

---

# **Switching from Standard Offer Service to Competitive Service – Where is the Added Value?**

**UTECH 2000  
St. Petersburg, FL  
November 30, 2000**

**Assef Zobian and Rick Hornby  
Tabors Caramanis & Associates  
[www.tca-us.com](http://www.tca-us.com)**



# Presentation Outline

---

- ◆ Energy Aggregation -- Value Added Services
- ◆ What is standard offer service?
- ◆ To what extent have retail customers switched from standard offer service?
- ◆ Why are retail customers switching, or not switching?
- ◆ Trends in standard offer services.



## Retail competition – unbundled services

---

Generation – opened to competition, customer can choose third-party service (TPS) provider

Transmission and Distribution – remain monopoly services provided solely by utility

Customer services (e.g. metering, billing) – in states that are opening these services to competition customer can choose between utility and TPS



# Consumer Value-Added Services

---

## Sources of added value (will vary by market segment)

- ◆ Lower price at least as long as the Standard Offer price is set higher than the market price.
- ◆ Greater price certainty and cost control through customized pricing plans (e.g. annual fixed-price, annual "weather-proof" fixed bill)
- ◆ Savings in personal time (transaction costs) through internet based IT systems.
- ◆ Cost savings through aggregation of services( electricity, gas, appliance service and warranty, security systems, equipment leasing and financing).
- ◆ Cost reductions through more efficient scheduling of electricity use via improved internet-based communication of price signals, equipment/appliance control and metering.



# Cost Savings to Suppliers

---

- ◆ **Cost savings through aggregation and modernization of customers services (metering, billing, customer help desk, etc.).**
- ◆ **Cost savings by increasing purchasing negotiation power as the size of customers increase.**
- ◆ **Cost Savings by moving the function of back office to the consumer.**
- ◆ **Access to a wide range of consumers and databases that can be used for various marketing strategies.**



# Making the transition from monopoly to competition

---

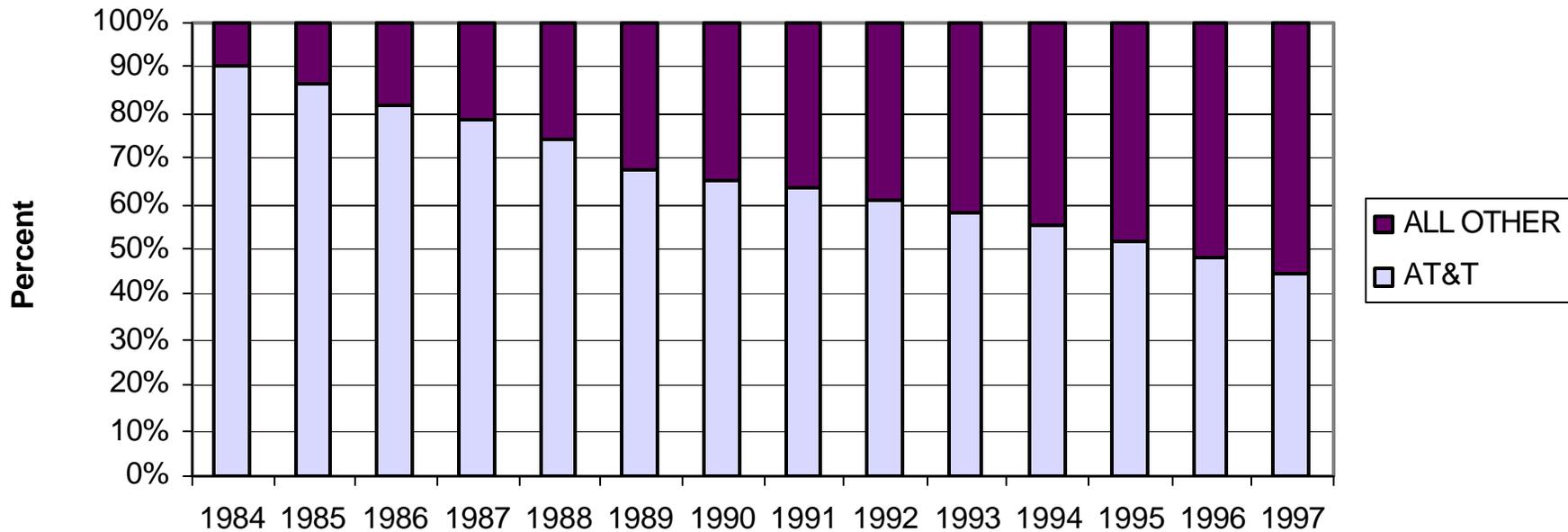
- ◆ Retail competition begins with all customers obtaining all services from their local utility.
- ◆ No state has **required** all customers to start obtaining service from a TPS by a certain date; this may change for large customers (eg TX).
- ◆ States have ensured service continuity through “standard offer” services that will remain in effect until “workable competition” materializes.
- ◆ This approach raises the question – how long will it take, and what added value will it take, for the majority of retail customers to voluntarily switch from standard offer service?



