

Retail Access Models

With increasing industrial electricity prices in BC and continued low electricity prices in the Mid-C market, industrial customers have begun to express interest in retail access. Retail access programs (RAPs) allow utility customers to secure electricity from the market via a third-party provider rather than its local utility. A discussion of how these systems work in theory can be found at: <http://www.em.gov.bc.ca/EPD/Documents/Task%20Force%20Issue%20Paper-Retail%20Access-FINAL.pdf>.

This paper will focus on how these arrangements are implemented in practice across a variety of jurisdictions. A table prepared by Energy + Environmental Economics (E3) summarizing RAPs across seventeen North American jurisdictions can be found in Appendix A of BC Hydro's round two submission to the Task Force, here:

<http://www.em.gov.bc.ca/EPD/Documents/IEPR%20Submission-BC%20Hydro%202.pdf>.

RAPs may be restricted by utilities in order to limit planning and stranded asset risks, or because of physical and administrative difficulties securing physical transmission access.

Of the seventeen jurisdictions surveyed by E3, only BC and Newfoundland and Labrador (which is only, and controversially, connected to the continental grid through the Hydro Quebec system) had no active market access program. Utilities in Manitoba, PEI, Nova Scotia, and Saskatchewan have wholesale access programs in which customers can purchase directly from wholesale markets without a third-party provider but no retail access. Consumers Energy in the Midwest restricts access to 10% of its retail sales, while Southern California Edison restricts it to 10% of its commercial accounts. Hydro Quebec, New Brunswick Power, Pacific Power, and Portland General Electric all restrict access to large industrial customers or commercial customers. Four US utilities surveyed (at least three of which have supply costs set through competitive auctions or indexed to market), plus EnMax in Alberta and Ontario Hydro have full retail access. Eligibility restrictions seem more prevalent in major Canadian utilities than in the US utilities surveyed, and are only completely absent in Alberta and Ontario, which are characterized by competing generation companies bidding into power pools.

Any RAP must consider the impacts on existing customers. The standard mechanisms to protect existing customers include a no harm principle. A customer who seeks to take advantage of a RAP should impose no risk or cost on the existing customer base. The actual application of this would depend on the current situation facing the utility. In some cases it might be a benefit to remaining customers if they can avoid the costs of adding new supply. On the other hand if assets were stranded, or BC Hydro's trade activities for the benefit of its customers were harmed, then a customer who leaves might be imposing additional costs on remaining customers.

As a result of these considerations, some, RAPs offer some form of "no harm" provision. To accomplish the no-harm standard, most utilities use some form of exit fee or so-called

transition charge to protect the utility against stranded asset costs. Relatively few utilities with retail or wholesale access apply exit fees, but Ontario Hydro assesses global adjustment charges based on peak demand. Ontario Hydro also accounts for the difference between wholesale prices and the prices paid to regulated and contracted generators in its Global Adjustment Charge. Pacific Power, Portland General Electric, SaskPower, and Southern California Edison have similar charges all based on the difference between rates and the value of the energy 'freed up' by the customer moving to retail access. In most cases, this could be a charge or a credit to the departing customer. Some jurisdictions with retail access programs also have non-bypassable charges for stranded assets and other programs. These include DSM programs (Ontario Hydro), RPS programs and system benefits (Consolidated Edison of New York), stranded costs (Public Service of New Hampshire), and nuclear decommissioning (Southern California Edison).

In cases where there are no charges at all, it may not always be due to considered policy decisions; several Canadian utilities with wholesale or retail access provisions are either lower-cost than their neighbors (Hydro Quebec, Manitoba Hydro) or otherwise don't appear to have any demand for market access (New Brunswick Power, Maritime Electric Company Limited in PEI). In the case of Nova Scotia Power, its lack of exit fees is the result of losing a case before its regulator; the utility argued strongly in 2012 that such protections were required, but was handicapped in its case by prior promises against such rules, made when its load resource balance was much different (i.e., it was in deficit at the time the promises were made, but in surplus and at risk of stranding when it later sought exit fees).

Another common safeguard on RAP is the requirement for commitment periods. Utilities may use these to avoid the risk of stranded costs. These are not especially common, but there are a few examples. Consumers Energy requires a 12-month commitment or power is indexed to market costs. Pacific Power requires 1 year or 3 year direct access, while Portland General Electric requires a 5-year commitment with a 2 year warning on returning to cost of service rates. Southern California Edison requires an 18 month minimum stay on bundled service, and six months of notice from customers who intend to leave bundled service.

Questions:

1. Under what circumstances should BC Hydro customers have access to market-priced electricity?
2. What safeguards are appropriate to keep customers who do not opt in to retail access whole?
3. Should customers who take advantage of retail access have any access to heritage electricity?