

Rational Attention in Deregulated Utilities

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Notable and quotable

- “What if they gave a [market] and nobody came? Life would ring the bells of Ecstasy and Forever be Itself again?”
 - paraphrase of quote attributed to Allen Ginsberg
- “If you like the 1040, you’ll love this.”
 - attributed to Doug Hale
- “Who let those idiots break up the phone company?”
 - Tim’s dad, whenever occasion allows (1984-present)

On Miravete/Palacios-Huerta

- Found it doesn't take a big difference (\$5/month) to get people to choose between flat rate, measured plans
- Neither time nor expertise to get into discrete choice econometrics
- Key: Table 3 on patterns
 - Only 5% of population switched during 3 mon. period
 - 85% kept flat rate, 10% measured service
 - 6-10% of former, 55-67% of latter paid too much
- About 10-12% of total population wrong
 - What was their average error?
 - Demographic factors relatively incidental

What do we know from electricity choices

- Considerable raw data on reluctance to choose
- Both domestic and international (UK, NZ, Alberta)
- Extensive efforts at persuasion, “education” required
 - Door-to-door marketing (UK)
 - Website instruction (many others)
 - Even in best case (UK), extensive switching back
- Choosing not to choose
 - “Brand loyalty” not unusual in other markets
 - Reluctance to switch correlated with income, education

Alberta:

Comparative Electricity and Natural Gas Shopping Worksheet

Name of energy supplier	
Contact name	
Phone number	
Energy supplier type (competitive retailer/regulated service provider)	
References of supplier (e.g., Existing customers, Better Business Bureau, credit references, etc.)	
Is there a basic service charge, even if I don't consume any electricity or natural gas?	Yes/ No
What is the fixed rate?	\$
What is the variable rate?	\$
What is the energy charge per kilowatt-hour (kWh) or per gigajoule (GJ) (Gas Cost Recovery Rate for Natural Gas)	\$/kWh or \$ /GJ
Are there price breaks for different levels of consumption?	Yes No
Any built-in price increases? (Electricity Only) If yes, amount and when.	\$/kWh Date:
What are the retail service fees?	
Are there additional components to the energy charge? (Electricity Only) Unaccounted for energy Pool service charge Distribution loss charge	Yes No If Yes, explain:
Is there a premium for green power? (Electricity Only)	Yes No
Terms of the agreement?	
What does the clause concerning supply interruption indicate?	
Does the price depend on the time of year that I consume electricity or natural gas?	Yes No
Does the price depend on the time of day that I consume electricity? (Electricity Only)	Yes No
What is, if any, the switching fee or other up-front charges?	\$
What are the exit provisions for cancelling the contract?	
Are there meter-reading fees?	Yes No
How frequently will I be billed?	
Can you bill me at a regular date of my choice?	Yes No
Am I buying anything other than electricity or natural gas?	Yes No
Are services available to help me use electricity or natural gas more efficiently?	Yes No
Who will inform my previous gas supplier about my new arrangement?	
Who do I call if I have questions or problems? Contact: Retailer number	
Is the price/supply tied to a specific electricity generation plant? (Electricity Only)	Yes No
What occurs in the event of an outage at that plant? (Electricity Only)	

Disclaimer: The contents of this worksheet are only suggestions of possible considerations for consumers. This worksheet is not intended to be a comprehensive guide nor is it a substitute for your own judgment. The Government of Alberta makes no warranty or representation of any kind in respect of the contents of this worksheet and has no liability for any damages that may be caused to any person in connection with or arising out of the use of this worksheet.

And as we'd expect ...

- 6 % residential switching by 2003, had to extend residential retail service
- Former EPCOR Energy Services President:
 - One of the outstanding questions is to what degree residential customers will want to exercise their choice in electricity. This is not a product with intrinsic differentiation. Even in the telecommunications market, where there were real and significant savings in long distance plans offered by competitors, the majority of customers remained with AT&T over ten years after deregulation. Customer inertia is even more of a reality for a product with little to distinguish options in terms of price savings or consumer benefits, although there are pricing, electricity source, and billing options which offer some elements of choice.
 - Electricity will never be high on the customer radar screen except when prices are higher than anticipated, as has been the case in many of the jurisdictions going through deregulation, or where there are issues with reliability, customer service and billing.

