

What Customers Think about Retail Access: Results of the Massachusetts Electric Company's Pilot

Elizabeth Titus, New England Power Service Company, Northborough, MA
Eric Fox, Regional Economic Research, Boston, MA

ABSTRACT

This paper summarizes findings from the evaluation of Massachusetts Electric Company's Residential and Small Commercial Retail Access Pilot Program which was in effect in 1997. Customers in 4 cities within Massachusetts were offered the opportunity to enroll in the Pilot. Participants in the Pilot selected a supplier from a set of options, including low-priced generation, "green" and "other" options. Most participants in the Pilot are satisfied and most participants and nonparticipants feel "choice is important." However, the evaluation identified several significant differences between residential and commercial customers. Commercial customers have a higher level of awareness of retail access and a marked preference for lowest priced supply options. By contrast, price matters less to residential customers. Residential customers who opted not to participate in the Pilot have higher level of concern about retail access than the participants, suggesting that for residential customers, experience with the Pilot has been educational. Despite ambitious outreach efforts and educational campaigns, there is a large learning curve which many residential customers have yet to climb. These and other lessons learned about marketing and educating customers on retail access are discussed.

Introduction

Implementing a Pilot is an excellent way for an electric utility to learn how to prepare for the many challenges associated with impending retail access. One of the questions a Pilot can address is, What do customers think about retail access? The purpose of this paper is to summarize findings concerning this issue, based on the evaluation and other reports of Massachusetts Electric Company's Residential and Small Commercial Retail Access Pilot Program.

Background

Massachusetts Electric Company (MECO) is the largest of the four retail companies that are part of the New England Electric System (NEES) serving parts of Massachusetts, Rhode Island, and New Hampshire. MECO serves over 800,000 customers in Massachusetts.

Effective March 1, 1998 retail competition began to be implemented on a full scale basis in Massachusetts, the largest of the three states which NEES serves. The MECO Pilot represents one of a set of steps which NEES took in unbundling distribution and retail electricity services and preparing for full retail competition. In addition, NEES has sold the NEES generation assets and formed a new retail power marketing affiliate (AllEnergy).

The MECO Pilot followed on the heels of two other related Pilots. In May 1996 NEES began by participating in the highly publicized New Hampshire Pilot through its New Hampshire distribution company, Granite State Electric, and its New Hampshire marketing affiliate, Granite State Energy. The New Hampshire Pilot was offered statewide, open to all suppliers and to a set of customers selected by

lottery. Approximately 17,000 customers participated. It was coordinated primarily by the New Hampshire Department of Public Utilities.

In July 1996, MECO launched the first retail electricity Pilot program in Massachusetts when thirteen of MECO's largest customers who are members of the Massachusetts High Technology Council began receiving 40 MW of electric power from a supplier (XENERGY Inc.) chosen after a competitive bidding process. The High Tech Pilot continued until March 1, 1998, the beginning of statewide retail access.

The Residential/Commercial Pilot

The Residential and Small Commercial Retail Access Pilot began providing power to customers in January 1997. There were two compelling reasons for conducting a residential/commercial Pilot in Massachusetts. One was that the utility must have systems in place to manage the complexities of billing, accounting for generation settlement, power flows, metering, and customer service. With the New Hampshire Pilot, utilities quickly became aware of the complexity of unbundling electric services. They began to develop the processes and systems required. The MECO Pilot provided an opportunity to refine and further design systems to support retail competition on a much larger scale. Table 1 lists some of the transaction issues addressed in load settlement, billing, and data transaction systems designed in conjunction with the Pilots.

Table 1: Transaction Issues

Customers switching from one supplier to another
Who gets paid first when partial payments are made
Issuing "joint" (supplier and MECO) versus separate bills
Transferring billing units from customer information service to suppliers
Supplier access to customer load research data
Business rules and communications procedures between suppliers and MECO
Capacity shortfall conditions and responsibility for load interruption
Low income subsidies
What happens if a supplier drops a customer

The second reason for the Pilot was that, for retail choice to work, customers must understand the concept of unbundled electricity service and the potential savings from retail electric competition. The MECO Pilot provided the utility with an opportunity to develop experience in customer education with a large and diverse participant base, and with an opportunity to assess customers' reactions to their experience with retail competition.

