EcoPinion

Resurgence for Retail Electricity Choice and Competition?

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Introduction

EcoAlign, a strategic marketing agency focused on energy and the environment, conducted 1,000 online interviews in late March 2011. The sample was balanced to match the U.S. population by age, gender, region and ethnicity.

The primary objective for this eleventh EcoPinion Survey Report was to test consumer perceptions and attitudes in regard to consumer desire for more choices and more competition in the retail electricity sector. In addition, the survey was intended to gauge the kinds of new products and services of greatest interest to consumers.

In the 1990s, the federal government and several U.S. states initiated a "restructuring" or "deregulation" of the electric industry. The federally-regulated transmission grids and electric commodity markets were opened to give power-generating companies the right to connect to the grid and to sell power to electric utilities. At nearly the same time, about 20 U.S. states opened retail electric markets further to allow power sales directly to end use consumers. Several states terminated or restricted direct retail sale of electricity to consumers after the 2000-01 energy crisis in California. "Direct access" for the retail sale of electricity remains legal in 15 states.

The federal movement towards competition in the production of electricity has borne fruit. The wholesale market for electricity is competitive in those parts of the country where transmission grid operation is under the control of an independent system operator or ISO. There are long-term contracts for power and daily and even momentary financial transactions for electricity and the services necessary for grid operations. Prices are competitive, with numerous power producers, marketers and other service providers all aware of the inherent risks and rewards in electric markets and competing against one another to make a profit.

The direct retail sale of electricity has had mixed success during the past decade. Electricity sales to large commercial and industrial consumers are flourishing in most states that allow it. Power sales to smaller commercial and residential consumers are successful in a few states and need reform in others. So far, it appears that the Texas retail electricity market has been transformed significantly. Hundreds of retail electricity offers from dozens of suppliers are available. Industry observers believe that the Texas market is already providing innovative retail products and services, and it provides a good indication of what is possible for residential consumers.

Like the 1990s, the coming decade appears to be driven by forces that would encourage a move toward competition and the delivery of more choices for retail consumers. Among the important structural drivers that could lead to a resurgence in choice and competition are:

- Rising energy prices and numerous electric utility rate cases
- Electric reliability with utilities struggling to maintain, replace or build out infrastructure
- Increased consumer preferences for alternative energy resources
- Smart grid deployment with the creation of huge amounts of energy consumption data which will form a basis for new services
- Energy policy as a national topic of debates due to public concern over global energy markets, international relations and environmental degradation

Our nation's electricity industry is at a crossroads and change is in the air. As a result, new players are entering the market at a pace not seen in many years, including energy suppliers and large non-energy companies that see opportunities in the electric industry, including such companies as Google, Best Buy, and others.

EcoAlign thought it was important to ask American consumers directly what they thought about more choice in retail services and more competition among retail energy suppliers, energy marketers and power producers.

Are Americans aware of efforts to restructure the retail electricity markets? What do they think of competition in the electric industry? Do consumers prefer more choices – regardless of whether the local regulated utility or an energy supplier offers those choices – or more competition among suppliers? What comes to mind when Americans hear the words “energy deregulation?” What new products and services would be of most interest? And from a marketing perspective, what would they pay for, if they could receive better or additional services? Finally, what do Americans really value in terms of the offering and service provided from their electricity supplier?

The findings of EcoPinion No. 11 clearly point to overwhelming support for the concept of competition in the retail purchase of electricity. Eighty-eight percent of those surveyed thought it was a good idea. This holds true across all demographic segments and geographical regions of the country, and younger Americans (18-34 years) have even stronger support (90 percent) than older Americans (55+ years) (84 percent).

The American narrative confirms a market orientation and the purchase of electricity from competing suppliers. This provides grounds to support the proposition of a restructuring resurgence; however, there is a significant amount of work ahead with regard to raising awareness and restarting a national dialogue on the issue. Many of the other survey findings were more nuanced, especially in regard to the customer value proposition.

Other top line findings from EcoPinion No. 11 include:

- Americans are not particularly well informed about the prevalence or existence of electricity restructuring in their state. More than one quarter (27 percent) do not know whether they can purchase electricity from someone other than their local electric distribution utility. This is especially true of younger Americans (18-54 years) (32 percent) and renters (31 percent).

- Over half of Americans (53 percent) are not aware that several states allow consumers to purchase home electricity from someone other than their local electric utility. This, too, is especially true of younger Americans (57 percent) and renters (58 percent). An additional 14 percent of Americans don’t know; that is, they have no opinion one way or the other.

- When asked to indicate the response that is more important to them – “greater variety of choices” or “more competition among suppliers” – Americans gave a slight edge (53 percent) to “more competition.” Men (59 percent), older Americans (63 percent) and homeowners (62 percent) prefer “more competition.” Women (53 percent), younger Americans (51 percent) and renters (58 percent) prefer “ greater variety of choices.”

- Americans associate “energy deregulation” with a mix of negative and positive ideas. The most prevalent ideas mentioned when asked for *one word* to describe “energy deregulation” were: “higher costs,” "competition," and "choice." Many other words used to refer to energy deregulation including "loss of government control," "government," "lower costs," "cheaper," etc.

❖ When asked, "If your local electric distribution utility or energy supplier was to offer two new services for your home, which ones would you choose?" Half (50 percent) stated a strong preference for "solar programs." Significant numbers are interested in "energy efficient lights" (35 percent), "budget billing" (34 percent) and "green pricing" (31 percent). Budget billing was more appealing to renters than homeowners (39 percent v. 29 percent). Women are more interested in green pricing than men (34 percent v. 27 percent).

❖ Americans would pay a little extra for electricity if they received "new and better products and services" (55 percent), "faster restoration after outages" (53 percent), "a more diverse fuel supply" (44 percent), "convenience and no hassles" (40 percent), "excellent customer service" (38 percent), and "new payment & communications channels" (24 percent).

