



# Why Every Municipality Should Consider Aggregation as a Service to Residents

For more than a decade, Ohio has been moving toward the deregulation of its electric and natural gas markets to encourage competition. Regulatory changes at the Public Utilities Commission of Ohio (PUCO) in early 2013 are projected to have an even greater impact on electric and gas utility service in your communities.

Ten years ago, there was only a handful of electric and gas suppliers; today, there are hundreds. Significant regulatory changes and increased competition present an opportunity for municipalities to secure better pricing for their constituents, but it also requires careful research and a strong understanding of service contracts to secure a fair agreement.



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AGGREGATION

# What is happening in Ohio's natural gas and electric markets?

## Natural Gas

**Current system:** Currently, consumers can shop for a gas supplier. If they do not select a gas supplier, their current utility (e.g., Columbia Gas, Dominion East Ohio, Duke Ohio, Vectren) serves as their "default" provider. "Default" service by the utilities is regulated by the PUCO, and customers who don't select a gas supplier can determine the terms and prices of service upfront. Historically, the utility default service price has been set by auction and has been cost effective.

**The very near future:** In early 2013, the PUCO further opened up competition by allowing a change in the way "default" natural gas providers are assigned to customers who do not select their own competitive supplier. Commercial customers served by Columbia Gas and Dominion East Ohio who do not select a supplier will have a "default" natural gas provider randomly assigned to them. There will no longer be default natural gas service from the utility and the randomly assigned provider will not be regulated by the PUCO, meaning that prices and terms will be left to the providers' discretion. This "no default" trend may eventually spread to residential customers in your jurisdiction.

## Electric

The PUCO has already opened up the service territories of AEP, Duke Ohio and Dayton Power & Light to retail electric competition. A recent PUCO-ordered investigation suggests that a similar system of assigning regulated default providers to electric customers who do not choose a supplier may also be discontinued.

## The impact and risks

Customers unfamiliar with natural gas and electricity markets must either shop among competitive providers or may eventually be randomly assigned to a provider and potentially locked into contracts with unfavorable terms. Customers in your community will receive more and more direct mail solicitations to switch their electric and gas service to marketing companies. Your constituents may be confused, frustrated and possibly taken advantage of with little recourse from the PUCO.

## The opportunity

Ohio law allows municipalities to adopt a program to help constituents and the political subdivision benefit from retail competition, achieve savings and minimize risk. This can be a self-sustaining program that saves the city energy costs and potentially generates revenue.

# How does municipal aggregation work?

Deregulation of natural gas and electric markets makes it possible for customers to form buying groups that combine purchasing power to achieve savings on natural gas and electric costs. Cities, counties, villages and townships can establish aggregation programs to benefit all energy users (residents, businesses and themselves). Ohio law encourages aggregation by allowing municipalities to implement an "opt-out" aggregation program in which customers are automatically included in the buying group but can opt out.

## Forming an aggregation program

- One political subdivision (or a group of political subdivisions) legislatively authorizes the program.
- A majority of voters in the subdivision's jurisdiction authorize opt-out aggregation via a ballot issue.
- Counsel for the subdivision shops for a provider and negotiates all price and contract terms to secure the most favorable rates and terms while avoiding legal traps. Experienced counsel can secure concessions that are not automatically offered by marketers.
- Two public hearings are held allowing customers to voice any concerns over the proposed plan.
- Once the plan is formed, each potential customer is notified that they will be automatically enrolled in the program unless they specifically elect not to participate.
- Any energy user can opt out without charge every 3 years for electricity and every 2 years for natural gas, providing them the choice to shop for and negotiate their energy needs.

## Operating and maintaining the program

- Strong negotiation of contracts with suppliers by experienced attorneys.
- Ongoing shopping and negotiation to maintain the best competitive advantage for constituents.
- Program fees can be charged to cover all operating expenses and potentially generate revenue for the political subdivision, while still saving constituents money.

# Are Ohio municipalities participating in aggregation programs?

## Municipal aggregation is not new, but is more important than ever

- More than 200 communities in Ohio have already authorized governmental aggregation.
- Northeast Ohio Public Energy Council (NOPEC) is the largest public retail energy aggregation program in the nation, serving approximately 500,000 electric customers and 275,000 natural gas customers in 134 communities in 10 counties in northern Ohio.
- The City of Cincinnati recently formed an aggregation program for electric and natural gas services.

## Demonstrated client successes

- **NOPEC:**
  - o Residents and participating political subdivisions have saved more than \$175 million since 2001 and are projected to save more than \$300 million total through the current term of the program.
- **City of Cincinnati:**
  - o Last year, Cincinnati constituents saved an average of 23 percent on their utility bills through the rates negotiated on their behalf by the city: an average savings of \$163 on natural gas bills and \$137 on electric bills.
  - o The city anticipates annual savings of \$800 million through the program.
  - o The administration fee paid by the utilities generates revenue, which covers all of the city's administrative costs and earns extra revenue for the city.

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