Design of the Pilot. The Pilot had several unique design features. First, unlike the New Hampshire Pilot, the number of suppliers allowed to participate was limited by a bid process. The Pilot Administrator

received over 40 bids from 15 suppliers. Respondents were allowed to submit bids into one of six categories - three residential and three commercial pricing categories, including:

1. Low Price Option -- Proposals were evaluated on price and other offered services;
2. Green Option -- Proposals were evaluated based on environmental considerations; and
3. Other Option -- Proposals were evaluated based on price and other unique offered services such as real time pricing, in-home conservation services, and charitable contributions.

Six winning bids were selected; two to three bids in each of the bid categories, based on criteria which included price and service options as well as reliability and financial integrity of the supplier.

Another unique feature of the program is that the winning bids were summarized in a detailed ballot and provided to all eligible customers who requested the ballot. For each bid category, the ballot showed the supplier bid price, bonus offers (such as a month of free electricity or cash rebate), and an estimate of the “effective” rate (the effective rate factored in cash incentives or free electricity offers). This was the only Pilot where participating customers could actually compare the price and service offers of all the supply options. Pilot suppliers are required to meet all energy and service requests at the posted price and specified contract terms for a one-year period. (The Pilot, however, did not preclude suppliers from offering prices lower than posted prices; a number of commercial participants were in fact offered prices below the posted bids. Lower prices were made available to trade organizations such as municipalities and the Massachusetts Retail Association through aggregation only, and had to be indicated as a feature of the supply option in the bidding process. No minimum aggregated load was preestablished).

Pilot Participation. For the Pilot, MECO set a maximum of 50 million kWh of residential participating load and 50 million kWh of commercial participating load. There were approximately 140,000 eligible customers within the four Pilot cities of Lynn, Lawrence, Northampton and Worcester. Over 90,000 of those eligible were residential customers. By the close of the enrollment period, the commercial kWh quota of the Pilot was fully subscribed while 60% of the residential kWh quota was met. Over 260 distinct commercial customers representing approximately 550 accounts and approximately 4,500 residential customers enrolled in the Pilot.

As shown in Table 2, overall, the Pilot has generated savings of 14% for the participating customers. Savings associated with specific supply options range from 4% to 17%. While a strong majority of residential and small business customers selected the Price Options, all three options were subscribed by some customers and a significant number of residential customers (30%) selected Green Options.

Table 2: Massachusetts Electric Choice New England Pilot Program: Results Year To Date, January 1998

RESIDENTIAL MENU

Residential Rate Classes	PRICE OPTIONS			GREEN OPTIONS						OTHER OPTIONS		TOTAL
	Enova	NUWP	WEPCO	All Energy A	All Energy B	All Energy C	Enova	North-field	WAGP, Inc.	All Energy	WEPCO	
Customers	2,034	963	133	56	4	9	121	475	762	125	4	4,686
MWH	15,652	8,084	1,059	301	34	31	930	3,256	3,781	907	31	34,067
Bundled Bill (1000\$)	\$1,671	\$856	\$113	\$33	\$4	\$4	\$100	\$353	\$419	\$96	\$3	3,650
Unbundled (Pilot) Bill (1000\$)	\$1,372	\$727	\$100	\$31	\$3	\$3	\$84	\$297	\$381	\$87	\$3	3,089
Savings from Pilot (1000\$)	\$299	\$128	\$13	\$3	\$0	\$0	\$15	\$56	\$38	\$9	\$0	\$561
% off Bundled Bill	18%	15%	11%	8%	7%	5%	15%	16%	9%	9%	18%	15%

COMMERCIAL MENU

Commercial Rate Classes	PRICE OPTIONS			GREEN OPTIONS						OTHER OPTIONS		TOTAL
	Enova	NUWP	WEPCO	All Energy A	All Energy B	All Energy C	Enova	North-field	WAGP, Inc.	All Energy	WEPCO	
Customers	49	380	94	1	0	0	1	16	N/A	2	2	545
MWH	2,789	36,235	10,046	0	0	0	27	2,521	N/A	196	347	52,161
Bundled Bill (1000\$)	\$302	\$3,567	\$933	\$0	\$0	\$0	\$3	\$244	N/A	\$18	\$32	5,098
Unbundled (Pilot) Bill (1000\$)	\$255	\$3,010	\$818	\$0	\$0	\$0	\$3	\$216	N/A	\$16	\$26	4,344
Savings from Pilot (1000\$)	\$47	\$557	\$115	\$0	\$0	\$0	\$0	\$28	N/A	\$2	\$6	\$755
% off Bundled Bill	15%	16%	12%	2%			14%	11%		10%	18%	15%

