



Municipal Aggregation

The Alternative to Surging Energy Prices



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Aggregation may encourage the local utility provider to maintain low rates and offer attractive services in a competitive effort to deter aggregation.

Nearly five years after enactment of the Electric Discount and Energy Competition Act, the well-intentioned goal of the legislation — lower energy prices through customer choice — has not materialized for New Jersey's residential and small business ratepayers. In fact, the last few months of 2003 saw increases in both electric and natural gas prices for consumers. The benefits of energy deregulation have not flowed to all ratepayers. We have neither lower prices nor competition.

Although I am hopeful that a robust competitive energy market will eventually emerge for residential and small business consumers, something needs to be done now to help small commercial and residential customers address spiraling energy costs. Right now, conservation and aggregation are the only realistic alternatives to rising energy costs for residential ratepayers and small business customers.

Governor James E. McGreevey and the state Legislature gave ratepayers the opportunity to reduce their energy bills when they amended EDECA in February 2003 to make the process of energy aggregation much easier for local governments. Aggregation enables municipal governments to negotiate competitive electric and/or natural gas prices on behalf of individual consumers who are aggregated into bulk power buying pools.

Aggregation is already successfully taking place in New Jersey under the revised legislation, and it is resulting in lower energy bills. The chemical industry recently formed a power buying pool for its members. About 400 public school districts — two-thirds of all school districts in the state — have



aggregated to reduce their energy costs.

Three Goals of Municipal Aggregation Collective action, through aggregation, can achieve three separate, but related goals for municipal governments and their constituents.

First, aggregation creates bargaining power, enabling residential and small business electricity and natural gas consumers to participate in the competitive energy markets on equal footing with the larger customers who can negotiate lower prices. Bargaining power means:

- negotiating on behalf of a large load will be more attractive to competitors than serving small customers individually;
- developing the sophistication and know-how to negotiate favorable terms and conditions; and
- being able to enter into longer-term energy supply agreements, which make aggregated customers more attractive to sellers.

Second, aggregation will stimulate competition. A market is only competitive if it has a sufficient number of buyers and sellers. Small consumers are not able to compete in negotiations with multi-billion-dollar electric and natural gas suppliers.

Third, aggregation will increase market efficiency by reducing the total costs, including transaction costs, of providing electricity and/or natural gas to an entire community.

Aggregation is also a way to bring benefits to consumers who are not interested in shopping for new electric or natural gas suppliers. Consumers remain indifferent for various reasons, including feeling comfortable with their current utility provider, unfamiliarity with new competitors, and the cost and hassle of obtaining enough information to make a sensible choice among confusing options. Sticking with the current provider is likely to win out over spending weekends sorting through confusing technical information for the prospect of saving perhaps \$100 a year.

Municipal aggregation should also have several advantages over private aggregation by neighborhood associations, religious institutions, buying

clubs and consumer and environmental organizations. The membership of these entities is either relatively small, geographically dispersed or cannot be automatically aggregated given a lack of democratically derived authority. Municipal aggregation has the advantage of geographic compactness, yielding uniform market conditions and lower costs to disseminate public infor-

attractive to suppliers and may be excluded from general marketing efforts as well as private aggregation programs. Municipal aggregation signals an obligation to serve all customers within the municipality's geographic boundary. This obligation eliminates the possibility of "red-lining" or otherwise excluding low-use or low-income customers.

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mation. Municipally aggregated energy loads are also likely to have a more balanced load factor due to the combination of diverse usage patterns of residential, commercial, industrial and municipal loads, which may lend itself to lower service costs if the non-residential customers opt-in to the program.

Finally, certain types of customers are less likely to be served through private aggregation programs. Low-use and low-income customers will not be

Experience in deregulated telephone markets suggests that, at least in the first decade, the majority of individual customers will not switch from their former monopoly provider to a competitor. Therefore, by aggregating customers within their municipal borders, government aggregation can give a jumpstart to competition in the energy area.

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At the League of Municipalities annual conference in Atlantic City, the Ratepayer Advocate launched a comprehensive, statewide energy conservation and aggregation effort.



Opting Out and the Menu of Services The municipality's bargaining power is maximized since the load to be served is generally stable,¹ making it more attractive to potential suppliers who will find it more profitable to negotiate the terms, conditions and additional services that the municipality desires.

Participation by those not opting out can be reconciled with the traditional concept of majority rule when a community views electric and natural gas services like other basic needs provid-

ed by the municipality, such as police and fire protection services and waste collection. Each resident must accept the decisions of the majority. But, unlike police or fire protection services, a customer who prefers another supplier for reasons that differ from the majority such as a desire to advance a particular fuel source, i.e. wind, an environmental objective, or company is free to opt-out at any time.

to individual consumers, have to spread high retail marketing costs over a small segment of the market, and because they must pay high returns to investors putting up capital in more risky niche markets.

Aggregation may encourage the local utility provider to maintain low rates and offer attractive services in a competitive effort to deter aggregation. Municipal aggregation could be the only hope for spurring an evolution to a competitive market.

The New Jersey Board of Public Utili-

er Advocate at (973) 648-2690 or through the web site at www.rpa.state.nj.us.

At the League of Municipalities annual conference in Atlantic City, the Ratepayer Advocate launched a comprehensive, statewide energy conservation and aggregation effort. I will go to each municipality, county and legislative district where invited to meet with your constituents to explain energy aggregation and conservation programs to help ratepayers deal with rising energy costs. Our presentation covers the details of the new aggregation procedures, how ratepayers can read their utility bills, financial assistance programs to help ratepayers pay their utility bills, and the Ratepayer Advocate's conservation program. We have prepared a Consumer Conservation Handbook containing many money-saving conservation tips that are inexpensive to implement. In fact, many cost nothing at all.

If you would like a presentation of the Ratepayer Advocate's Energy Conservation and Aggregation program in your community, or you would like copies of our *Consumer Conservation Handbook* to distribute, please contact us at 973-648-2690. s

Endnotes

1 Any residential customer in the community not wishing to be included in the purchasing pool can elect to "opt-out". Population decreases, commercial and industrial facility closures, and economic downturns can also affect the load.

2 A few examples of such services include: interruptible-rate service which may not be offered to small consumers acting alone; and a community's ability to obtain a long-term fixed rate for any power it purchases from renewable resources while an individual "green consumer" may have no such bargaining ability.

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The municipality can address different preferences by contracting with providers to offer a "menu" of service options. Aggregated purchases of special services (such as energy efficiency programs, renewable electricity, and particular pricing structures) are likely to come at a lower per-customer or per-unit cost than the same services acquired by an individual consumer, if the service is available to individuals at all.² This is because marketers, selling

ties (BPU) has established a process in which the state holds an auction to obtain electricity from third party competitive energy suppliers for those customers who do not shop on their own. The BPU has already held two auctions and will be conducting its third auction in February 2004. Municipalities and counties should retain an energy procurement consultant and an energy lawyer to begin a feasibility Study/Market Assessment before the auction to save time in collecting data.

The Ratepayer Advocate has prepared a step by step guide, entitled "*Manual for New Jersey Government Energy Aggregators*" to assist you with your efforts. This manual is available for purchase from the Ratepayer Advocate for \$50 including handling and postage for municipalities and state and local governmental bodies and can be ordered by contacting the Ratepay-

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