

# **IRPS Fall Conference**

## **October 23, 2019**

**20<sup>th</sup> Anniversary of Retail Electric Competition**  
**Start-Up, Milestones, and Prospect**  
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Disclaimer: The presentation reflects the views of the presenter and not necessarily the views of ICEA. Any errors or omissions are solely the presenter's.

# ICC Reports on Retail Competition Status

## Market Start-Up Period: 1999-2006

- **Customer Classes Phased-In to Competitive Marketplace**
  - Large-Use: Big Industrial Energy Users (>1M): October 1, 1999
  - Smaller-Use: Manufacturers/Retailers (<1M): June 2, 2000
  - All Remaining Commercial & Industrial Customers: December 31, 2000
  - Residential and Small Commercial Customers: May 2002
- **Retail Competition Start-Up Faced Multiple Structural Impediments**
  - Artificially Low Utility Rates: 10-Year Rate Freeze; 20% Rate Reduction
  - Utility Transition Charges (exit fee) for customers taking ARES service
  - Utility Power Purchase Option (PPO), an unbundled generation service at market-based price vs. ARES Offers, a discounted Utility PPO resale offer + Transition Charge = Delivery Services/Competitive Supply
  - ARES Reciprocity PUA requirement restricts ARES market entry
  - 24 month Minimum Stay PUA requirement for Residential/SC

# ICC Reports on Retail Competition Status

## Market Start Up-Period:1999-2006

- **Retail Competition Start-Up Faced Multiple Structural Impediments**
  - Generation owned previously by utilities through their holding companies. Limited transmission capability outside IL for competing generation.
  - Competitive wholesale markets were not fully developed and RTO membership uncertain through 2002. No real access to competitive wholesale market generation until the ICC-conducted Power Procurement Auction in September 2006.
- **ICC Retail Market Report Concerns and Recommendations: 2000-2005**
  - Uncertainty and grave concerns about wholesale and retail competition prospects in 2002 turns to general optimism by 2005.
  - Require utility membership in RTOs; readdress functional separation issues; require competitive bidding for bundled supply; eliminate 24-month minimum enrollment requirement for up to 15,000kWh; consider Municipal Aggregation program implementation.

# ICC Reports on Retail Competition Status

## Market Start-Up Performance

- **Statewide C&I Switching to Delivery Services**
  - Statewide 22,883 of 488,901 (4.68%) C&I customers switched to delivery services on average during start-up period (2004 data).
  - Of the 22,883 C&I customers that switched to delivery service, 21,262 (about 93%) were in ComEd's service area. ComEd championed retail competition and adjusted transition charges to incent RES service.
- **Large Use C&I Switching to Delivery Services**
  - Large-Use C&I (>1MW) switching was rapid, larger, and stronger in ComEd than in Ameren, but usage ARES served in both utilities was impressive.
  - In ComEd, 75.5% of all >1MW customers switched to delivery services. In Ameren 26.2% of all >1MW customers switched to delivery services.
  - In ComEd, 63.3% of all electric usage/load was delivery services provided. In Ameren, 46.6% of all electric usage/load was delivery services provided.
  - Statewide, 64.2% of all >1MW customers switched and 56.6% of usage/load of all >1MW was on delivery services.

# ICC Reports on Retail Competition Status

## Market Start-Up Performance

- **Smaller-Use (<1MW) Customer Switching to Delivery Services**
  - Small-Use C&I (<1MW) switching to delivery services was slower, smaller, and weaker in both ComEd/Ameren.
  - In ComEd, 5.95% of all <1MW customers switched to delivery services. In Ameren, 1.02% of all <1MW customers switched to delivery services.
  - In ComEd, 39.7% of all electric usage/load of <1MW customers was delivery services. In Ameren, it was 10.2%.
- **RES Service vs. Utility PPO Service (ComEd vs. Ameren)**
  - In ComEd, 61.3% of all >1MW customers and 54.4% of all <1MW customers were on RES Service.
  - In Ameren, 33.6% of all >1MW customers and 33.6% of all <1MW customers were on RES service, influenced by IL Power service area pre-Ameren acquisition.

