

Customer choice and electric cooperatives

BY STEVE ODEN

Wholesale power competition finally gains traction

... 10 years later

TEN YEARS AFTER THE GENERAL ASSEMBLY deregulated Ohio's electricity industry, the goal of legislators — allowing investor-owned utility (IOU) customers to choose their supplier of wholesale power, but not their delivery company — has slowly evolved. Spurred by a tweaking of the original customer choice bill with the passage of Senate Bill (SB) 221 in 2008 and declining market rates for wholesale power, electricity resellers today offer discounted short-term deals to IOU customers across the state.

Electric cooperative members and customers of municipally owned utilities aren't involved in this flurry of activity. They did not "opt in" to wholesale competition. The General Assembly allowed them to decide whether to join. Co-ops weighed price certainty against inevitable market volatility. The choice was for security, not short-term benefits.

As cost-based, nonprofit local utilities owned by the members who use the power, co-ops already had among the lowest generation rates in the state and still do, thanks to long-term planning and investment by Buckeye Power, Inc., their wholesale electricity supplier. Market uncertainty dictated by forces beyond the co-ops' control was too much like the early days of rural electrifica-

tion in Ohio. Back then, the co-ops did not own or control their power supply.

"Buckeye Power was created for the express purpose of providing stability and affordable rates," said CEO Tony Ahern. "The choice was made long ago not to rely on the market. Ohio co-op pioneers knew we had to have price certainty in order to achieve long-term goals."

Deregulation went into effect in 2001

Former Gov. Bob Taft signed into law the state's customer choice bill in 1999. It went into effect in 2001.

The law mandated an immediate 5 percent reduction in the cost of wholesale power among the regulated electric utilities. The savings averaged about \$3 per month for residential consumers. Ohio's electric cooperatives were excluded from this requirement.

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The General Assembly recognized the "Cooperative Difference," acknowledging that co-ops adjusted their cost of power regularly to reflect changes in generation efficiency, fuel expenses and inputs. In addition, lawmakers realized that co-ops are not geared to accrue profits for stockholders. Rates are cost-based, and excess margins are returned to members in the form of patronage capital.

The electric co-ops of Ohio decided to wait and observe how deregulation and retail choice unfolded. Through their statewide association, Ohio Rural Electric Cooperatives, Inc., they held focus groups across the state. The feedback from co-op members was loud and clear: They didn't like the idea of market risk exposure and possible rate volatility.

"The co-ops, through their boards of trustees, came to the decision that it would be better to wait, watch and learn," recalled Ahern. "There was no benefit through wholesale power savings because of our already low generation rates. Plus, it was not clear how deregulation would play out."

SB 221 finally spurred competition

Full-scale retail choice as envisioned in the original law was slow to take hold. Large industrial and commercial customers began to "shop" for better deals, but residential power supply switching wasn't the hotbed of competition that deregulation advocates had predicted.

SB 221 changed this by authorizing the Public Utilities Commission of Ohio (PUCO) to require for-profit utilities to file "standard service offers." These offers could include Electric Security Plans, providing price certainty and a degree of stability, or Market Rate Options, under which the cost of wholesale power would be fixed through competitive bidding. This opened the door to wholesale power auctions at a time when the market price of electricity was lower than it had been in years. The auctions returned favorable results.

However, the voluntary switching rate among IOU customers is still hard to pin down. This is because the utilities themselves through subsidiaries have offered their customers lower rates obtained through the bidding process.

The PUCO maintains an "Electric Apples-to-Apples Chart" on its website that lists the current suppliers' offers and the "price to compare." It is noteworthy that these offers include short-term wholesale discounts of up to two years, but also other incentives such as gift cards. Sometimes the "fine print" specifies the offer is limited to the first 15,000 customers who enroll, and there are also cancellation fees and other restrictions.

Although co-op members can't participate by "shopping" in the competitive power arena, their cost of wholesale electricity is and has been competitive with the best offers listed on the PUCO website — and with no special contracts, penalties or strings attached.

"It was a wise decision to wait and watch how retail choice would play out," said Ahern. "No one can predict how this market or any other will perform. When the wholesale cost of power rises again — and it will — consumers will have to pay more. The co-ops of Ohio a long time ago opted for price stability and the certainty that a competitive market cannot provide." ☺

Next Month: *Electricity aggregation efforts in Ohio.*