❖ With respect to their "greatest concern about the electric industry," more than half of Americans (58 percent) selected "electric rates increase too often" among five listed concerns. No other response was even close. One in five (21 percent) stated that they have "little or no concern" about the electric industry.

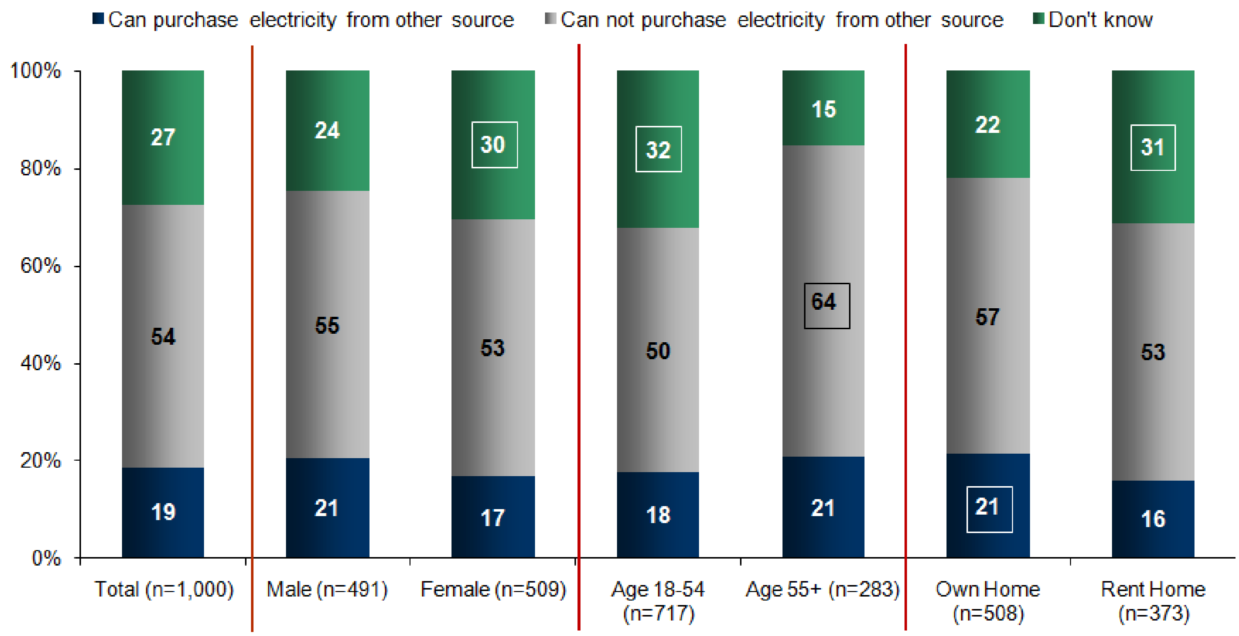
❖ The respondents were asked to compare pairs of words regarding their electric service and indicate their preference. When considering the following pairs, Americans selected:

- "Value" (53 percent) over "discounts"
- "Solving problems the first time" (65 percent) over "faster service"
- "Lower prices" (72 percent) over "lights on 99.9% of the time"
- "Energy management" (52 percent) over "budget management"

Consumer Awareness of Electric Restructuring

Americans are not particularly well informed about the existence or prevalence of retail electricity restructuring; that is, about "deregulation" or "restructuring" of the electric industry. These terms refer to the ability to purchase electricity from a business other than the local electric distribution utility. When asked if they could purchase electricity for their home from someone other than their local electric distribution utility, 27 percent of did not know. This is especially true of younger Americans (18-54 years) (32 percent) and renters (31 percent).

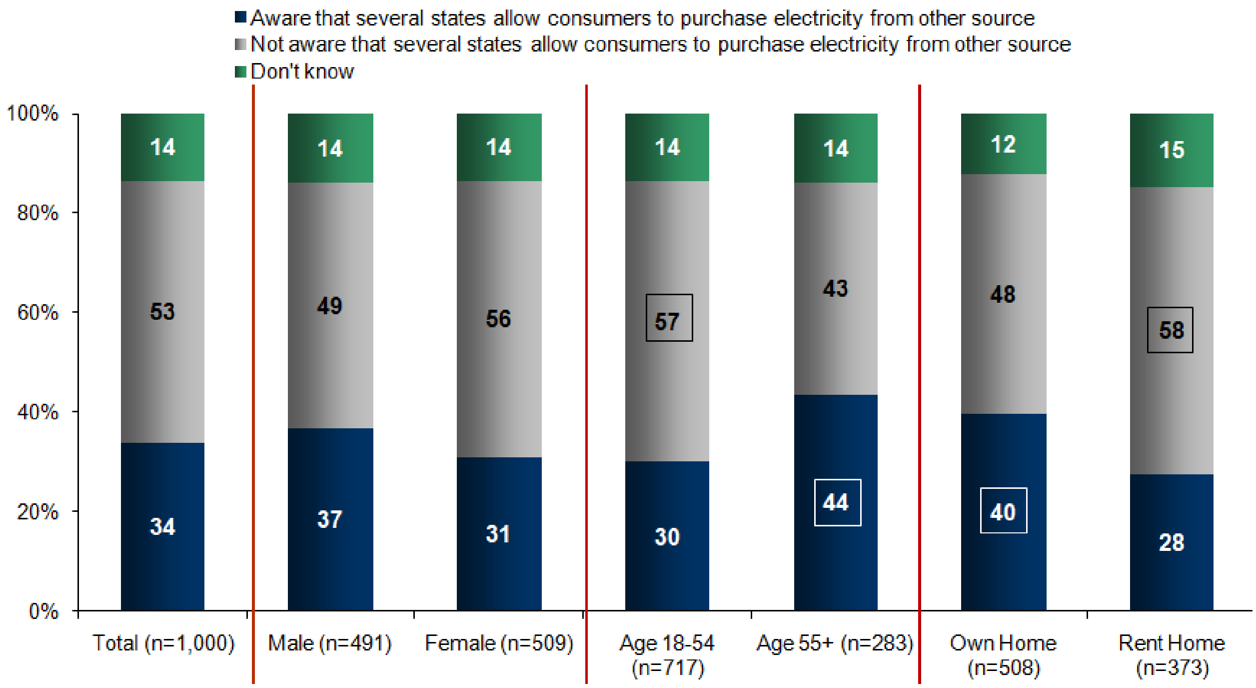
Awareness of Ability to Purchase Electricity for Your Home from Other Than the Local Electric Utility



