



## Volatile Energy Prices and Regulatory Upheaval: Why Every Municipality Should Consider Aggregation as a Service to Residents

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What is municipal aggregation?

For a little over a decade, Ohio has moved toward the deregulation of its electric and natural gas markets. Specifically, the price of the supply has opened to competition. In part, this means that retail customers throughout the state are now able to choose among numerous competitive suppliers for their electricity and natural gas. Deregulation of natural gas and electricity services poses some risks to consumers, including greater price volatility and the possibility of entering into less than favorable contracts with competitive suppliers.

However, municipalities are in the unique position to adopt a program to help their constituents benefit from retail competition in the natural gas and electric services, achieve savings and minimize risk. If your political subdivision has not yet adopted an aggregation program, this may be the time to consider one. Recent and pending changes in the energy markets are making energy cost management more important than ever before.

Deregulation of natural gas and electricity markets in Ohio has made it possible for retail customers to form buying groups that combine their purchasing power to achieve savings on natural gas and electricity costs. The formation of such buying groups is known as "aggregation." Ohio cities, counties, villages and townships may also establish aggregation programs to benefit all energy users within their jurisdiction, including residents, businesses and themselves.

In fact, Ohio law encourages such municipal aggregation by allowing municipalities to implement an "opt-out" aggregation program. In an "opt-out" program, customers are automatically included in the buying group unless they specifically request otherwise. "Opt-out" aggregation is beneficial because it creates an automatic buying group, thereby avoiding the costly process of signing each individual customer up for the program, a process known as "opt-in" aggregation.

The benefits of municipal aggregation

To date, more than 200 communities in Ohio have authorized governmental aggregation. Along with enabling communities to get better natural gas and electricity prices, aggregation has a number of additional benefits. Communities may benefit from product offers that incorporate grants or other savings for the communities at-large. At a time when the Ohio economy is struggling and government budgets have been reduced, governmental aggregation has provided a welcome benefit to residential and small commercial customers and their communities, all of whom may not have had the power standing alone to access or attract such competitive pricing.

For example, Northeast Ohio Public Energy Council (NOPEC), the largest public aggregation program in the nation, has estimated that its residents have saved more than \$175 million since 2001 through aggregation — and its residents are projected to save a total of more than \$300 million through the current term of the aggregation program. NOPEC serves about 500,000 electric customers and 275,000 natural gas customers in 134 communities in 10 counties in northern Ohio. Similarly, the city of Cincinnati recently formed an aggregation program for electric and natural gas services. Last year, Cincinnati constituents saved

an average of \$163 on their natural gas bills and \$137 on their electricity bills through the rates negotiated on their behalf by the city.

#### Forming a municipal aggregation

If a community chooses to pursue “opt-out” municipal aggregation, Ohio law provides the following process to form the program:

- A majority of voters must authorize opt-out aggregation in a primary or general election.
- If authorized by a majority of the vote, the local government must form a proposed aggregation plan by negotiating with competitive suppliers for the most favorable rates and benefits possible for the aggregation program. It must also hold at least two public hearings to allow customers to voice any concerns over the proposed plan.
- Once the local government has adopted the plan, each customer to be aggregated must be notified that they will be automatically enrolled in the program unless they specifically elect not to participate. This notification must state the rates, charges, and other terms and conditions of enrollment in the program and should provide a mechanism for constituents to “opt-out.”

Natural gas aggregation customers may opt-out every two years without paying a switching fee; electric aggregation customers may opt-out every three years without paying a switching fee.

Regulatory trends suggest that aggregation will be an increasingly important service for municipalities to offer their residents

In addition to the benefits of municipal aggregation discussed above, recent regulatory trends suggest that municipal aggregation may become an even more important vehicle for consumers seeking reasonable and relatively stable electricity and natural gas prices. In the beginning of 2013, the Public Utilities Commission of Ohio (PUCO) approved a plan that could eventually eliminate the standard service offer for customers in the natural gas setting. This is the service customers automatically receive unless they choose to shop among competitive suppliers.

The standard rate offer has repeatedly proven to provide the best price for natural gas. However, the PUCO-approved plan paves the way for elimination of the regulated standard rate offer, requiring customers to buy gas at unregulated prices from retail markets and making it even more important to pool negotiating power and shop around.

Similarly, in the electricity context, a recent PUCO commission-ordered investigation signaled a willingness to explore whether default service should be continued for customers. If default electric service were eliminated, electric consumers would be required to shop among various competitive suppliers. Although there are benefits to retail competition, forcing customers who are unfamiliar with natural gas and electricity markets to shop among competitive suppliers could create an environment where they are at an increased risk of entering into unfavorable contracts.

Municipalities can provide a safe haven for their residents if traditional, regulated default service is eliminated for natural gas or electricity services. By aggregating, municipalities can secure bargain rates for their residents, as well as provide some price stability. In this way, municipalities can provide a sort of alternative “default service” for residents who do not want to shop among competitive suppliers on their own. Given recent regulatory trends, as well as the general economic benefits of aggregation, every Ohio municipality should be taking a close look at the option to form a municipal aggregation program.

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