OVERALL PILOT RESULTS TO DATE

Bundled Bill (1000\$)	\$1,972	\$4,422	\$1,046	\$33	\$4	\$4	\$103	\$596	\$419	\$114	\$35	\$8,748
Unbundled (Pilot) Bill (1000\$)	\$1,627	\$3,737	\$918	\$31	\$3	\$3	\$87	\$512	\$381	\$103	\$29	\$7,432
Savings from Pilot (1000\$)	\$345	\$685	\$128	\$3	\$0	\$0	\$16	\$84	\$38	\$10	\$6	\$1,315
% off Bundled Bill	18%	15%	12%	8%	7%	5%	15%	14%	9%	9%	18%	15%

Notes:

Savings from Supplier's Bonuses have been prorated

Results reflect usage in the months of January through December (bills received in February '97 through January '98)

Evaluation of the Pilot

A process evaluation of the MECO Pilot was conducted by Regional Economics Research (RER) to explore the effectiveness of the Pilot program. The evaluation design resembles that of other company process evaluations, but it differs somewhat in emphasis. For example, it included an extensive survey of internal staff. The evaluators interviewed key utility staff, the Pilot Administrator, and participating suppliers. In addition, the customer survey portion of the evaluation was designed to elicit information about customers' understanding of issues surrounding retail access as well as more typical assessment of customer responses to and satisfaction with the Pilot. To assess customer response, telephone surveys were administered to a random sample of 336 residential and 100 commercial participants and 300 residential and 300 commercial nonparticipants after the Pilot had been underway for several months. The surveys addressed customers' overall satisfaction with the Pilot and their suppliers, their level of awareness of retail access, their concerns, and their opinions concerning the opportunity to choose generation supply options. Exit interviews were conducted with 30 residential customers who left the Pilot within the first six months. In addition, the Pilot administrator, Environmental Futures, tracked customer response to both outreach and enrollment and produced reports summarizing the customers' telephone calls to the 1-800 number.

Findings Related to Marketing the Pilot

Marketing retail access posed two challenges for the utility. The first was reaching the appropriate populations and the second was sparking the customers' interest. The evaluation confirmed that marketing residential customers was more difficult in both respects than marketing commercial customers. Overall, customers received Pilot information from similar sources. MECO, newspaper articles or ads, and bill inserts were among the most common sources of information recalled by survey respondents - including residential and commercial participants and nonparticipants. Roughly half the eligible residential and commercial customers received marketing information from suppliers. Trade organizations were also a significant source for commercial participants. The commercial side of the Pilot was fully subscribed well before the end of the open enrollment period. Targeted marketing by certain suppliers ensured full subscription on the commercial side of the Pilot and it also influenced the mix of businesses participating. Cinergy/WEPCo focused on retail customers, NU Wholesale focused its recruitment effort on municipalities. NU Wholesale and Cinergy/WEPCo received the largest commercial market shares (71% and 17%, respectively) by targeting the municipal accounts (including over eighty Northampton municipal accounts and a large number of street light accounts) and members of the Retail Trade Association of Massachusetts. They also offered an aggregation incentive. Target marketing allows suppliers to offer tailored services such as conservation services and green marketing and to design specific marketing campaigns that utilize marketing dollars in the most cost-effective means.

By contrast, the residential portion of the Pilot was not fully enrolled, despite aggressive marketing, provision of educational materials and the 1-800 number, and extension of the initial enrollment period. One of the challenges of the residential portion of the Pilot was marketing a relatively complex concept in an extremely short period of time. MECO was the primary source of information about the Pilot for residential customers. Close to 80% of residential participants and nonparticipants surveyed in the evaluation cited MECO as their primary source of information. The telephone survey indicated that over 60% of the eligible population did not know about the Pilot. Less than 5% of the eligible households elected to participate.