In reality, several states allow the practice, and many do not, so differences based on geography matter. In fact, 40 percent of respondents in the Northeast Census Region responded that they could purchase electricity from someone other than their local utility, which is higher than the other three Census Regions: South, 16 percent; Midwest, 14 percent; West, 8 percent. That finding is consistent with reality because all but one northeastern state permits these sales. (See the appendix for more information.) Among those in a region who did not know, the South was lowest (23 percent), followed by the Midwest (27 percent), the Northeast (28 percent) and the West (35 percent).

Regardless of the laws in your home state, general awareness of the electric industry would make you aware of the situation in other states. In fact, over half of Americans (53 percent) are “not aware” that several states allow consumers to purchase home electricity from someone other than their local electric distribution utility. This, too, is especially true of younger Americans (57 percent) and renters (58 percent). An additional 14 percent of Americans “don’t know” which is to say they have no opinion one way or the other.

Awareness That Several States Allow the Purchase Electricity from Other Than the Local Electric Utility

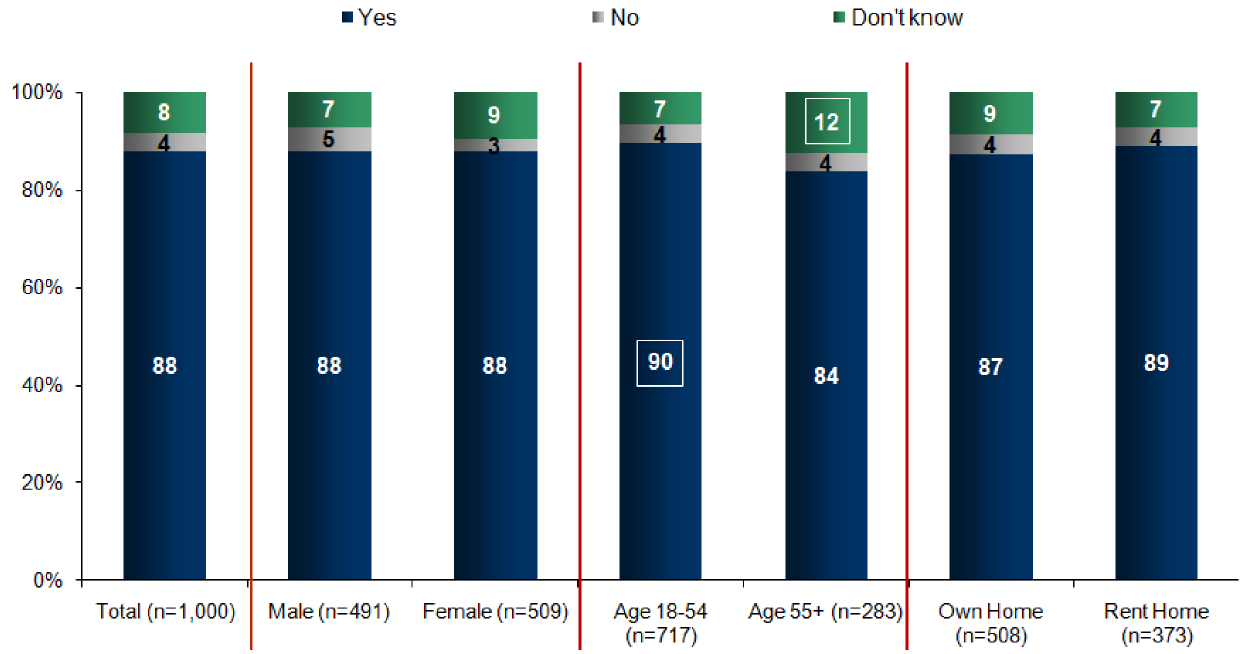


Consistent with the geographical findings just cited, 63 percent of respondents in the Northeast Census Region responded that they were aware that several states allow the retail purchase of electricity from someone other than the local utility. As expected, this is much higher than the other three Census Regions: South, 28 percent; Midwest, 27 percent; West, 24 percent.

Support for the Competitive Model

Americans strongly support the concept of competition in the retail purchase of electricity. In fact, 88 percent of Americans think it is a good idea for consumers to have a choice of electricity suppliers other than the local utility. This holds true across all demographic segments and geographical regions of the country. Younger Americans (18-34 years) have even stronger support (90 percent) than older Americans (55+ years) (84 percent). This confirms the American narrative that we prefer a market orientation and the purchase of electricity from competing suppliers.

Good Idea for Consumers to Have a Choice of Electricity Suppliers?