# The transition to competition took over 10 years in the long-distance telephone market

---

Long Distance Carrier Shares of Market Revenues



# Standard Offer Service

---

**Standard offer service - also known as default service, basic generation service, and last resort service.**

**Scope varies by state, but generally covers service to customers who**

- ◆ **Do not actively choose a third-party supplier (TPS)**
- ◆ **Cannot obtain service from a TPS**
- ◆ **Are no longer being served by a TPS**



## **Standard Offer Services**

---

**Most states have begun with fairly “attractive” standard offer services.**

**For example, in Pennsylvania PECO**

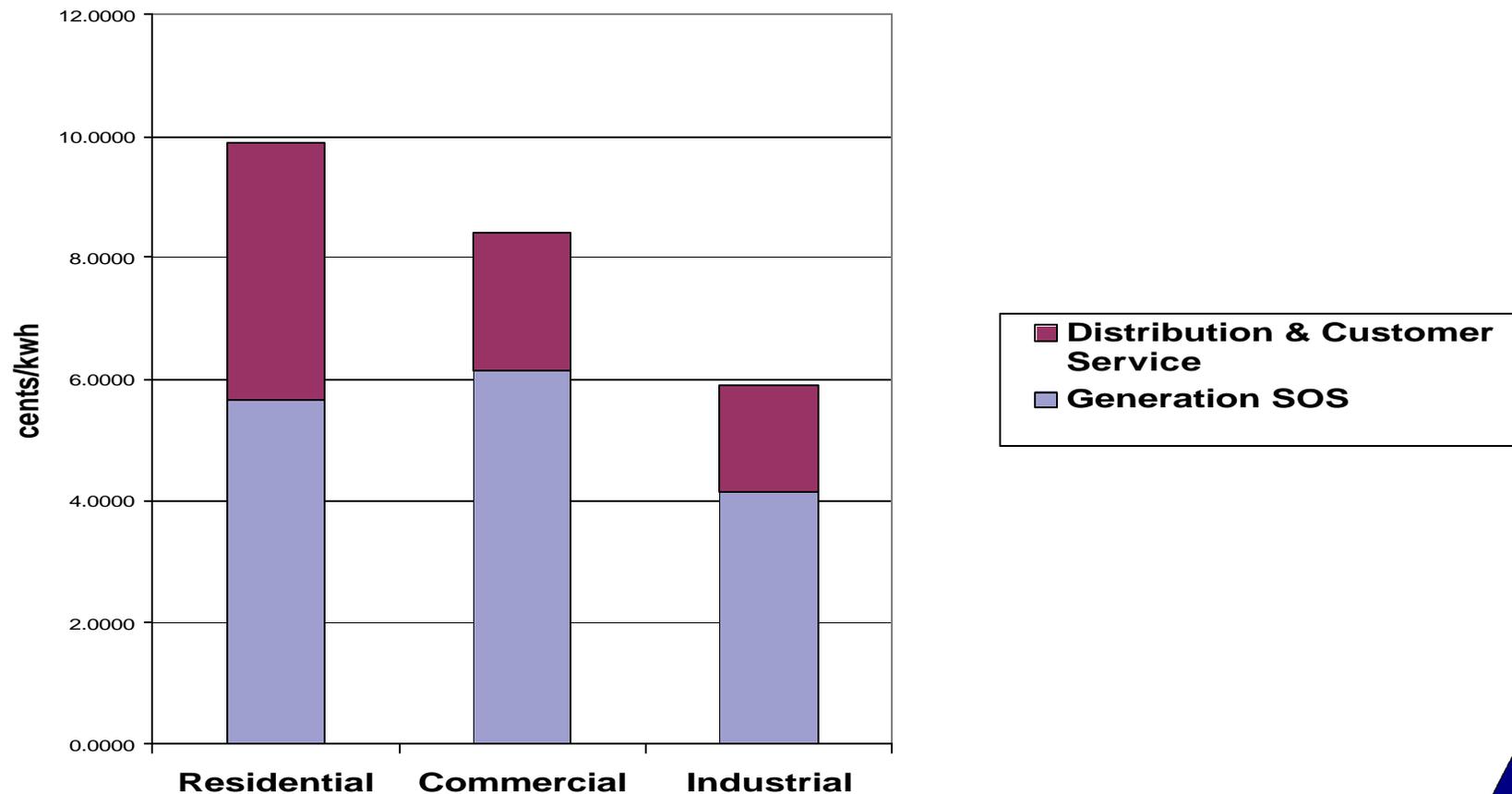
- set a fixed annual price by rate class by year (providing price certainty)**
- allowed customers to remain on SOS indefinitely (although SOS customers face the possibility of being assigned to another provider when 30% of SOS load is bid out)**
- did not prohibit customers from returning to SOS, but required them to remain for 1 year**