# **Retail Electric Competition Milestones**

## **Market Improvement Period 2007-2014**

- **End of the 10-Year Mandatory Transition Period, January 1, 2007**
  - Rate Freeze expires, market-based rates take effect; Utility PPO and transition fees expire. ICC auction results create rate shock/political push-back despite lower costs/savings when adjusted for inflation. Legislature passes IL Power Agency Act and \$1B rate relief by May.
- **IPA Power Procurement for Residential Customers, Competition Declarations for C&I Classes, RTO Membership, August 2007**
  - Rate Relief; 400kw-1MW, large C&I, declared competitive by law; ICC authorized to approve 100-400kW and 0-100kW declaration by utility petition; utility RTO membership authorized until July 1, 2022.
- **Utility Competitive Declaration of Medium-Size C&I (up to 400kw)/ICC Approvals, 2007 and 2011**
  - ComEd's Competitive Declaration Petition for 100-400kw customers, November 2007, ending bundled service May 2010
  - Ameren Competitive Declaration Petition for 150-400kw customers, May 2011, ending bundled service May 2014.

# **Retail Electric Competition Milestones Market Improvement Period 2007-2014**

- **C&I Market Takes Hold/Grows in ComEd-Ameren Post January 1, 2007**
  - In ComEd, 42,308; in Ameren 12,578 = 54,886 total by 2008
  - In ComEd, 26% of small commercial, 61% medium C&I, 89% large C&I, 97% extra large C&I usage is ARES provided by 2008
  - In Ameren's 3RZs, 32-47% of electric usage <1MW C&I, 96% of electric usage >1MW C&I in AmerenIP-CIPS, and 68% of electric usage >1MW in AmerenCILCO is ARES provided, by 2008
- **Residential Market Jump-Started: Utility Combined Billing & Purchase of Receivables, First ARES Offer, Fewer Barriers, Muni-Agg 2007-11**
  - UCB/POR, Retail Competition Act 2006 becomes law, August 2007, removes billing/back-office obstacle, level playing field for ARES
  - ARES Reciprocity Requirement repealed by law, January 2008
  - Blue Star Energy starts Residential pilot offer in ComEd, April 2008
  - Municipal Aggregation/ARES competitive bid legislation is law, October, 2009

# Retail Electric Competition Milestones

## Market Improvement Period 2007-2014

- 24-month Minimum Stay Requirement reduced to 12 months for R/SC customers by legislation becomes law, August 2011
- **Residential Customer Switching Takes-Off 2010-2014**
  - 1,100 ComEd and under 200 Ameren residential customers ARES served, May 2010.
  - 21,276 ComEd and 951 Ameren residential customers ARES served, June 2011
  - 406,144 ComEd and 88,335 residential customers ARES served largely due to 200 active Muni-Agg programs, June 2012
  - 3,028,270 residential customers on ARES supply up from 2.875M in 2013 due to 642 active muni-agg programs. 68.5% ComEd and 63.9-74.1% of Ameren residential customers on ARES supply, May 2014. (Peak Period; nearly 1.254M decline 2015-18 due to muni-agg program non-renewals (e.g. Chicago))



