

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: December 3, 2002**

**REGULAR**  **CONSENT**  **EFFECTIVE DATE** \_\_\_\_\_

**DATE:** November 25, 2002

**TO:** John Savage through Lee Sparling and Jack Breen

**FROM:** Lisa Schwartz

**SUBJECT:** SB 1149: Consideration of report to the 2003 Legislature on "whether residential electricity consumers would benefit from direct access to electricity services."

**STAFF RECOMMENDATION:**

I recommend the Commission approve the attached report to the Legislature that concludes residential consumers would not benefit from a choice of competing power suppliers at this time.

**BACKGROUND:**

The 1999 Oregon Legislature passed Senate Bill 1149. The law allows business and other nonresidential customers of Portland General Electric (PGE) and PacifiCorp to buy power from competing suppliers at prices determined by the market. Residential customers can choose from a menu of rate options offered by the utilities and regulated by the Commission. The 2001 Legislature passed House Bill 3633 to delay these options until March 1, 2002.

SB 1149 states:

"The Public Utility Commission shall report to the Legislative Assembly not later than January 1, 2003, on whether residential electricity consumers would benefit from direct access to electricity services. The report shall address, at a minimum, issues of market development for residential and small-farm consumers and the impact of direct access on residential and small-farm consumers' access to benefits from the federal Columbia River power system."

At its April 3, 2001, public meeting, the Commission found that implementing SB 1149 will not have a material adverse impact on PGE's and PacifiCorp's access to cost-based

power from the Bonneville Power Administration on behalf of residential and small farm consumers.

Staff recently evaluated whether residential consumers would benefit from a choice of competing power suppliers. Staff sent its draft report to interested parties on Oct. 31, 2002. The draft report concluded that residential consumers would not benefit from a choice of competing suppliers at this time.

## **DISCUSSION:**

Staff used the following evaluation criteria:

1. **Is there likely to be robust competition among power suppliers for residential consumers?** *Staff concludes there likely would be few, if any, power suppliers competing for residential consumers.*

The PUC has certified seven electricity suppliers, but none has completed an agreement with PacifiCorp to provide service to Oregon businesses and only three have completed such an agreement with PGE. These suppliers have just begun accepting customers. Further, only a few states that have opened their retail electric markets to competition have several suppliers serving residential consumers. Some suppliers that had been serving the residential market abandoned it or went out of business. Customer acquisition and administrative costs to serve residential consumers are high. Combining consumers into a buying group makes them more attractive to serve, but aggregation has not yet developed in Oregon.

2. **Are the potential benefits of competition for residential consumers sufficient to justify the implementation costs?** *Staff concludes that the cost of implementing a competitive power market for residential consumers exceeds the likely benefits at this time.*

Informing residential consumers about their options in a competitive retail power market, changing utility information management, accounting and billing systems, responding to customer inquiries, resolving complaints, switching and billing problems, and overseeing suppliers and marketers would be costly. Some states have spent tens of millions of dollars on consumer education alone. For the small percentage of residents who chose a supplier other than their utility, the savings were small or they chose to spend more to get power from renewable resources — already an option in Oregon.

Moreover, it may not pay Oregon residents to leave regulated utility service because a “transition adjustment” makes the cost of power from an alternative supplier comparable to the utility’s cost-of-service rate. The adjustment pays for any stranded costs of the generation resources customers leave behind or provides a credit for the benefits.

- 3. Have other states’ experiences shown that a competitive power market for residential consumers will succeed in the long run?** *Staff concludes that competitive power markets for residential consumers have not been in place long enough in other states to learn from their experiences.*

California has suspended restructuring, but nearly half the states are experimenting with some form of retail competition for electricity service. Of those, 17 states and the District of Columbia allow residents to get electricity from a supplier other than their regulated utility. Residential electric rates have declined in those states. But that largely is the result of mandating rate reductions for regulated utilities and requiring competing offers to be lower during the transition to competitive markets. We do not know what will happen when these provisions expire.

In addition, no state has tested policies for a long-term default rate for customers who do not have access to a competing supplier, are dropped by a supplier or choose not to switch from regulated utility service. This is a critical issue for residential consumers, particularly low-income households. Further, we have not yet seen in Oregon how well competition will work for even the largest business customers.

- 4. Can consumer risks and consumer protection concerns be adequately addressed?** *Staff concludes that residential consumers are not well suited to assess or manage the risks of a competitive retail power market that is just beginning to develop. Further, consumer protection concerns remain.*

Residential consumers are not knowledgeable about energy procurement. A broad education effort would be necessary to inform consumers of potential risks of leaving regulated utility service, but may be only partially successful. Residential consumers are unwilling to spend a lot of time reviewing their energy options, and the information may be complicated.

Because electricity is a necessity, the stakes are high for consumers who unwittingly find themselves subject to price swings tied to the volatile wholesale power market. In addition, some of the problems Oregon has seen with the deregulation of the telecommunications industry may occur in a deregulated electricity market, and the

impact may be greater because electricity use is less discretionary. Most residential consumers are unable to reduce their energy use significantly in response to signing up for a misrepresented electricity product or if they have trouble resolving a billing problem involving more than one company, for example.

- 5. Are the new market-based and renewable resource options a better way to give residential consumers choices?** *Staff concludes that the utilities' new rate options give consumers meaningful choices without the risks of a competitive power market.*

Among the potential benefits of competition for consumers are lower prices and more products and services to choose from. New power options offered by PGE and PacifiCorp already give residential consumers an opportunity to reduce energy bills and provide more choices in the safety of a regulated environment. Consumers who can shift some electricity use from higher-cost to lower-cost times or use less electricity during high-priced months (an additional option for PacifiCorp customers) can save money. The renewable resource options let consumers choose power plants with fewer environmental impacts. Further, supplier(s) selected through competitive bidding provide two of the options, in collaboration with the utilities.

About 30,000 residential consumers already are participating in the new options. Consumers remain with regulated utility service, and the PUC regulates prices and oversees the way utilities administer the options. There's no risk of being dropped by an electricity supplier, and rates cannot be increased without PUC approval.

For all these reasons, Staff's report concludes that residential consumers in Oregon would not benefit at this time from a choice of competing power suppliers.

Five parties submitted comments on Staff's draft report: PGE, PacifiCorp, Citizens' Utility Board (CUB), International Brotherhood of Electrical Workers (IBEW) Local 125, and Thomas Eckhart of UCONS, LLC, an energy services company. All supported the report's conclusion.

PGE and PacifiCorp provided clarifying comments related to power options for consumers. Staff has incorporated these clarifications into the revised report.

CUB stated that the new portfolio options are a better way to provide additional choices for residential consumers, rather than a "reasonable substitute" for direct access, as Staff said in its draft report. The revised report reflects Staff's agreement with CUB's comments.

IBEW stated that the portfolio options appear to satisfy the needs of customers who want some type of choice and that the costs of expanding residential choices far outweigh any benefits. IBEW further stated that a deregulated electric utility industry provides no benefits related to customer costs, customer service, system reliability, economic growth or regional rate stability.

Mr. Eckhart agreed that residential customers would not benefit from having a choice of competing power suppliers. However, he stated that if residential consumers do not get an equitable return of public purpose funds — particularly under-served ratepayers such as all-electric tenants in apartments or high usage mobile home consumers — then denying those consumers a choice of power suppliers would not be in their best interest.

**PROPOSED COMMISSION MOTION:**

The attached report to the Legislature that concludes residential consumers would not benefit from a choice of competing power suppliers at this time be approved and submitted to the Legislature by Jan. 1, 2003.

Attachment