Several barriers to recruiting the residential customers contributed to less than full enrollment. These include: time (the enrollment period was limited); hassle (36% of nonparticipants felt it was too much hassle given the potential savings); and limited success in reaching and educating the eligible population (suppliers observed there were few cost-effective media that allowed them to place city-specific advertisements. For those who called with questions, it took an average of fifteen minutes per phone call for the Pilot Administrator's staff to explain retail choice to an interested customer). Moreover, residential customers received relatively little marketing from participating suppliers. (One exception was Working Assets which aggressively marketed offering a free pint of Ben and Jerry's ice cream every month along with their Green Power Option; they received 16% of the residential market share despite offering a price higher than the competing suppliers. By contrast, the three other suppliers of Green Power combined received 27% of the residential market share).

Language and cultural barriers proved to be one factor limiting participation in the Pilot. In Lawrence, where 50% of the population is identified as Hispanic, less than 2% of the eligible residential customers and small businesses elected to participate.

MECO's "ballot" which outlined all the supplier/price options was considered understandable and helpful by most participants. Seventy percent of the Pilot participants received the "ballot;" of those, 90% felt the information was valuable and over 50% made their selection of supply option strictly based on the "ballot."

Using the analogy of telephone deregulation to explain electric retail choice presented both problems and opportunities. The major problem is that some aspects of telephone competition are disliked by customers, while one advantage is that it is an efficient way to describe retail choice.

What did customers want to know? Even before the suppliers had been selected, customer education began at MECO through an initial outreach campaign and media exposure throughout the state. The Pilot administrator tracked the types of questions customers asked in phone calls to the 1-800 telephone number during all phases of the Pilot. Interestingly, after the suppliers had been selected and the menu of supply options was distributed, the questions being asked by customers remained the same as before. Most of the questions from callers to the 1-800 telephone line were as follows:

- What is deregulation?
- What does this mean for me?
- How will this affect reliability?
- Why is MECO conducting a Pilot?
- How will this save me money?
- How do I sign up?
- What suppliers will I get to choose from?
- Why is it only being offered in the four communities?

Savings. Questions asked by customers calling the 1-800 information line during the sign up phase included:

- How do I determine my savings?
- How will I be billed?
- Which is the cheapest option?
- What are the different unbundled rates?
- Will I still be able to be on a budget plan?
- What is a variable price?

- Why would anyone select anything but the lowest price?

Green Options. The “green” options were defined in the ballot book as those “which aim to be environmental, either in their generation source or through projects they support.” Thus the concept of “green” options in the context of the Pilot was somewhat complex. It did not necessarily consist of power from fully renewable energy resources. The ballot book clearly listed the generation profile of each “green” supply option. All the “green” options included “additional benefits” such as donations to environmental projects, energy conservation products, or plans to install solar panels in Pilot cities. The generation profiles ranged from a standard utility profile (coal, gas, nuclear, hydro, oil, and other renewables) to exclusively hydro, to a generation profile which excluded nuclear, Hydro-Quebec hydro and coal.

Both during and after the Pilot outreach, customers had difficulty understanding the concept of “green” supply options. Close to one third of the customers surveyed in the evaluation responded that they “did not know” what “green” meant. Another third (34%) described “green” as “generated from renewable resources” as their primary response. Twenty-four percent said either “contributions to environmental groups” or “provision of environmental services.” During the sign-up phase, questions asked by customers calling the 1-800 information line included:

- What is a Green Option?
- Is the reliability the same with a Green Option?
- Why do the Green Options cost more?
- What is the your definition of renewable?
- How do you verify the source of green power?
- What is the environmental record of this company like?
- What are the different environmental benefits?
- Will there be more environmental options later?
- How do I know that the power I’m getting is from renewable sources?

Customers’ Experience of the Retail Competition Pilot

The evaluation identified several significant differences between residential and commercial customers. A brief summary of responses to key survey questions is shown in Table 3.