# **Retail Electric Competition 5 Years Later**

## **Less Residential, C&I Robust, New Rules 2019**

- **Residential Customers Decline about 1.254M by 2018 after 2014 Peak, Slight Upswing in 2019, Different Utility Profiles**
  - 1,777,424 residential customers on competitive supply. Third highest number of residential retail choice customers after TX and OH (U.S. EIA)
  - 1,149,911 (32.1%) ComEd residential customers on ARES supply. 58% individual contract served, 42% muni-agg served. Usage/load ARES provided is 36%.
  - 627,513 (60% av.) Ameren residential customers on ARES supply. 70% muni-agg served, 30% individual contracts. Usage/load ARES provided is 60%.
- **C&I Market Stable and Robust**
  - In ComEd, usage/load ARES provided is 83%: Small 58%; Medium 77%; Large 88%; Very Large 97%; In Ameren (3 RZs), usage/load ARES provided is 88%: Small 67-69%; Medium 81-85%; Large 85-88%
- **ICC Part 412 Market Reforms of May 2018 and AG Raoul/SB 651 Market Reforms signed August 2019 established in response to customer complaints, misleading sales practices, and deceptive ARES conduct.**

# Prospect for Retail Electric Competition

## After 2019 – The Short Story

- ❖ **What is the Prospect for Retail Electric Competition and Customer Choice in 5 years?** (More pointedly: Will ARES remain a viable alternative choice to utility supply service?)
  
- **C & I Market Prospect: Bright, Certainty, Successful Performance**
  - Retail Competition has reduced energy operating costs and provided energy management products affecting the business customer's bottom line that will continue to be a powerful economic development tool for business attraction, retention, and expansion. (Energy is 20-40% of most businesses operating costs)
  - That nearly all business size usage classes, except for the small commercial customer (0-100kWh ComEd/0-150kWh Ameren), have been declared a competitive service by legislation or Commission Order and are no longer eligible for utility bundled service, provides continued certainty that ARES service will thrive in this market.
  - IRMA, IMA, State Chamber, IIEC, Chemical Industry Council, among other business groups strongly support retail competition.

# Prospect for Retail Competition After 2019 – The Short Story

- **Residential Retail Market Prospect: Less Clear, Mixed Record, But Potential Growth Opportunities**
  - ARESs continued viability in the residential market vs. the Utility Price-To-Compare (PTC) going forward is less clear and will likely hinge on at least two factors (assuming lawful market conduct):
    - The ARESs ability to demonstrate product value and innovation to customers that want choice, control, and convenience and to meet muni-agg community supply priority objectives both at a competitive and reasonable price vs. the utility PTC—not necessarily equal to or lower than the Utility PTC.
    - Regulatory and legislative energy policy actions that are influenced by the incumbent utility and/or by consumer and environmental advocates.

# Prospect for Residential Retail Competition After 2019: The SWOT Analysis

## STRENGTHS

- **SB 651: Strict Market Rules and Enforcement = A Fair and Effectively Functioning Competitive Retail Electric Market**
  - 500K bond to serve + 500K bond for In-Person Solicitation will toughen capital requirements, “skin-in-the-game,” D2D and static booth accountability (industry proposal). Likely to weed out marginal ARES.
  - LIHEAP/PIPP Enrollment Ban will thwart low-income and minority targeting (industry proposal).
  - AG CFA Enforcement of Part 412 Rules + class action lawsuit exposure will clean-up overall market, root out bad actor/marginal suppliers.
  - ICC On Its Own Motion Enforcement allows ICC to act on its findings rather than on the basis of a consumer formal complaint. Compliance Plan to correct/improve supplier performance is an option to license suspension or revocation if conditions warrant (industry proposal).
  - Auto-renewal “express consent” for variable rate contracts will combat “teaser rates” and upend that business model.
  - PTC on marketing materials/utility bill, other price disclosures will ensure transparency, more informed consumer (industry proposal).

# Prospect for Residential Retail Competition After 2019: The SWOT Analysis

## STRENGTHS

- **The ARES Value Proposition**

- “A customer’s preference extends beyond cost to control, certainty, convenience, and comfort that contributes to customer value – that is the value proposition.” (Dr. Sara Mullen-Trento, EPRI, MARC Conference June 2018)
- “As Commissioners we must drive value for the consumer. We must focus on value, not least cost. Allow the utility to make money but require performance. Give the consumers what they want: convenience, control, and choice.” (Missouri PSC Commissioner Scott Rupp, MARC Conference, June 2018)
- For certain customers it’s saving money, or price stability that the utility price cannot provide, or incentives, or bundled services, or bundled products. Some customers seek/demand more than one of the above.
- Overall, the residential market is evolving from a commodity price only paradigm to a commodity plus suite of value-added products that customers want and are demanding as in other network industries.