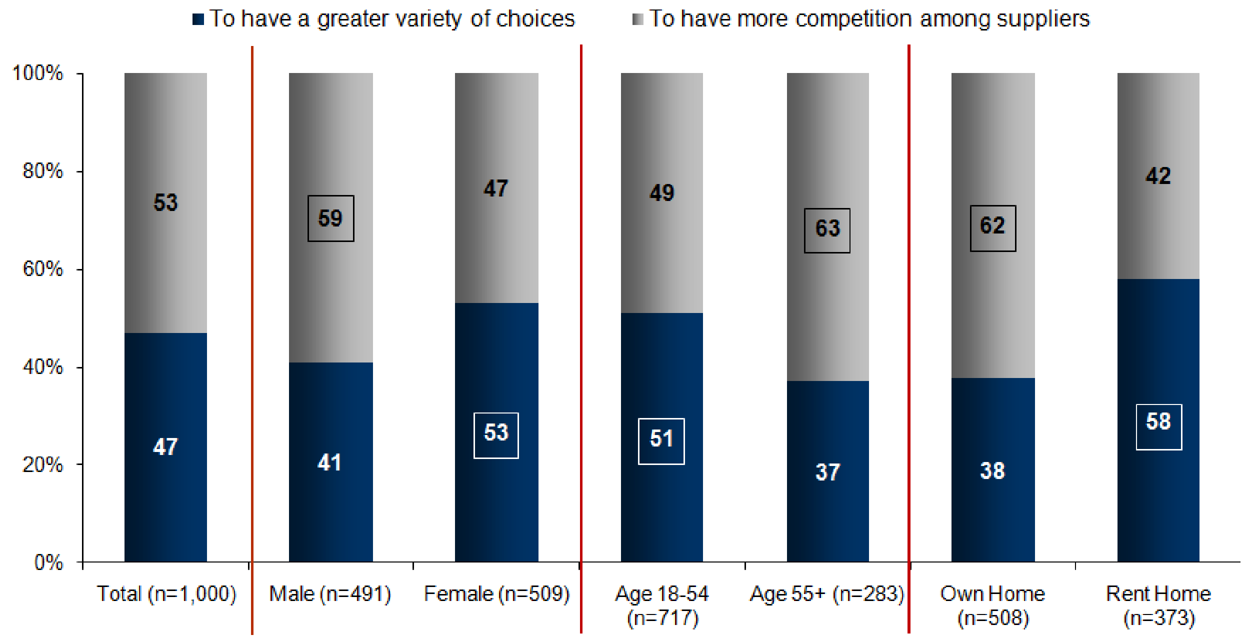


More Choice versus More Competition

When asked to indicate what is more important to them, “a greater variety of choices” or “more competition among suppliers,” Americans gave a slight edge (53 percent) to “more competition.” Men (59 percent), older Americans (63 percent) and homeowners (62 percent) prefer “more competition among suppliers.” Women (53 percent), younger Americans (51 percent) and renters (58 percent) prefer “a greater variety of choices.”

The gender and age differences are even more pronounced when we look in more detail. Two-thirds (68 percent) of older males (55+ years) favor “more competition among suppliers,” while two-thirds (68 percent) of younger females (18-34 years) prefer “a greater variety of choices.” Like older males, older females also favor “more competition among suppliers” (58 percent) but not as strongly, while younger males are evenly split (50 percent) between “more competition among suppliers” and “a greater variety of choices.”

Greater Variety of Choice versus More Competition Among Suppliers



Word Associations

The survey asked Americans to come up with one word associations for the term "energy deregulation." The most prevalent ideas mentioned were: "higher cost," "competition," and "choices."

One Word to Describe "Energy Deregulation"

Many other words were used, however, and there was such diversity that the some responses barely show up in the word cloud. Among those were "less government control," "government," "lower costs," "cheaper," "monopoly," "freedom," and "good." In other words, there is a mix of negative and positive words associated with deregulation. Further, over 20 percent of people surveyed responded “none” or “do not know” which gives additional support to a finding that many Americans are poorly informed about the meaning of regulation, deregulation, restructuring or the role of government in the electric industry.

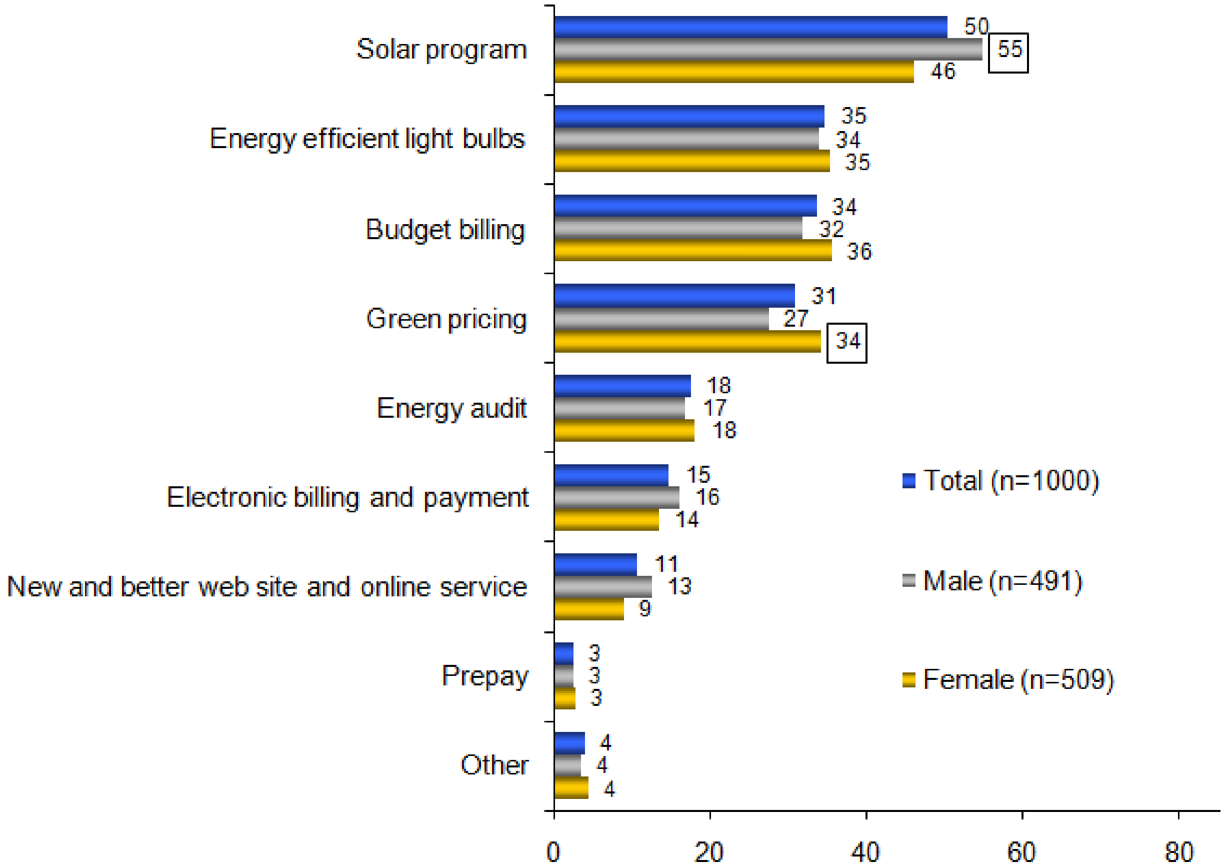
We also asked for one word to describe the local electric distribution utility. The responses were less diverse and less ambiguous, but split with regard to the overall feelings about the utility. “Expensive” and “monopoly,” which are negative, appear along with the numerous positive terms, including, “good,” “reliable,” “fair,” “efficient,” and “dependable.”