Table 3: Summary Survey Results

1. Are you aware of pending utility restructuring?				
	Residential		Commercial	
	Participants	Nonparticipants	Participants	Nonparticipants
Yes	63%	53%	70%	55%
No	37%	47%	30%	45%
2. What are your primary concerns related to restructuring?				
	Residential		Commercial	
	Participants	Nonparticipants	Participants	Nonparticipants
Increased complexity	1%	33%	2%	2%
Increased costs	21%	31%	22%	22%
Decreased service	6%	4%	6%	7%
Lower reliability	11%	13%	8%	12%
Other	10%	7%	5%	2%
None	46%	0%	46%	41%
Don't know	5%	11%	4%	8%
3. What are your primary reasons for Not participating in the Pilot?				
	Residential		Commercial	
	Nonparticipants		Nonparticipants	
Insufficient info	22%		27%	
Hassle	24%		13%	
Already satisfied	8%		12%	
4. How satisfied are you with your participation in the Pilot?				
	Residential		Commercial	
	Participants		Participants	
Yes	59%		57%	
No	10%		14%	
Don't Know	30%		29%	
5. Do you think you are saving money in the Pilot?				
	Residential		Commercial	
	Participants		Participants	
Yes	59%		57%	
No	10%		14%	
Don't Know	30%		29%	

Satisfaction and Concerns. Results of the telephone surveys from the evaluation of the Pilot suggest that participants' experience of the Pilot has been seamless and positive to date. For example, over 77% of

residential and 91% of commercial participants were satisfied or very satisfied with their experience of the Pilot. (Less than 1% were dissatisfied and during the first 7 months of the Pilot less than 1% of the participants have dropped out).

Residential customers who opted not to participate in the Pilot have a higher level of concern about retail access than the participants, suggesting that for residential customers, experience with the Pilot has been educational. Once residential customers gain experience with retail choice, there appears to be a dramatic reduction in overall concerns about the complexity of unbundling electric service. When *nonparticipants* were asked, "What is your biggest concern as to how retail competition will affect you?" nearly 33% of the residential *nonparticipants* said gave "increased complexity" as a primary concern. This is in contrast to residential *participants*, where 46% had "no real concerns," and less than 1% gave "more complexity" as a primary concern.

Roughly equal proportions (40%) of commercial *participants* and *nonparticipants* have "no real concerns" about how restructuring will affect them. However, slightly larger proportion of nonparticipating commercial customers voiced concern about reliability.

The only real concern raised by all customers surveyed was that full retail choice might result in higher electric bills. Roughly 20% of those surveyed expressed this as a primary concern. Despite documented average bill savings of 10% to 15%, some customers do not believe they are saving money. Slightly over 10% of the residential participants have expressed concerns related to billing - mostly that they find the new bills confusing. Approximately 65% of commercial and residential participants feel their new bill is clear and understandable. A relatively high percent (27) of commercial participants found some aspect of the Pilot billing to be confusing.

Awareness and Choices. Despite some concerns as to how retail competition will affect electric costs, reliability, and customer service, the majority of participants and nonparticipants believe that the ability to choose an electric supplier is important. While roughly 81% of the residential and commercial participants believe it is "very" or "somewhat" important to be able to choose, 59% and 76% of the residential and commercial nonparticipants, respectively, said it is "very" or "somewhat" important to be able to choose. Commercial customers are moderately more aware of proposed electric industry changes than residential customers. Sixty percent of the commercial nonparticipants and 70% of the commercial participants said they were aware of likely industry changes. Slightly over half of the residential customers surveyed were aware of pending legislation to introduce statewide electric competition.

Commercial customers have a higher level of awareness of retail access in general but not necessarily an awareness of the suppliers and supply options in the Pilot. While some customers were marketed by suppliers and/or aggregators, many customers did not recall the names of the suppliers on the ballot; nor did they recall the supplier they chose. Nearly 20% of residential and commercial customers did not recall which supplier they selected.

Commercial customers also have a marked preference for lowest priced supply options. Price was by far the biggest factor in selecting a supplier; 67% of residential and 88% of commercial customers cited price as the primary reasons for selecting their supplier. Sixteen percent of the residential participants cited environmental and social concerns as the primary reason for selecting their supplier. Company reputation and service reliability were also mentioned as important factors. Among commercial participants, 3% were attracted by incentives offered and 2% cited concern for environmental or social issues. These responses correlated fairly strongly with the supplier market shares. By contrast, price matters less to residential customers. This is supported by the fact that nearly a third of residential customers chose "green" options.