# Prospect for Residential Retail Competition After 2019: The SWOT Analysis

## STRENGTHS

- **Product Differentiation: Supply Mixes, Value-Added, Terms, and Prices**
  - Fixed price, “Free Days,” customized pricing on customer’s historic usage
  - Voluntary green products, local renewable energy projects, environmentally preferred power, solar projects
  - Integrated hardware/services: free or reduced-price smart thermostat; energy management software and hardware; home device upgrades; home warranty products for HVAC, hot water heaters, other appliances saving energy
  - An ARES product may not be and likely will not be the identical equivalent of the utility product and reflects the product price difference compared to the utility, including customer acquisition costs and risk premiums to serve.
- **Customer Appeal and Customer Complaint Rate**
  - ARES service appeals to a certain customer segment (beyond muni-aggregators) and is growing: In ComEd, 58% of ARES-served are individual supply contracts. In Ameren, 30% of ARES-served are individual supply contracts.
  - In Ameren, individual supply contracts have grown from 66,281 in 2017 to 181,246 in 2019.
  - <1% per month complaint rate (0.006%-0.01% of ARES customers, ORMD)

# Prospect for Residential Retail Competition

## The SWOT Analysis

### WEAKNESSES

- **Price vs. Price Plus Value Debate**
  - For market critics, it's price/cost compared to utility service
  - For competitive market advocates, it's lowest possible competitive price for a service that reflects customer's preferences and energy choice decisions (assuming no misleading or deceptive conduct).
    - If ARES service, on average, is priced higher than utility supply service, the question should be: Is the ARES product offer reasonably priced based on the customer's supply decision vs. "plain vanilla"/basic utility supply service that the customer would have received?

# Prospect for Residential Retail Competition

## The SWOT Analysis

### WEAKNESSES

- A fairer/granular price comparison: A ComEd/Ameren ARES customer paid X.XXX cents/kWh more than PTC/PEA or \$X.X X more monthly than the utility customer. Treat similarly to rate case/energy legislation effect on monthly/annual customer bill, e.g. \$9 -10 mo./\$108-120 yr.
- While there are diverse products and services available in the competitive market, the unifying them is a commodity product— frequently but not exclusively a fixed price—where a customer’s rate may not be below the utility default rate but the total bill is competitive b/c of the effect of the efficiency upgrades.
- The ORMD PTC comparison is an incomplete analysis b/c it doesn’t account for ARES product differences/pricing to utility service.



# Prospect for Residential Retail Competition

## The SWOT Analysis

### WEAKNESSES

- **Access to AMI Data**
  - The current protocols are a barrier to ARES TOU development and other product offers and are not designed to accommodate today's evolving marketplace and technologies.
- **Too Many 1 & 2 Star Suppliers Serving the Residential Market**
  - 12 ARES are 1-Star and 8 ARES are 2-Star rated. That 20 out of 54 suppliers (37%) are performing at a higher than average complaint rate or at the highest complaint rate is unacceptable; harmful to the industry's reputation and customer's retail competition experience.
- **Third Party Sales Agent Disconnect with Supplier**
  - Lack of product education, questionable tactics, ineffective oversight. Current disconnect could improve with SB 651 mandatory semi-annual training and ICC program oversight. In the end, the supplier is accountable even if the sales agent is not held accountable.

