

**CITY OF LOVELAND
MEMORANDUM**

TO: Mayor and Council

FROM: Tom Carroll, City Manager 

RE: Opt-Out Electric and Gas Aggregation, Memorandum 56

DATE: July 6, 2012

This report presents City Council information about energy aggregation programs which have the potential to save Loveland residents and businesses money by pooling their individual purchasing power to buy gas and electric at wholesale prices. This type of program has been successfully implemented in nearby communities, and to enable it in Loveland, Council would refer this matter to the voters, possibly as early as November 6, 2012.

Background

The energy market has been rapidly changing in recent years. The recent recession has lowered energy demand and energy prices have therefore fallen in recent years. Of greater importance is that energy customers now have greater flexibility as to which companies they buy their natural gas and electricity from, creating retail choice.

Duke Energy continues to be the distributor of both natural gas and electric. Duke Energy is no longer the monopolistic provider of energy generation in our region, however, and retail customers (homeowners and businesses alike) may buy power or natural gas from a greater range of providers. Generally speaking, large commercial customers can obtain better pricing from wholesale energy providers because of their increased market size. Individual household consumers do not have much buying power and therefore are not as able to obtain as favorable energy prices.

Loveland's Opt-In Experience

In 2010, the City of Loveland entered into a memorandum of understanding (MOU) with Duke Retail Sales¹ which enabled Loveland residents to purchase electric power at a lower rate than from Duke Energy. This is typically referred to as an "opt-in" program. This means residents had to take an affirmative action to select if they wished to use Duke Retail Sales. According to Duke Retail Sales, the City has 3,976 electric accounts. When the opt-in program was in effect, 1,172 accounts in Loveland were enrolled in this program, or slightly more than 29%. The remaining accounts either contracted directly with another wholesale power generator or remained with Duke Energy. Data is not available to the City of Loveland on the providers used by the other 2,804 accounts.

The Opt-Out Approach

In a similar fashion, some communities in the region have pursued what is generally referred to as an opt-out approach. Essentially, an opt-out program pools the buying power of all the accounts of a community to obtain a lower cost because collectively the accounts have greater market share. This can save the individual account money on monthly utility bills. Residents who wish to contract with another provider for whatever reason may opt-out of the aggregation.

The key difference is that in the opt-in approach the individual account holder has to take an affirmative action to obtain the price. In an opt-out approach, the individual account holder has to take an affirmative action to contract with someone other than the aggregate provider. Consumer

¹ Duke Retail Sales is a separate corporation from Duke Energy.

choice remains under both approaches, but the default provider is different depending on actions by the consumer.

In a typical opt-out scenario, about 20% of the customers elect to contract with another provider by opting-out of the community aggregation. The remaining 80% receive the service from the community's selected provider. As discussed above, more than 29% of Loveland accounts participated in the opt-in program. So, if Loveland were to pursue an opt-out solution and that followed the expected ratios of participations, it is projected that 50% of the City's residents who did not participate in the opt-in program would elect not to opt-out.

Opt-Out in Other Communities

The opt-out approach has been approved by the voters and implemented in communities such as Indian Hill, Springfield Township, Green Township, Symmes Township and Sycamore Township. According to discussions, savings for residents can vary from the imperceptible to the substantial, depending on the energy market and the qualifications of each community's energy broker.

Officials from Symmes Township and Indian Hill both acknowledged that residents have saved money, especially on electric rates. Indian Hill noted that savings are close to 17 percent on electric rates right now. Officials from both communities stated that they have not realized measurable savings on gas rates in recent times. On the other hand, administrators from Sycamore Township said their residents are very happy with energy aggregation for natural gas and seem to be receiving a good rate at present. Green Township is another community that has seen significant savings to residents due to reduced natural gas costs.

As far as cost to the local government, Symmes Township and Indian Hill said the only indirect cost has been that of staff time. When residents have questions, they often call the city or township offices instead of the energy supplier, which places responsibility on staff to field phone calls about energy bills and rates. The takeaway from other communities is that energy aggregation has the potential to generate savings for residents through reduced rates on electric and/or natural gas. The savings are market-driven.