While the majority of residential participants based their choice on price, nearly 58% of the respondents believe they are saving less than expected or “do not know how much” they are saving. Roughly one third of the commercial participants also underestimated their savings by at least 5%, and nearly one third of the commercial participants “do not know” how much they are saving.

Participants Who Have Left the Pilot. After 7 months approximately 170 customers had discontinued their participation in the Pilot. Of these, the majority left because they moved from their residence, relocated their business or in some other way terminated the account which had been enrolled in the Pilot. Through phone interviews and mailed surveys, it was determined that very few (less than 25) customers elected to leave the Pilot due to discontent. Of these, 10% were small business customers and 90% were residential.

The most common reasons cited by those who elected to leave were:

- The lack of budget billing plans for residential Pilot participants.
- The hassle associated with receiving two electric bills, and
- The belief that there was no financial benefit from participating.

The research also inquired about recommendations these customers had for improvements when full retail choice is implemented. Comments included:

- Be more specific about expected savings,
- Provide only one bill,
- Allow payment plans,
- Simplify the comparison of supplier information, and
- Use “simple English terms” when communicating with customers.

Exit interviews conducted by EFI echoed these findings. In addition to customers’ preference for receiving one instead of two bills per month and their reluctance to abandon budget billing plans, they expressed displeasure with some supplier interactions, such as problems associated with distribution of bonus checks. Furthermore, some customers conveyed that their familiarity with the distribution company (MECO) gave them a measure of comfort they did not feel with the other suppliers.

Conclusions

Most participants and nonparticipants feel “choice is important.” For residential customers, if the hurdle of inertia can be overcome, experience with retail access tends to reduce customers’ concerns and generate satisfaction. Residential participants expressed a high level of satisfaction with the retail access Pilot. Despite an aggressive awareness campaign only half the eligible residential customers elected to participate in the pilot. Residential customers want to know how retail access can benefit them. The lack of interest reflects that for most residential customers the perceived savings were not worth the additional hassle of dealing with two electric companies or the uncertainty in how customer service and reliability may be affected. Convincing residential customers that they will see direct benefits from retail competition presents challenges.

The customers who left the pilot send a compelling message to utilities and suppliers to “keep it simple” for the customer. Specifically, retail access will have greater success with residential customers if services such as budget billing are maintained, and if expected savings can be clearly demonstrated and communicated.

Commercial participants expressed even higher levels of satisfaction with the retail access pilot than residential customers. Once commercial customers were convinced that reliability was not a real issue, they were relatively quick to join the Pilot. Commercial customers are likely to be marketed by aggregators or by suppliers directly, and may be expected to quickly switch to suppliers with attractive prices. Commercial customers will learn much of what they want to know from these channels. Trade organizations acting as “buyers” agents will play a major role in promoting retail competition. In the MECO Pilots, both the High Tech Council of Massachusetts and the Retail Association of Massachusetts played a significant role in lending credibility to retail competition in general, and acting as buyers agents in negotiating prices and selecting the best suppliers for their members. Trade organizations represent a vehicle that can efficiently reach large groups of commercial customers. Competing suppliers are likely to target specific market segments. Several of the participating suppliers used this approach in the Pilot.

In summary, as the MECO President noted, “The Pilot was a great learning experience for us and our customers... The most noticeable events for the customers were the savings and other benefits associated with choosing an energy supplier.” The Pilot allowed MECO to develop and test systems required to provide a smooth transition to retail access. With respect to how to educate and market retail access to customers, the Pilot produced the following lessons learned: 1) the tendency to treat small commercial and residential customers similarly may not be effective; 2) a booklet summarizing supply options clearly was one of the most effective communication tools; 3) small commercial customers are price-driven but most overcome concerns about reliability; and 4) residential customers present many challenges, ranging from overcoming inertia and the stigma of telephone company marketing to the need to present complicated ideas clearly and their interest in diverse supply options.

Acknowledgments

We would like thank Maureen Hall-Gatti of New England Power Service Company and Mike Braun of Regional Economic Research for their contributions to this effort.

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