One Word to Describe the
Local Electric Distribution Utility

Choosing and Paying for New Services

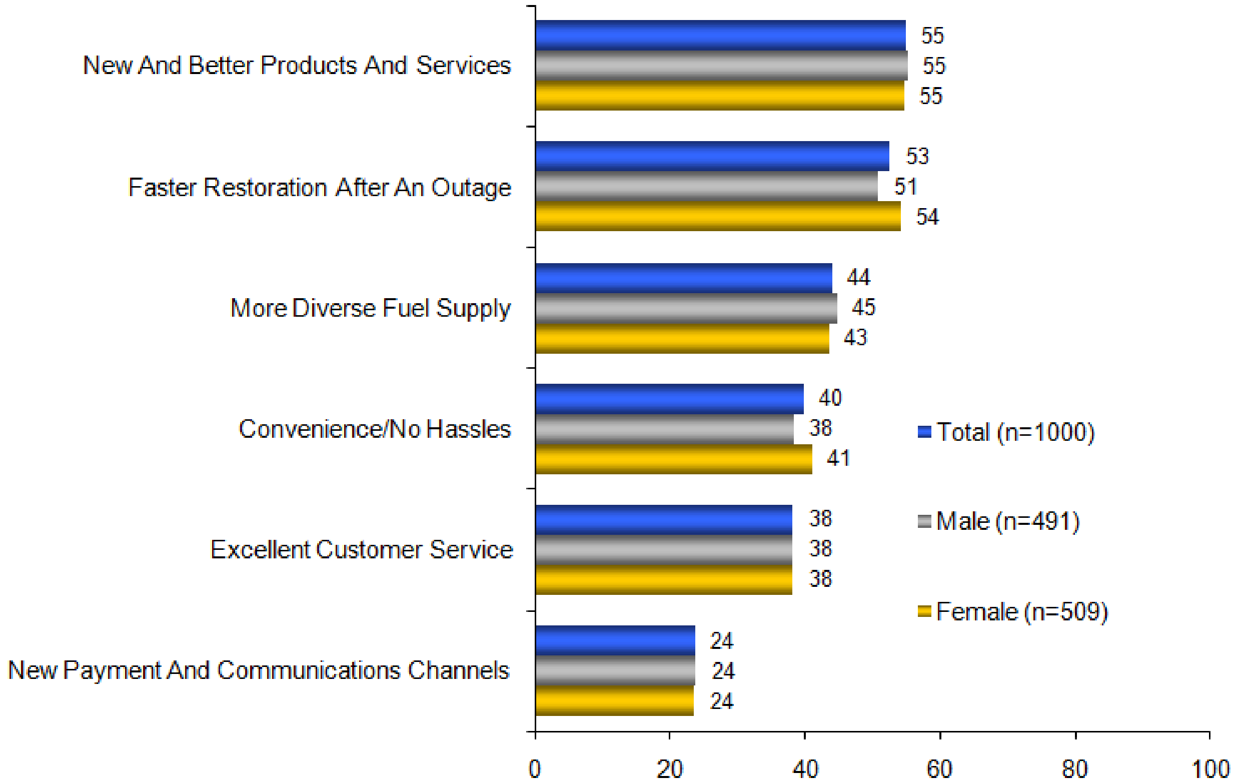
The survey asked, “If your local electric distribution utility or energy supplier was to offer two new services for your home, which ones would you choose?” Americans stated a strong preference for “solar programs” (50 percent), followed by “energy efficient lights” (35 percent), “budget billing” (34 percent) and “green pricing” (31 percent). Budget billing appealed more to renters (39 percent) than homeowners (29 percent). Women are more interested in green pricing (34 percent) than men (27 percent). Americans were somewhat interested in “energy audits” (18 percent), and interest was higher among homeowners (23 percent) and older Americans (25 percent). “Electronic billing and payment” was of limited interest (15 percent).