Policy Options

Council may direct staff to prepare legislation to refer this matter to the electorate, do nothing, or research the matter further.

Analysis

If the voters approve the opt-out approach at some point in the future, City Council still retains the final decision after the voter approval to move forward or not move forward with the opt-out program. But, without voter approval at an election, it is certain the City cannot move forward with an opt-out approach. To implement an opt-out program after the voters were to approve it, Council would have to hold several public hearings and adopt some legislation in the months following the election.

Market conditions will change, so any fiscal savings analysis is accurate at this moment in time but will change over time. Having said that, the collective buying power of multiple accounts is almost always able to fetch a better price than individual households can obtain on their own. So, saving amounts will vary, but generally residents can expect savings to some degree.

Electric

Participation in the opt-out energy aggregation program has the potential to yield savings benefits to households in the City of Loveland. Under current market rates, Loveland households which do not contract on their own for electricity are paying 6.03 cents per kilowatt-hour to Duke Energy for electric service. Participation in the opt-out energy aggregation program today can yield a rate as low

as 5.09 cents per kilowatt-hour today. If the average household in Loveland uses about 1,000 kilowatt-hours per month, then the difference of .94 cents per kilowatt-hour would yield savings of about \$9.40 per month, or \$113 per year for each household.

Those Loveland households that participate in the Duke Retail Sales electric opt-in program currently pay 5.25 cents per kilowatt-hour. If these households were to fall under the opt-out energy aggregation program today, the difference of .16 cents per kilowatt-hour would yield savings of about \$1.60 per month, or \$19 per year for each household.

Depending on which scenario Loveland households find themselves in, they would save between \$19 and \$113 per year under the opt-out energy aggregation program. These rates and savings will change before the time the program would be implemented in the City of Loveland in 2013, but it nonetheless offers an example of the savings that can be generated from aggregation. Residents who found a better rate or selected a different provider for a reason other than cost (e.g. they preferred renewable electricity generation) could opt-out.

Natural Gas

Energy aggregation on the natural gas side also offers potential savings to Loveland households. However, the price of natural gas varies due to the market and weather conditions when it was purchased. The major benefit here comes in price stability and protection, particularly during the winter when use of natural gas is high due to heating. Energy aggregators partake in the strategic buying of natural gas in bulk in order to achieve the greatest costs savings. The aggregator caps the price with the ability to drop, or flex, down pending on rates. This program also leaves open the option for households to opt-out if they choose to find a better price individually, or for any other reason.

Fiscal Impact

There is no apparent direct cost of this to the City of Loveland other than election costs for placing this issue on the ballot. There are, however, indirect costs which are hard to quantify at this time. If Council elects to refer this matter to the voters, and if the voters approve it, the City will have to follow a process to formally initiate the opt-out process. This will require multiple community meetings and a Public Utility Commission of Ohio (PUCO) application for certification. This process would take several months into 2013. Additionally, City staff time will be required to respond to resident calls for information.

Legislative Process

If City Council wished to place this matter before the voters on November 6th, 2012, Council would have to formally refer this matter to the Board of Elections by August 7th. Accordingly, legislative action would be required at the July 24th meeting, and potentially a special meeting would be in order if Council was reluctant to adopt legislation by an emergency ordinance. Council may wish to study this matter further and disregard deadlines for the November 6th election. This would mean the matter would wait until the General election in November of 2013 unless the City called a special election or another issue was before the voters which required a primary or special election.

Recommendation

Staff recommends that Council place this matter on the 2012 November ballot and therefore adopt the draft legislation which is attached to this memorandum at the July 24th City Council meeting.

Attachments

Attachment A, 2010 City Manager Memo No. 25

Attachment B, Draft Ordinance – Natural Gas

Attachment C, Draft Ordinance – Electric

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