# Experience on PECO in PA

---

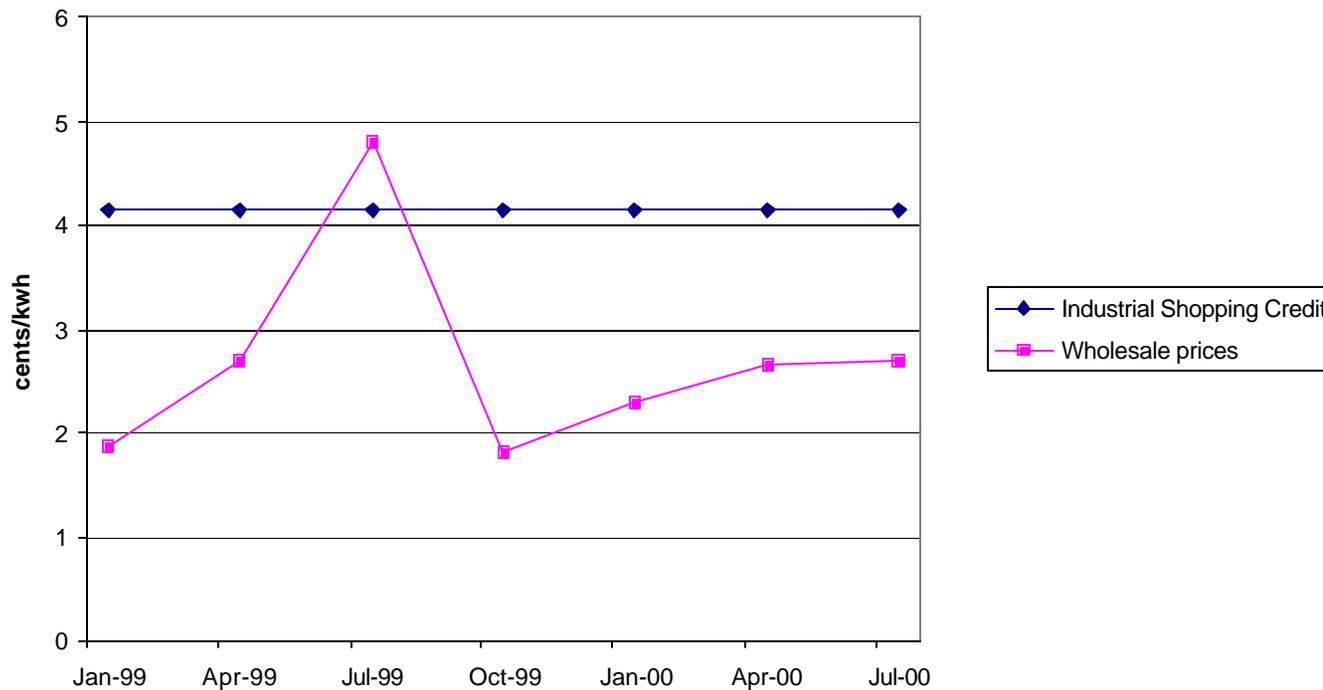
Generation, the service open to competition, represents a varying portion of total rates



# Experience on PECO in PA

SOS prices have been high, but certain; market prices have been low on average, but uncertain

