right data, CRES providers can create products that offer more individualized value tailored to specific usage patterns and customer needs to a wider range of residential and small business customers. Increased usage and price transparency should also lead to conservation efforts that do not require additional incentives. When customers can see how they use energy and the cost of doing so, they should be naturally incentivized to conserve in the way that provides the most value to their particular situation.

Conclusion

The competitive markets in Ohio are poised to bring customers big and small more efficient pricing, product innovation, and individualized value. RESA and its members look forward to their continuing participation in a well-structured Ohio market and are encouraged by its long-range potential. Thank you again for the opportunity to appear before the Committee and I welcome any questions you may have.

Appendix A – EIA Data on Average Retail Prices in Ohio and Neighboring States

Note: Price data is taken directly from EIA. Percent increase is calculated using the formula: $(2014 \text{ Price} - 2009 \text{ Price}) / 2009 \text{ Price}$

Average retail price of electricity

Mon Apr 13 2015 14:18:55 GMT-0400 (Eastern Daylight Time)

Source: U.S. Energy Information Administration

	Residential						Percent Increase 2009 to 2014
	Average retail price of electricity (cents/kWh)						
	2009	2010	2011	2012	2013	2014	
Ohio	10.67	11.31	11.42	11.76	12.01	12.38	16%
West Virginia	7.90	8.79	9.39	9.85	9.52	9.33	18%
Kentucky	8.37	8.57	9.20	9.43	9.79	10.05	20%
Indiana	9.50	9.56	10.06	10.53	10.99	11.25	18%
Pennsylvania	11.65	12.70	13.26	12.75	12.79	13.34	15%
Michigan	11.60	12.46	13.27	14.13	14.59	14.50	25%
United States	11.51	11.54	11.72	11.88	12.12	12.50	9%

<http://www.eia.gov/electricity/data/browser/#/topic/7?agg=1,0&geo=g001e000k&endsec=8&freq=A&start=2009&end=2014&chartindexed=0&ctype=linechart<ype=pin&rtype=s&motype=0&rse=0&pin=>

Average retail price of electricity

Mon Apr 13 2015 14:18:55 GMT-0400 (Eastern Daylight Time)

Source: U.S. Energy Information Administration

	Commercial						Percent Increase 2009 to 2014
	Average retail price of electricity (cents/kWh)						
	2009	2010	2011	2012	2013	2014	
Ohio	9.65	9.73	9.63	9.47	9.35	9.80	2%
West Virginia	6.77	7.66	8.14	8.42	8.17	7.99	18%
Kentucky	7.63	7.88	8.49	8.73	8.56	9.34	22%
Pennsylvania	9.55	10.10	10.03	9.44	9.25	9.72	2%
Indiana	8.32	8.38	8.77	9.14	9.60	9.83	18%
Michigan	9.24	9.81	10.33	10.93	11.06	10.94	18%
United States	10.16	10.19	10.24	10.09	10.28	10.75	6%

<http://www.eia.gov/electricity/data/browser/#/topic/7?agg=1,0&geo=g001e000k&endsec=4&freq=A&start=2009&end=2014&chartindexed=0&ctype=linechart<ype=pin&rtype=s&pin=&rse=0&motype=0>

Average retail price of electricity

Mon Apr 13 2015 14:18:55 GMT-0400 (Eastern Daylight Time)

Source: U.S. Energy Information Administration

	Industrial						Percent Increase 2009 to 2014
	Average retail price of electricity (cents/kWh)						
	2009	2010	2011	2012	2013	2014	
Ohio	6.72	6.40	6.12	6.24	6.22	6.62	-1%
Kentucky	4.92	5.05	5.33	5.35	5.66	5.67	15%
West Virginia	5.24	5.86	6.18	6.33	6.20	5.87	12%
Indiana	5.81	5.87	6.17	6.34	6.70	6.87	18%
Pennsylvania	7.21	7.66	7.73	7.23	6.97	7.42	3%
Michigan	6.98	7.08	7.32	7.62	7.72	7.71	10%
United States	6.83	6.77	6.82	6.67	6.84	7.01	3%

<http://www.eia.gov/electricity/data/browser/#/topic/7?agg=1,0&geo=g001e000k&endsec=2&freq=A&start=2009&end=2014&chartindexed=0&ctype=linechart<ype=pin&rtype=s&maptype=0&rse=0&pin=>