Two New Services You Would Choose



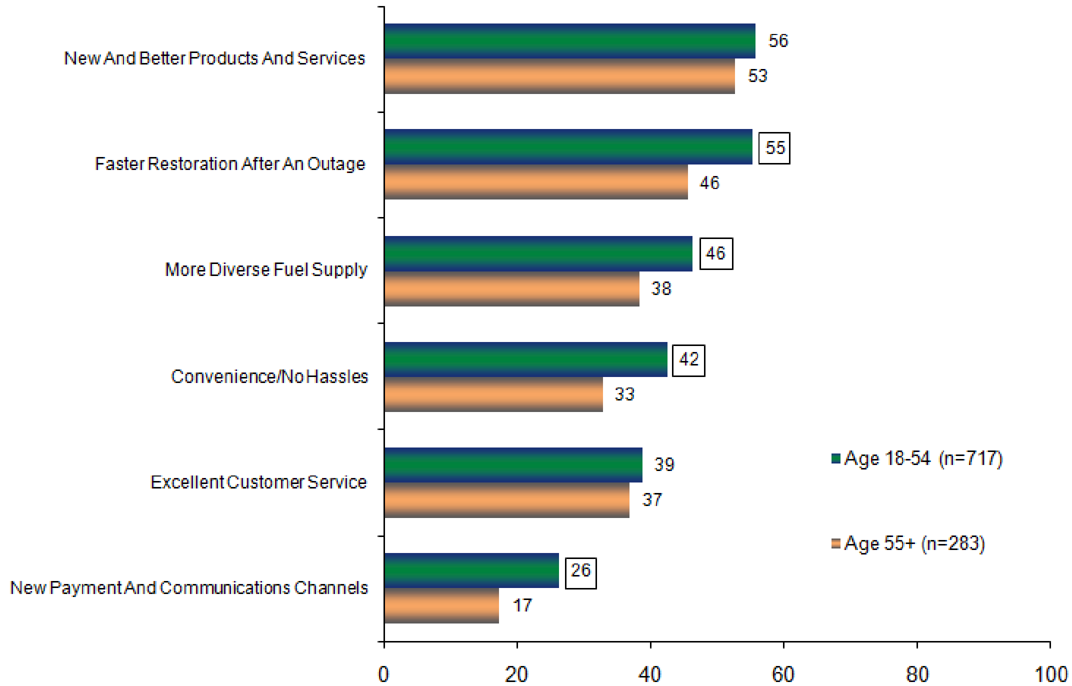
Next, we examined whether Americans would pay a little extra for electricity if they received "new and better products and services." Fifty-five percent said yes. Next, a slight majority (53 percent) would pay more for "faster restoration after outages."

Would Pay More for Electricity if These Services Were Offered

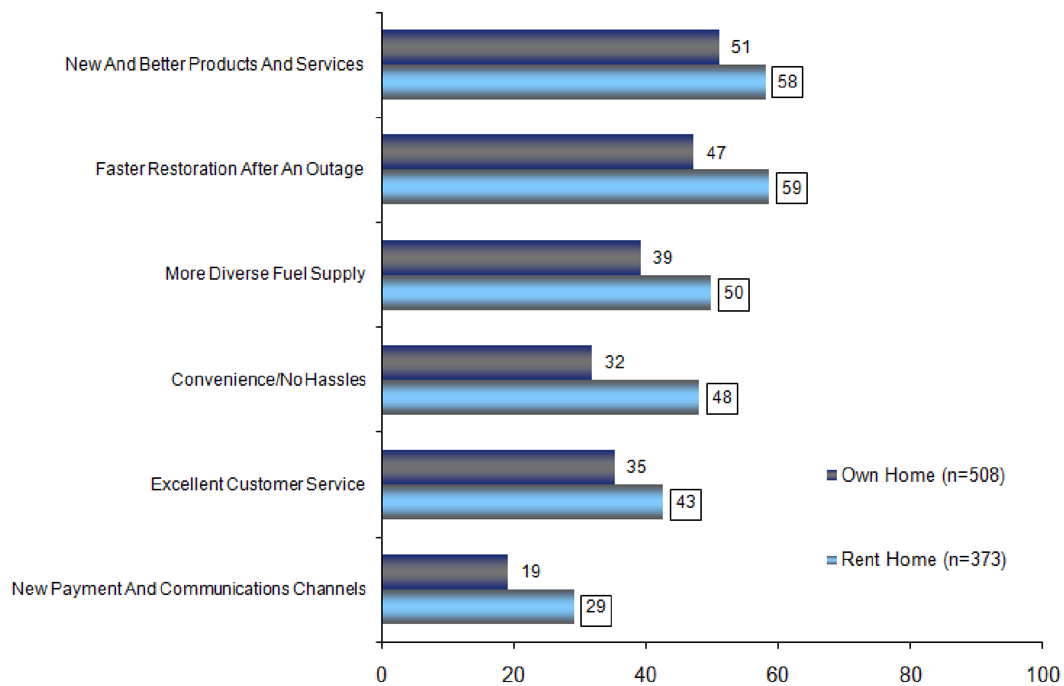


Falling below one-half were those who would pay a little more for "a more diverse fuel supply" (44 percent), "convenience and no hassles" (40 percent), "excellent customer service" (38 percent), and "new payment and communications channels" (24 percent). Younger Americans (18-54 years) and renters are more interested in a greater value of service, depending on the service. Younger Americans would pay a little more at a statistically significant level as compared to older Americans for four of the six listed choices. Renters would pay a little more at a statistically significant level as compared to homeowners for all six choices presented in this question.

Would Pay More for Electricity (continued)
Younger v. Older Americans



Would Pay More for Electricity (continued)
Renters v. Homeowners



Concerns

With respect to their "greatest concern about the electric industry," more than half of Americans (58 percent) selected "electric rates increase too often." None of the other four listed concerns was even close. However, about one in five (21 percent) stated that they have "little or no concern" about the electric industry. Women (61 percent) and even more concerned than men (54 percent) about electric rate increases.

