



# Capitol Region Council of Governments

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Mary Glassman, Chairman

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**MEMBERS** To: Municipal Services Committee Members  
From: Hedy M. Ayers, Special Projects Manager  
Andover CC: Jennifer March-Wackers, Municipal Services Manager  
Avon Date: February 10, 2011  
Bloomfield Re: Residential Electricity Program Research Findings  
Bolton

Canton As you know, the CRCOG Policy Board passed a resolution in October authorizing the agency to establish a Regional Residential Electricity Endorsement Program for interested CRCOG/CRPC members and to conduct a related procurement process to select and contract with a qualified residential electricity provider. Since that time, CRCOG staff has researched this growing niche within the deregulated electricity marketplace and has identified a handful of key issues/questions that should be addressed as the agency considers its role in launching such a program at the regional level.  
East Granby  
East Hartford  
East Windsor  
Ellington  
Enfield

Farmington To help frame our discussions at next week's Municipal Services Committee Meeting, I have included the following information for your review and consideration: 1) a brief section covering the basics of an affinity program-- roles and responsibilities, community benefits and key statistics; 2) a look at program structure/ sponsorship options for CRCOG; and 3) a delineation of outstanding issues and concerns that should be fleshed out by the Committee.  
Glastonbury  
Granby  
Hartford  
Hebron

Manchester **BACKGROUND ON MUNICIPAL ELECTRICITY ENDORSEMENT PROGRAMS IN CT:**

Marlborough Last year, a handful of municipalities across Connecticut (including Wethersfield, Coventry, Windham, Marlborough, Hebron, Hampton, Bolton and Columbia) entered into service agreements with an electricity supplier (Direct Energy) and rolled out endorsement programs on behalf of their residents and small businesses. In return for exclusively recommending one supplier from the sea of more than twenty that the DPUC's website lists as "actively marketing to residential and commercial customers," participating communities secured competitive pricing over comparable utility rates. Resulting contractual agreements assigned the lion's share of work to the electric supplier, charging it with providing energy services, preparing and distributing advertising and promotional materials, administering all enrollment activities and attending public outreach events. The sponsoring town's role, beyond selecting the firm via a formal RFP process, was more limited, and included providing constituent lists to the supplier, approving marketing materials, sponsoring a few community outreach efforts, and designating staff to answer questions about the program (and verify its legitimacy).  
Newington  
Rocky Hill  
Simsbury  
Somers  
South Windsor  
Stafford  
Suffield  
Tolland  
Vernon  
West Hartford

Wethersfield Based on a series of email exchanges and phone conversations with representatives from the towns of Wethersfield, Coventry and Darien, as well as Richard Suchant, Partnership Sales Manager for Direct Energy Services, LLC, the following is a snapshot of what localities can expect from an endorsement program:  
Windsor  
Windsor Locks

- **Community Benefits:** These include: 1) **potential savings** to residents and small commercial businesses over standard utility offers. (Direct Energy has been able to beat utility rates to date but cannot promise that outcome in perpetuity); 2) **deeper discounts for**

**targeted populations**, like seniors and the disabled; 3) **an educated consumer pool** that understands the realities of supplier choice (e.g. consolidated billing practices, the utilities' continued responsibility to respond to outages, make repairs, etc.) and can make an informed decision about competing price options. Note that suppliers, working in coordination with town sponsors, rely on a combination of mailers, email blasts, learning events at senior centers and energy fairs to get the word out; and 4) **additional town revenues**, as the supplier returns money to the community based on enrollment figures. These "civic contribution" payments can be used to support municipal energy projects, fuel banks, and related initiatives. Wethersfield and Coventry negotiated payments of \$.001 and \$.002 per kWh respectively.

- **Enrollment Rates:** Programs target to enroll 10% of eligible accounts (Direct's highest enrollment rate to date in CT is 18%).
- **Participant Account Breakdown:** Typically includes 90% residential and 10% small commercial accounts.
- **Savings Estimates:** Communities offering endorsement programs have realized savings as high as 17-18% over comparable CL&P rates for their constituents, although those figures have dropped by nearly half (to roughly 8-9%) since the utility posted its new rates as of January 1<sup>st</sup>. These discounted rates, in part, reflect lower marketing costs (as endorsement programs are more cost-effective than traditional door-to-door and telephone-based advertising methods), as well as the supplier's ability to provide price quotations based on current market conditions.

#### **PROGRAM STRUCTURE OPTIONS:**

Given growing municipal interest in facilitating retail electric choice and helping residents and businesses alike manage their energy costs, CRCOG could support the expansion of this model across its region in one of two ways: by sponsoring a program directly or providing technical assistance to help its members establish programs of their own. Specifically:

**Option 1: Program Sponsorship**—CRCOG formally offers a residential electricity program to its members or a subset thereof (possibly via a pilot phase). The agency's scope of services would likely include: recruiting participating communities, RFP issuance, vendor selection, contract negotiations and ongoing general program administration on behalf of the consortium (e.g. negotiating pricing updates and contract extension options). Under this model, each participating town would be responsible for the day-to-day operations of the program, including working with the selected supplier to create an effective marketing plan, assigning town staff to answer questions from the public, etc.