Shopping in Pennsylvania

Shopping is easy



How to Shop for an Electric Generation Supplier:

1. Using the chart on the opposite page, enter the supplier's name on the top line and write your electric distribution company's price to compare on Line 1. This price is given in cents per kilowatt hour (kWh).
2. Call each electric generation supplier to find out what price they are offering for their electric generation, or refer to the Office of Consumer Advocate (OCA) pricing list. Write that price on Line 2. See the checklist on the back of this brochure for other questions to ask suppliers.
3. For you to save, the supplier's price must be lower than your present provider's price to compare. Subtract the new supplier price from the present price to compare and write that number on Line 3.
4. Write the average number of kilowatt-hours (kWh) your household uses in a month on Line 4. This can be found on your current electric bill.
5. Multiply Line 3 by Line 4 and put that number on Line 5.
6. Divide the subtotal by 100 to calculate your savings per month in dollars and cents (Line 6).
7. Some suppliers charge a monthly fee in addition to the charge for generation. If the supplier charges a fee, write the amount on Line 7. If the supplier does not charge a monthly fee, put a zero on Line 7.
8. Subtract the monthly fee from your savings per month (Line 7 from Line 6) and enter this on line 8. This will show you what your "Final Monthly Savings" may be. You can then easily compare prices like you would with any other product like gasoline and groceries.

A few inquiries

Questions to Ask Electric Generation Suppliers:



What is your price per kWh? (Enter price on Line 2 of Comparison Worksheet.)

Is your price fixed or does it depend on time of day or usage?

Can your price change? If it can change, when can it change and how will I be notified?

What is the length of the agreement?

Is there a cancellation fee?

Are there any other fees, such as a monthly service fee?
(Enter monthly fee on Line 7 of Comparison Worksheet.)

Will I receive one bill or two?

Is there a bonus for signing up with you?

Do you offer a choice of energy sources, such as renewable energy?

Do you offer any other services?

Contact name and phone number?

Customer service hours?

Monthly savings? (Enter amount from Line 8 of Comparison Worksheet.)

The New York Checklist

Suppliers' Offers

How to compare

It's your choice to switch to another energy supplier or remain with your current utility. To make an **informed choice**, you may want to use the checklist.

INQUIRE ABOUT THE ESCOs

- Make sure the ESCO is eligible to sell you energy by contacting the NYS Public Service Commission or your utility company.

COMPARE PRICES AND SERVICES

- What did the ESCO charge last month and what was included in the price?
- Is the price fixed or variable?
- If it's fixed, is it guaranteed?
- Does it include taxes?
- Are there any discounts, bonuses or credits?
- Are other services available?

REVIEW TERMS AND CONDITIONS

- What is the length of the agreement?
- Are there penalties for breaking the agreement?
- Are there additional fees?
- Is a deposit required?

CONSIDER UTILITY-SPECIFIC CHOICE PROGRAMS

Utilities offer choice programs such as Power Switch, Energy Choice, and Power Move. You can contact your utility and sign up for the choice program where:

- You could receive guaranteed savings (typically around 7%) provided by ESCOs off of your current utility supply portion of your bill for at least two months.

- You can extend the relationship with the ESCO on mutually agreeable terms and conditions.
- You can return to the utility after two months if you choose.

CONSIDER CUSTOMER SERVICE

- What are the office hours?
- What is the complaint-handling process?
- Are there toll-free numbers?

CONSIDER ENERGY OPTIONS

- Are environmentally-friendly generation sources such as solar, wind, or hydro power available?
- Are you a member of a group that has a program in place to purchase energy together to increase buying power?

CONSIDER BILLING AND PAYMENT OPTIONS

- Will I receive separate bills from the utility and the ESCO?

WHAT HAPPENS AFTER YOU CHOOSE A SUPPLIER?

- You will receive a confirmation letter from the ESCO with the contract and terms and conditions.
- You will receive a confirmation letter from the utility with the effective date of the contract. That date is usually the day after your meter reading date.
- Your supply will continue uninterrupted.

What is behavioral economics?

- “Endowment effect”?: Even Cornell economic students aren’t dorky enough to negotiate over coffee mugs
- Rationally economizing on costs of cognition?
 - Rules of thumb?
 - “Tricked” using carefully framed questions (Allais, K&T)
 - $WTA > WTP$; asymmetry in ethics
- Challenge: What if internal “transaction costs” matter?
 - Coase theorem: Assignment of property rights matters
 - Revealed preference not to choose
 - Rational choice to retain regulatory authority?