Greatest Concern about Electric Industry

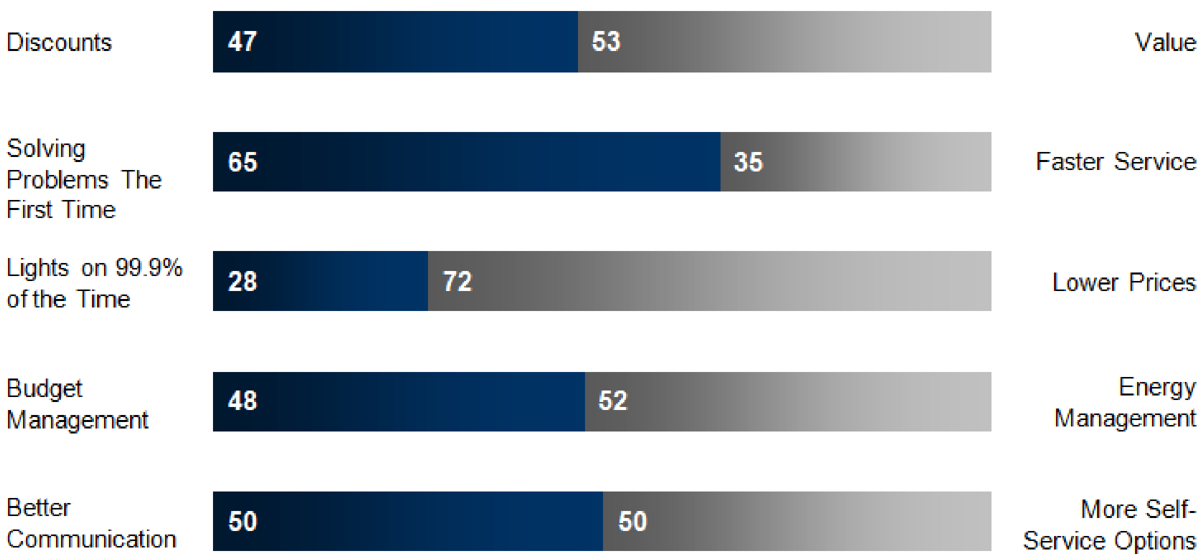
	Total	Male	Female	18-54	55+	Own	Rent
Total Respondents	(1000)	(491)	(509)	(717)	(283)	(508)	(373)
	%	%	%	%	%	%	%
Have a Concern (Net)	**74**	**70**	**76**	**75**	**68**	**71**	**77**
Electricity rates increase too often	58	54	61	59	55	57	62
Electric power goes out too often	6	5	6	6	6	6	5
I do not know who to trust	5	6	5	5	6	6	4
Customer service is terrible	3	4	2	4	1	2	5
Sales calls during dinner and too many electric competition ads on TV	2	2	2	2	1	1	2
None (have little or no concern)	**21**	**23**	**20**	**19**	**27**	**24**	**18**
Don't know	**5**	**7**	**4**	**6**	**5**	**5**	**5**

Importance of Words to Electric Service

We asked Americans to compare pairs of words/phrases and indicate which item is more important regarding their electric service. For example, we paired "discounts" with "value" and found a slight preference for "value" (53 percent). More significant was the preference for "solving problems the first time" (65 percent) as compared to "faster service" (53 percent). This supports the notion of value as suggested by fewer hassles in the long run, as opposed to a measure of raw speed. People want issues resolved once and for all.

Price tops reliability, as least in the way the following pair was presented. The respondents indicated that 72 percent would prefer "lower prices" over "lights on 99.9% of the time (28 percent). There are different interpretations of "99.9%" which was meant to suggest "high reliability," rather than any particular level of reliability.

Relative Importance of Words



What Does It All Mean?

Americans strongly support the concept of retail electricity competition and more choices in energy service offerings. Beyond a long-standing American inclination for freer markets over regulation, a primary driver of this finding is that Americans specifically are concerned about rising electricity costs and they are looking for more suppliers, a greater number of choices or the means for managing electricity costs.

Traditionally, most Americans have not been overly engaged with their electric utility except for service orders, power outage (lights go out), and paying the bill every month.

Our research is beginning to point to increased levels of engagement and a willingness to consider different options including premium services and pricing opportunities. There are many possible reasons for increased engagement, including, but not limited to, rising costs, economic hardship due to the recession, media coverage of energy issue, the relationship between international conflicts and energy, greater awareness to real-time/relevant information from smart meters, and so on.

In addition to the big picture drivers of increased customer engagement, what is occurring in the market itself needs to be considered. The growing success and penetration of retail energy suppliers in those states that have competitive markets is an important driver for innovation. In other words, retail energy suppliers have been introducing new products and service which create customer value, and, in turn, consumers are switching to those suppliers in greater numbers. Retail energy suppliers in Texas have introduced hundreds of pricing plans over the past few years and people are taking notice. Competitive suppliers are forced to engage consumers to acquire and retain them.

Utilities are also responding – albeit more slowly – to increase the number of product choices and programs available to consumers. However, most utilities do not have a true customer strategy. The value, to most utilities, of a more engaged customer relationship remains uncertain, because the utility's core business is the financing and managing of infrastructure and the core business is not as dependent on customer service and retention.

Is there a resurgence in retail electricity choice and competition? It is best to consider those two propositions – choice and competition – separately just as we did in the survey. Americans clearly are looking for more choices regardless of whether provided by a regulated utility, a competitive energy supplier or a non-traditional market participant.

Is competition the best way to deliver more and better choices to consumers? Many Americans are conceptually inclined to say yes. But as we have learned from past experiences with restructuring, the details matter a great deal. Those companies with the most at stake will be the most engaged in shaping those details.

"Energy deregulation" does not have a consistent or singular meaning to Americans. Regulation and the process of deregulation are complex, and Americans' impressions and reactions are very diverse. There is no common understanding of the significance and meaning of electricity restructuring.

So, while there is not a lot of common understanding yet of what competition means or could mean to consumers, there is at least a context for consideration of retail electricity competition again: rising energy costs, new products and services enabled by smart grid, consumer demand for alternative resources such as solar, and an increasing amount of innovation driven by marketers and new entrants. However, it is still perhaps too early to proclaim a resurgence, and certainly not in those states that have not yet opened their markets.

When considering what it would take to build a case for more choice and competition in the retail electricity market, EcoAlign makes the following recommendations:

1. **Choice**. All market participants – regulated utilities, marketers and non-traditional suppliers – need to focus on bringing more choices and innovation to retail consumers. As electricity prices rise, consumers have an expectation that the value proposition will be aligned with the price increases. Choices may range from new bill pay options, to better data access and analysis, to new programs for efficiency or even customer-owned generation. The consumers benefit from smart grid will not be realized unless new products and services are allowed to be introduced into the market – even if those products and services (such as prepay) are challenging traditional rules and practices.

