

MEMORANDUM

June 27, 2003

To: John Nunley  
Frank Bishop  
David Terry  
NASEO Electricity Task Force  
Bill Keese  
Pat Meier  
Peter Smith

From: Jeff Genzer  
Fred Hoover

Re: NASUCA Report - *Consumer Education Programs to Accompany the Move to Retail Electric Competition*

The National Association of State Utility Consumer Advocates (NASUCA) has recently issued the above-entitled report.<sup>1</sup> This report, written by Barbara Alexander, a well-respected expert on consumer education and rights issues analyzes the consumer education efforts undertaken by states as a result of the move to retail electric competition. As discussed in the report, a well-developed consumer education plan is an important component of the transition from government sanctioned monopoly provision of electric service to a competitive marketplace. However, the report concludes that even the best consumer education plan will not guarantee that electric competition will develop in a state. The opening of the market to competitive electricity will not generally “force” consumers (small commercial and residential) to actively consider switching to a competitive supplier. According to the report, the lack of a consumer education plan most certainly will lead to market failure or possibly encourage anti-consumer activities.

This report highlights those consumer education plans that were particularly unique and

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<sup>1</sup>NASUCA is the organization that represents the governmental officials who are consumer advocates in each state. In many cases, these individuals work in independent agencies, state attorneys’ general offices or as part of public service commissions.

successful. Some of the best practices came from plans developed or implemented, in part, by NASEO members. For states that have not yet moved in the direction of electric competition, this road-map will be essential for developing a comprehensive plan. It should also help avoid pitfalls in future programs.

Of course, after the collapse of the California market, no additional states have moved in the direction of retail competition. In fact, a number of states have retreated and extended schedules. After the failure of Enron and the financial disaster afflicting energy marketers, independent generators and traditional utilities, it is unclear where the electricity markets are going. The message for state energy offices may be to strategically position their efforts to promote energy awareness issues other than retail competition and to build support for energy emergency preparedness and response.

A number of alternatives are available to states. The report also discusses how consumer education about electric competition is part of a broader communications effort by states on a range of energy issues. Education for consumers on the sources of electric generation and its environmental effects, opportunities for energy efficiency, conservation, renewable energy as well as low income consumer issues on affordability and weatherization, can all be made part of a state's consumer education plan. State energy offices, even if not presently involved in electric competition proceedings, should take advantage of the opportunity to increase awareness of energy usage and efficiency. This report describes how to accomplish those goals.

As the author discusses, most states that have moved to electric competition have attempted to explain to consumers the rationale and means of choosing a supplier of electricity. These efforts are in contrast and partly a result of the lack of consumer education efforts at the time of the onset of either telecommunications or natural gas competition. Because of the fear of electricity versions of "slamming" and "cramming", as well as the recognition of the ubiquitous nature of electricity in houses and businesses, policy-makers have ordered a consumer education effort as part of legislation or public service commission orders. Due to the fact that long-distance telephone competition had been underway for some period of time prior to the AT&T divestiture, the need to describe how to pick a competitive supplier was viewed as unnecessary. Since choosing a supplier is a new endeavor, consumer education is considered essential in the electricity industry. The constraints involved in switching electric suppliers are different than in telecommunications and more akin to open enrollment in health care plans.

A cautionary note from the report involves timing of the consumer education plan roll-out. Most programs, quite reasonably at the time, were designed to start right before the date for opening the market. However, in some cases, due to marketplace developments, the information could not be acted upon since competitors for small commercial and residential consumers were not present. Maryland provides a good example of this dilemma. The consumer education plan described customers' ability and means of choosing an electricity supplier prior to the official date of competition of July 1, 2000. However, due to settlements with incumbent providers on stranded costs and rate issues, electric rates were either reduced, frozen or both. Consequently, no competitors had entered the Maryland market at the time of its opening. If the time period between official competition and

actual competition is too long, states run the risk that lessons learned from a consumer education plan will be lost.

Pennsylvania's program is frequently identified as a successful consumer education effort with large shifts of customers within the former Philadelphia Electric Company ("PECO", now "Exelon") service territory. The utility commission engaged in an aggressive campaign and "required" customers to switch. Unfortunately, as profit margins narrowed, alternative suppliers have vacated the market. In Ohio, the municipal aggregation program appears to have met with some success. The municipal governments were empowered to arrange for alternatives and marketed the effort with verve.

Consumer protection activities should also be part of a comprehensive education effort. NASUCA's members can take the lead. This is of critical importance, especially after Enron, California, etc.

In highlighting the best practices of state consumer education plans two NASEO members are discussed as examples. In Massachusetts, the Division of Energy Resources (DOER), devised a consumer education plan. To its credit, DOER had a centralized call center, brochures and an education video for community groups, but not enough funding for a full multi-media campaign.

In New York, NYSEERDA used the opportunity of utility developed education plans to promote its energy efficiency programs and policies. New York lacked a comprehensive statewide law on electric competition, instead the New York Public Service Commission oversaw plans by each utility for retail competition. NYSEERDA's established presence allowed it to bring to consumer's attention the need and benefits of energy efficiency. Consumers were then in a position to take advantage of NYSEERDA's programs regardless of when electric competition commenced in their area. For example, NYSEERDA's "Energy Star" air conditioning rebate/bounty program has led to shifts in consumer purchase practices to a monumental degree. The message was targeted and included close cooperation with retailers and the education of residential consumers.

The NYSEERDA example points to an important reason for state energy offices to be engaged in consumer education effects. While a consumer's attention is focused on energy usage, issues such as electricity, information on environmental disclosure of electric generation, renewable electricity options and benefits of energy efficiency can also be made part of the package.

One bright spot in the otherwise gloomy California electricity experiment was the successful effort in reducing demand and dramatically increasing energy efficiency efforts through the use of consumer education and energy efficiency funding. The Ad Council campaign implemented by a number of state energy offices under the guidance of the Colorado Energy Assistance Foundation and the Colorado State Energy Office should be instructive in evaluating success.

As we continue to face severe energy market price/supply volatility, of the type we are seeing in the natural gas arena in 2003, the ability of consumer education programs to help reduce peak consumption has never been more important.

For those state energy offices that are responsible for weatherization or even Low-Income Home Energy Assistance (LIHEAP) activities, these plans provide for an outreach opportunity. Further, some states, through dedicated funds or public benefits funds, provide extra assistance to low income consumers with affordability concerns. Existing weatherization funds can be leveraged with special public benefit funds to help these customers. This reports details the varied methods employed by states to get relevant information to consumers facing electric choice. Opportunities for the integration of state energy office goals through consumer education should be a bulwark of such efforts.