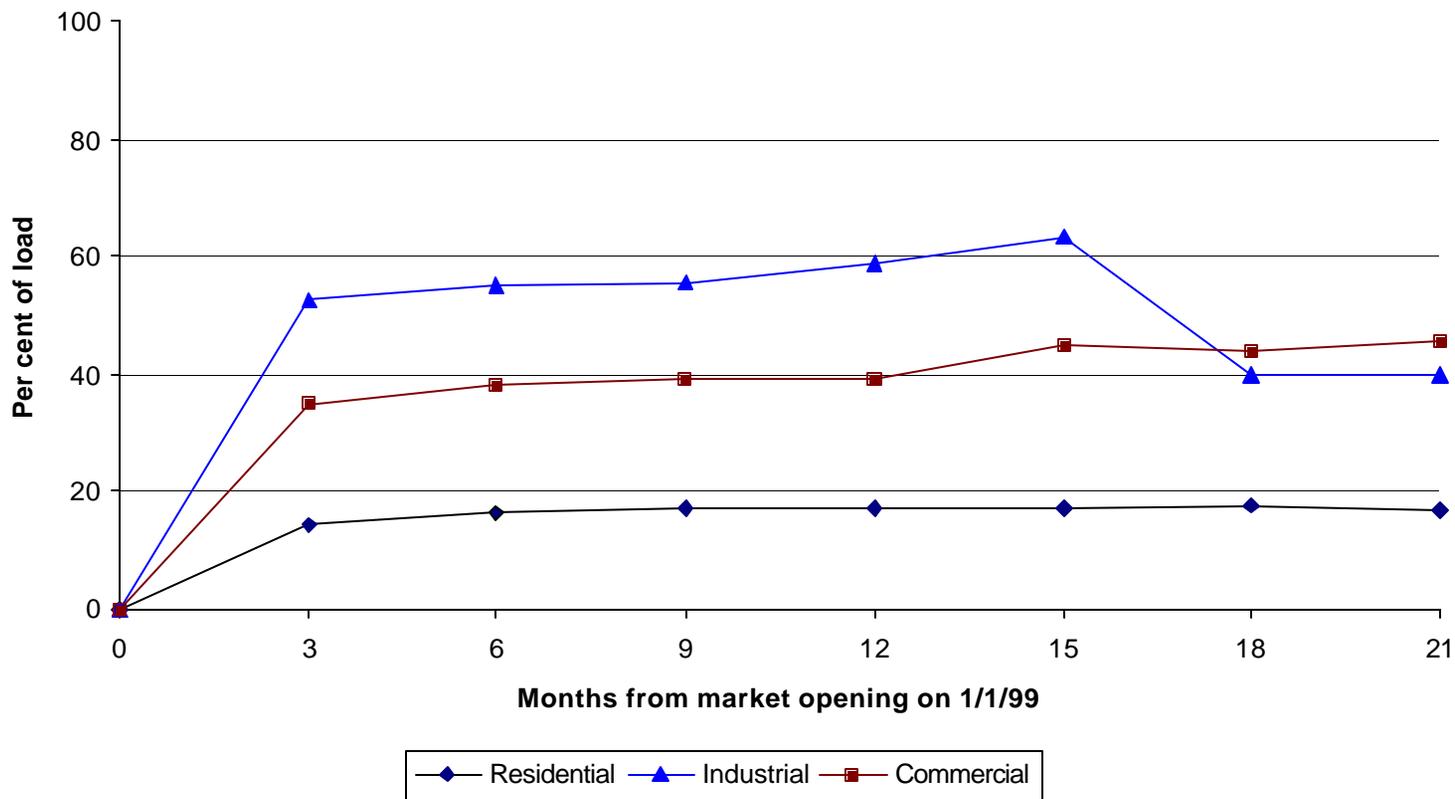
PECO (PA) - Industrial Shopping Credit vs Wholesale Prices



# Experience on PECO in PA

Initial wave of switching; some large customers returned for price certainty in Spring 2000.

Market Share (Load) served by TPS on PECO Since Inception of Retail Competition



## Switching from SOS

---

**Why have customers switched, or not switched, from SOS services? Where is the added value?**

- ◆ **Lower prices, lower costs?**
- ◆ **Greater price certainty, less price risk, greater cost control?**



# Experience on PECO in PA

---

Value of 5% generation price savings to an average customer

<b>Sector</b>	<b>Annual Use kwh</b>	<b>Standard Offer cents/kwh</b>	<b>Supply Cost \$/year</b>	<b>5% Savings \$/year</b>
<b>Industrial</b>	<b>4,600,000</b>	<b>4.15</b>	<b>190,900</b>	<b>9,5445</b>
<b>Commercial</b>	<b>60,000</b>	<b>6.14</b>	<b>3,684</b>	<b>184</b>
<b>Residential</b>	<b>9,000</b>	<b>5.65</b>	<b>509</b>	<b>25</b>



## Switching from SOS

---

### Sources of added value (will vary by market segment)

- ◆ Greater price certainty and cost control through customized pricing plans (e.g. annual fixed-price, annual "weather-proof" fixed bill)
- ◆ Savings in personal time (transaction costs) through internet based IT systems
- ◆ Cost savings through aggregation of services( electricity, gas, appliance service and warranty, security systems, equipment leasing and financing).
- ◆ Cost reductions through more efficient scheduling of electricity use via improved internet-based communication of price signals, equipment/appliance control and metering.



## Switching from SOS

---

**TPS will only be able to offer retail customers “added value” if standard offer services are ultimately limited in scope to be true vanilla commodity services of last resort.**



## Trends in SOS

---

- **Distinction in services between large volume industrial/commercial and small volume industrial, commercial, residential**
- **Term**
  - » **Minimum of one month**
  - » **Maximum**
    - ◆ **Initially - six months to 1 year**
    - ◆ **Ultimately - none**
- **Prices**
  - » **Initially - prices set for six months to 1 year**
  - » **Ultimately - set monthly according to a market index**
- **Provider**
  - » **utilities in some jurisdictions**
  - » **Bid-out to TPS in some jurisdictions**