**Timetable:** It is envisioned that a program could be rolled out in FY 2012.

**Option 2: Technical Assistance**—CRCOG serves as a resource for towns wishing to sponsor a program independently, or in partnership with one or more municipalities. Services under this model could include one or more of the following:

- Hosting informational sessions on the topic, either at regularly-scheduled committee meetings or as stand-alone workshops, featuring current town programs and vendor options;

- Preparing and/or collecting informational materials and templates, including, but not limited to, sample RFP's, resulting contracts, advertising materials, town contact lists, information on pricing locks, town remuneration packages and civic contribution projects, etc.;
- Cataloging problems/issues that may arise and disseminating related information;
- Facilitating the creation of multi-town buying groups; and
- Encouraging towns to include piggybacking language in their procurement documents and resulting contracts and providing model verbiage for them to incorporate therein.

**Timetable: Ongoing, but information dissemination could begin almost immediately.**

**ADDITIONAL CONSIDERATIONS/NEXT STEPS:**

As the Committee looks to make a recommendation for next steps and ultimately shapes the scope of future CRCOG activities in this arena, there are a handful of issues/questions that may merit further discussion. Consider the following:

1. **Mission Creep:** The ongoing mission of CRCOG's Municipal Services function is to *help cities and towns save tax dollars and enhance operating efficiencies*. The endorsement program described herein focuses on a service that towns would provide to their residents and businesses. Does such an arrangement fall outside the scope of our mission, or would a regional offering be viewed as a logical extension of CRCOG's existing energy procurement cooperatives?
  
2. **Liability Concerns:** Should CRCOG sponsor a program that encourages citizens/businesses to switch electricity suppliers, and risk leading folks astray if they do not actively manage their accounts? Related, will customers fail to opt-out of or cancel existing agreements at a strategic point in time and simply roll-over to the next deal offered?
  
3. **Pricing Optimization:** While Direct Energy appears to have cornered the market on municipal endorsement programs to date, its prices are higher than many competing suppliers. See Table 1 below. Accordingly, if price is truly the principal consideration here, are residents and businesses better off contracting with a supplier independently, based on the full complement of price quotes posted on the DPUC's website?

**Table 1: Fixed Price Offerings for Generation Service Charges (15% Renewable Fuel Mix)\***

Supplier	Rate	Term	Notes
CL&P	.09482	Through 12/31/11	
ConEdison Solutions	.0834	Through 1/31/12	
Dominion	a).0845 b).0869	a)Through 4/30/11 b)Through 12/31/11	
Spark Energy	.0850	1-year fixed	
Direct Energy	.0909	1-year fixed	Referral Program
Direct Energy	.0919	1-year fixed	
Mx Energy	.0939	1-year fixed	

\*For CL&P residential customers only; as posted on the DPUC's website on 2/9/11.

\*\* Direct Energy's municipal endorsement program contract rates were fixed at either \$.0929 or \$.0979 (Wethersfield only) per kWh for initial lock-in periods, which varied by town. Note that separate senior discounted rates applied as well.

4. **Contracting Issues:** While Darien issued an RFP last spring, the town has yet to sign a contract with its selected supplier (Direct Energy), largely because of insurance and indemnification clause concerns. Given the town's very lengthy negotiation process and its inability to use language that was cleared by other towns' legal and insurance advisors, will it be difficult to craft a standardized set of procurement and contracting documents for use across interested communities?
  
5. **Limited Competition:** Despite a laundry list of registered electric suppliers in CT, there only appear to be a handful of companies that are interested in (and perhaps capable of rolling out) municipal endorsement programs. The towns I spoke with all had limited respondent pools (as few as one and as high as three), and all selected Direct Energy. Does such limited competition negate the value of conducting a formal RFP process?
  
6. **Savings Reductions:** As referenced above, reductions in CL&P's GSC rate as of January 1<sup>st</sup> significantly cut into supplier-based savings. How much savings is enough to justify playing the market?
  
7. **CRCOG Staff Capacity:** Limited at best. Is this considered a project priority for Fiscal Year 2012?

8. **Administrative Costs:** CRCOG would need to recover the administrative costs associated with launching and managing a regional endorsement program. Based on past precedent, such revenues would likely be generated via town participation fees or a rebate from the vendor directly. Is this an additional cost participating towns are willing to incur?

I look forward to discussing these issues in greater detail at next week's meeting. As always, should you have any questions or require additional information, please do not hesitate to contact me at 860-522-2217, ext. 234 or via email at [hayers@crcog.org](mailto:hayers@crcog.org).