# Prospects for Residential Retail Competition

## The SWOT Analysis

### OPPORTUNITIES

- **Individual Supply Contract Growth vs. Muni-agg**
  - Likely a majority on its own or from enrolling ex-muni-agg customers
- **Access to AMI Data**
  - Reaching an accommodation with utility, AG, consumer groups, privacy advocates and finding a legislative solution?
- **Competitive Declaration of Last Commercial Class (0<100kW/0<150kW)**
  - ComEd/Ameren switching statistics/ARES numbers exceed minimum requirement
- **Retail Market Improvement**
  - The ARES business model must differentiate itself from its competitors and the utility, be customer focused, respond to customer preferences.
  - The value of the competitive retail market is primarily through its variety and ability to combine values. The retail marketplace improves as there is more regulatory support, fewer market barriers, and emerging technology to offering new and different products.

# Prospect for Residential Retail Competition

## The SWOT Analysis

- **Threats (Potential)**

- Re-regulation of the residential market
- Expanded Role of Utility vs. Diminished Role of Competitive Market
  - Expansion of Utility programs into today's competitive market space.
  - Utility Platforms and Transactional Services
  - Microgrid Expansion throughout utility service area
- CEJA Legislation
  - Carbon free supply mandate for ARES; mandatory Utility TOU rate offer; largely ignores competitive market issues in favor of utility as end-all energy partner for consumers

# Thoughts on Residential Retail Electric Competition By 2024 (25<sup>th</sup> Anniversary/IRPS Conference)

- Today's 1-Star and 2-Star suppliers will be forced out of the residential market by choice, by enforcement actions, or by acquisition from medium-larger scale, well-established, and capitalized suppliers.
- Substantial market consolidation among suppliers will likely occur resulting in 15-20 active ARES (including their acquired affiliates operating under the original brand name) from today's 54 active suppliers due to SB 651's requirements and legal exposure, thin operating margins, and market conditions (latter already occurring in retail choice states).
- The price differential between ARES service and utility bundled service will likely narrow (fewer variable rate contracts, well-established suppliers, customer retention strategies, energy policy rate increases on utility).

# Thoughts on Residential Retail Electric Competition By 2024 (25<sup>th</sup> Anniversary/IRPS Conference)

- Minimal consumer complaint “horror stories” and informal ICC complaints will likely occur as reputable suppliers survive and dominate the market.
- ARES service will continue to appeal to a certain customer segment whose preference extends beyond price. Price will be the decision driver for most muni-agg programs, but for others supply options and local priorities will be choice driver.
- The residential market will likely grow if barriers are removed, price is competitive, and new technologies emerge that customers want.
- The residential market landscape may look much different structurally than it does today due to energy policy decisions and utility revenue growth priorities.

# **Thoughts on Residential Retail Electric Competition By 2024 (25<sup>th</sup> Anniversary/IRPS Conference)**

**The question is: Will the utility of the future emerge as the 1-Stop Shop energy partner for consumers that competes against or displaces the ARES with programs and services that are competitive market services today?**

# Illinois Competitive Energy Association (ICEA)

- ICEA Member companies include:
  - Constellation (an Exelon company)
  - Direct Energy Services
  - Illinois Energy (Southstar Energy/Southern Company)
  - IGS Energy
  - MC Squared Energy Services
  - NRG Energy (including Energy Plus, Green Mountain, Xoom brands)
  - Vistra (including Dynegy Energy and Homefield Energy brands)

# THANK YOU

- Source Material:
  - ICC Assessment of Competition in the Illinois Electric Industry: Findings and Recommendations (January 2003); ICC Assessment of Competition in the Illinois Electric Industry in 2002 (April 2003)
  - ICC Competition in Illinois Retail Electric Markets 2003 (April 2004); 2004 (April 2005); 2005 (May 2006)
  - ICC Retail and Wholesale Competition in the Illinois Electric Industry: Third Triennial Report (May 2006); Fourth Triennial Report (Nov. 2009)
  - ICC Annual Report on Electricity, Gas, Water and Sewer Utilities (1999-2018)
  - ICC ORMD Retail Electric Competition Report (2008-2019)
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