2. **Energy management**. Consumers are looking for choices to better manage their energy costs. States that increase rates without better communication about choices have had swift and very damaging repercussions. Market participants and regulators should seek to adapt existing regulations to encourage more energy management choices, especially in states spending billions of dollars on smart grid infrastructure.

3. **Segmentation**. As EcoAlign has pointed out many times before, the industry needs to move from a “ratepayer” and “customer class” mentality to a much more nuanced, segmented and relevant approach. Consumers are individuals with different preferences, value sets and needs. This survey and other EcoPinion findings point to the possibility of brand development and premium pricing opportunities that would increase consumer satisfaction. There are signs that people are moving away from a focus on saving a few dollars today in favor of value creation over a longer period of time.

4. **National dialogue**. It is time for a national dialogue on energy policy to address the opportunities and challenges associated with competitive retail electricity markets. Americans seem more open to that conversation than any time in the past decade.

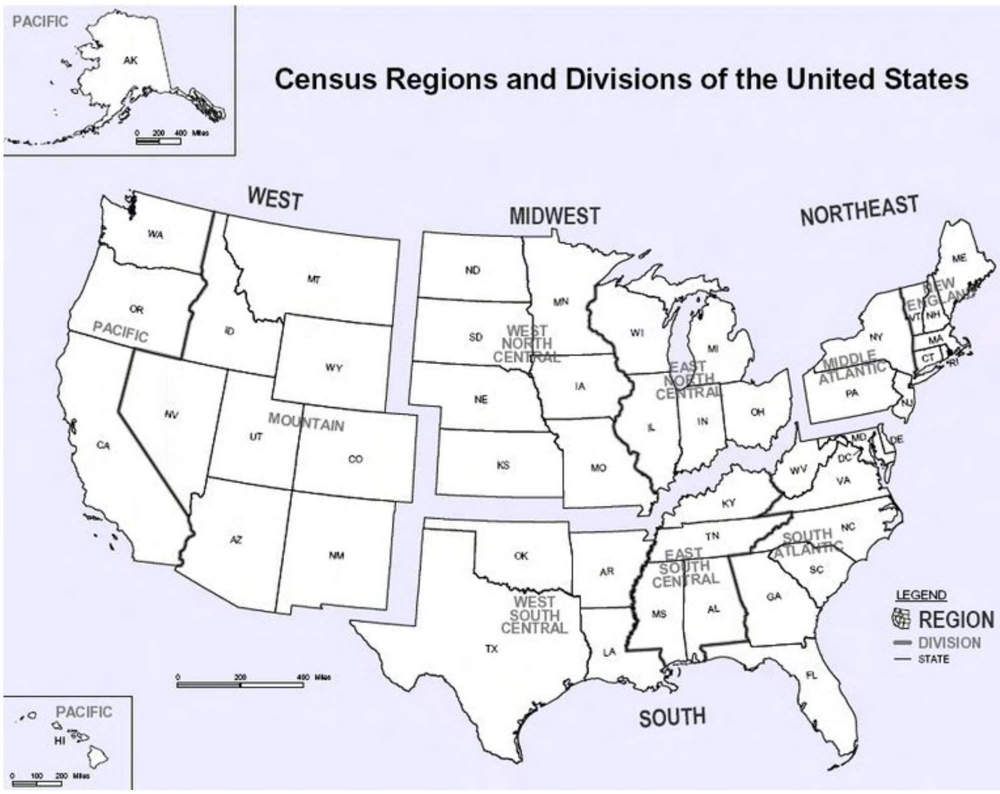
As with other EcoPinion consumer survey findings, this survey demonstrates that there are statistically significant differences among generations, between homeowners and renters, and by gender with regard to perceptions and preferences connected to choices and competition in the retail electricity sector.

Appendix

The survey responses are tracked by U.S. Census Region. For the purposes of Question No. 1, it is worth noting that the following states have authorized the retail sale of electricity to consumers by competitive electric suppliers:

- Northeast: Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania and Rhode Island. (All states except Vermont.)
- South: Delaware, Maryland, District of Columbia and Texas.
- Midwest: Ohio, Illinois and Michigan (to a limited degree).
- West: California (to a limited degree).

U.S. Census Regions



For more information about electricity restructuring in North America, see the *Annual Baseline Assessment of Choice in Canada and the United States* (ABACCUS), www.defgllc.com, December 2010, or contact Nat Treadway, ntreadway@defgllc.com.

For more information about this survey, please contact Jamie Wimberly at 202-483-4443 or jwimberly@ecoalign.com.

For more information about EcoAlign and other EcoPinion consumer surveys, visit our website at www.ecoalign.com.

EcoAlign: The Energy and Environment Agency

EcoAlign is the energy and environment marketing agency. We develop and execute marketing strategies for utilities, renewable energy providers and companies operating in the energy and environment space. We are uniquely suited to help companies achieve their business objectives, from reaching efficiency program targets and improving customer satisfaction, to launching new products, increasing market share and repositioning for growth in the green tech space.

Methodology

The survey was conducted online in March 2011 among a sample of 1,000+ online adults across the U.S. Figures for gender, age, and geography were weighted where necessary to match their actual proportions in the population.

In theory, with probability samples of this size, one could say with 95 percent certainty that the results have a statistical precision of plus or minus 3.1 percentage points of what they would be if the entire adult population had been polled with complete accuracy. Unfortunately, there are several other possible sources of error in all polls or surveys that are probably more serious than theoretical calculations of sampling error. They include refusals to be interviewed (non-response), question wording and question order, and weighting. It is impossible to quantify the errors that may result from these factors. This online survey is not a probability sample.

Online sample for the study was drawn from Survey Sampling International's SurveySpot online consumer panel. Survey Sampling is recognized as the premier sample provider in the market research industry. The SurveySpot panel currently has 1.6 million panel members who are recruited using a wide variety of online and offline methods, including website registrations, email invitations and telephone recruiting. For this study, invitations were e-mailed to potential respondents targeted by gender, age, census region and ethnicity.

These statements conform to the principles of disclosure of the National Council on Public Polls.