

# **The Transition to Retail Competition in Energy Markets: How Have Residential Consumers Fared?**

## **Part One: An Analysis of Residential Energy Markets in Georgia, Massachusetts, Ohio, New York and Texas**

by  
*Barbara R. Alexander*

## **Part Two: An Analysis of Opt-Out Aggregation in Massachusetts and Ohio**

by  
*Matthew H. Brown*

September 2002

Prepared for  
**The National Energy Affordability and Accessibility Project  
National Center for Appropriate Technology**

This project was undertaken in late 2001 as a part of NCAT's National Energy Affordability and Accessibility Project. It was designed to gain quantitative and qualitative information on the impacts of electric and natural gas retail market competition (also called energy industry restructuring) on residential consumers, particularly low- and moderate-income households.

From its onset, the project recognized that the full implications of restructuring for residential customers were years away in most of the 25 or so states that have restructured their energy industries. Even in states that have formally adopted restructuring, several have halted or substantially delayed full implementation, particularly for residential customers. However, in a handful of states, electric and natural gas supplier markets have been open to competition, although the degree of customer choice available to residential customers varies widely.

This project focused on several states that have exposed residential customers to market-based pricing. It also offers examples of municipally based aggregation and market-based pricing for Default Service (service for those consumers who do not choose a new provider, who are terminated from that provider, or whose relationship with a prior supplier ends with selection or assignment of another provider). The states chosen for the analysis were Massachusetts, New York, Georgia, Texas and Ohio. With the exception of Georgia, where gas markets have been deregulated but electricity markets have not, the project focuses on electricity market issues.

Although these states are still in transition, they offer examples of market structure, state policies and programs for consumer protection and low-income programs, aggregation, and Default Service pricing that are important models for state restructuring efforts. The project did not focus either on California, where much has been written about restructuring, because its approach has not been replicated elsewhere, or on another prominent state, Pennsylvania, because that state's regulated pricing structure largely protects residential consumers from market-based pricing,

similar to Michigan, Illinois, Maryland, Connecticut, and the District of Columbia. In most of these latter states, no competitive market has developed for residential customers, although a substantial percentage of commercial and industrial customers in these states have access to competitive offers for electricity or natural gas.

While recognizing that all states are in the early stages of an ongoing and constantly changing experiment, the project consultants focused on one overarching question: Are residential consumers, particularly those with low and moderate incomes, better or worse off as a result of retail market competition as it existed from each state's opening date of competition? The study focused on developments from each state's initiation of retail competition through the first half of 2002. However, each state was (and continues to be) constantly changing, and there is not as yet an "end" to this story.

The project consultants looked at the state's activities from several perspectives in order to develop profiles of each state that would be instrumental as a guideline for policymakers and others interested in the consumer impacts of restructured markets.

In the first of these papers, consumer affairs consultant Barbara Alexander examines each state in the context of its legislative and regulatory approach to energy market restructuring, prices and supplier activity once markets were opened to competition, billing and collection practices, consumer protection programs and policies, including the regulation of competitive suppliers, consumer education, default service pricing, and an overview of universal service programs. At the conclusion of each review, she offers preliminary observations and conclusions.

In the second paper, energy analyst Matthew Brown reviews municipally based aggregation strategies in Ohio and in part of Massachusetts that have given some residential and other smaller customers access to competitive prices and product choices – the most successful examples of this strategy so far.

A forthcoming study will examine how low-income consumers in the five states have been impacted by the transition to competition.

### **About the Authors**

**Barbara R. Alexander** is the former director of the Consumer Assistance Division at the Maine Public Utilities Commission, where she served from 1986-1996. She opened her own consulting practice in March 1996. Her special area of expertise has been the exploration of and recommendations for consumer protection, universal service programs, service quality, and consumer education policies to accompany the move to electric, natural gas, and telephone competition. She has authored "A Blueprint for Consumer Protection Issues in Retail Electric Competition," as well as a series titled: "Default Service: Can Residential and Low-Income Customers Be Protected When the Experiment Goes Awry?" for the U.S. Department of Energy. Her clients have included national consumer organizations, state public utility commissions, and state public advocates.

**Matthew H. Brown** has worked for more than a dozen years on state energy policy issues, ranging from electricity to energy and transportation issues. He serves as a consultant to state policymakers on energy policy issues and has testified before legislatures in more than 30 states, largely on electric industry regulatory issues. He has written numerous publications on the topic, including "Restructuring in Retrospect" and "The Electric Industry: State and Federal Jurisdiction." He holds a bachelor's degree from Brown University and an MBA from New York University.

### **Acknowledgements**

This document was prepared for the National Center for Appropriate Technology (NCAT) as part of its National Energy Affordability and Accessibility Project. Funding was provided by the U.S. Department of Human Services, Administration for Children and Families, Office of Planning, Research and Evaluation (Award Number 90XP0027/01).

The content of this publication does not necessarily reflect the views or policies of the U.S. Department of Health and Human Services, Administration for Children and Families.



National Center for Appropriate Technology  
P.O. Box 3838  
Butte, MT 59701  
406-494-4572