



Intelometry, Inc.

***Response To Brandy L. Wreath
Director, Public Utility Division of the
Oklahoma Corporation Commission***



Prepared on behalf of



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Introduction

We are grateful that our report titled “*Beyond Texas: Evaluating Customer Exposure to Energy Price Spikes: A Case Study of Winter Storm Uri, February 2021*” (“Report”) has initiated a discussion of how consumer benefits of competitive retail energy markets compare to the utility-monopoly paradigm. In response to our Report, Brandy L. Wreath, Director of the Public Utility Division (“PUD”) of the Oklahoma Corporation Commission (“OCC”), wrote an open letter where he suggests that comparisons made in the Report between states are “erroneous” and that the clear fact that “Texas residential customers enrolled in retail choice... paid less in utility storm-related costs than Oklahoma customers of regulated utilities who did not have the option of retail choice” is somehow “misleading.”¹ As this response to Mr. Wreath’s letter will illustrate, with noted exceptions, the majority of his claims are incorrect. We categorically stand behind our Report and associated research and analysis.

The fact remains that, with few exceptions, Texas residential customers enrolled in retail choice have and will incur far less Winter Storm Uri (“Storm”) related costs than utility-monopoly customers in every state surveyed, including Oklahoma and Texas. The reason is that when utility-monopolies incur unexpected costs, they almost always recover those costs from their customers, thereby leaving their shareholders protected. Competitive energy suppliers (i.e., the providers of retail choice) do not benefit from this style of cost-recovery and any unexpected costs they incur, such as those associated with the Storm, are most often paid by their shareholders, not their customers.

We also note that it is incorrect to say that competitive energy suppliers are “unregulated utility providers.” Every competitive energy supplier is beholden to the rules and regulations set by the public utility commission of the state in which they operate. Competitive energy suppliers must also go through a rigorous approval process prior to operations in any state. To do business in the Electric Reliability Council of Texas (“ERCOT”), for example, a competitive supplier must obtain approval from the Public Utility Commission of Texas (“PUCT”) by demonstrating that they have the capability to:

- ❖ Buy wholesale electricity.
- ❖ Buy delivery service and pay the charges for transmission and distribution service to the local Transmission and Distribution Utility (“TDU”).
- ❖ Serve as the direct contact with the customer for electric service issues.
- ❖ Bill the customer and collect for charges.
- ❖ Provide a 24-hour toll free telephone number for customer calls.

¹ See PUD letter, page 1



- ❖ Develop an electronic interface system to communicate with the Independent System Operator (ERCOT) and other market participants relating to customer switches and meter information.
- ❖ Test the electronic interface system with ERCOT.
- ❖ Understand PUCT rules, including customer protection rules and PUCT Substantive Rules.²

If retail choice was established in Oklahoma, the ensuing market would likely fall under the jurisdiction and regulatory authority of the OCC, and OCC Commissioners and Staff would continue to monitor and regulate this market as required.

To the extent that we agree with critiques challenging our Report, we are submitting an update to the original work along with this letter. The updated version amends the Report accordingly and cites Mr. Wreath's department as the source for the associated changes. The latest version also updates other figures in the original Report based on updates to regulatory filings since the Report was originally published in October 2021.

Purpose of the Report

The purpose of the Report was to compare how the high energy costs generated by the Storm impacted residential customers served under the two primary paradigms of the retail energy sector. The first is the utility-monopoly paradigm in which customers can only buy their electricity and natural gas from vertically integrated utility-monopolies. The second is the retail choice paradigm in which residential customers are afforded the option to purchase power and natural gas from a competitive energy supplier that is different from their local utility-monopoly.

The comparison found that very few residential customers served by competitive suppliers experienced increased energy bills during and after the Storm and that, in the vast majority of cases, competitive suppliers, and not their customers, absorbed the high prices associated with the Storm, thereby losing hundreds of millions of dollars. On the other hand, customers being served by utility-monopolies will be on the hook for most, if not all, of the Storm related costs incurred. This is because utility-monopolies have applied for and are expected to receive cost recovery for their losses (sometimes even including a profit margin). The consequence is that, with few exceptions, utility-monopolies will experience either limited or no financial loss due to the Storm.

During and after the Storm, news coverage of residential ratepayer impacts tended to focus on Texas choice customers that took service under index-based rates from Griddy and ignored the over 99% of Texas choice residential customers who took service under fixed price or variable rate contracts and were insulated from the Storm's rate impacts. Additionally, there was little discussion of the utility-monopoly customers across a 15-state area that would be on the hook for the Storm related losses sustained by their local utilities. The Report shed light on the items the media ignored.

² <https://www.puc.texas.gov/industry/electric/business/rep/rep.aspx>

Out-of-Scope Arguments

The PUD letter discusses a number of items that were outside the Report's scope. Among these were the involuntary load shed in ERCOT that occurred during the Storm, general price comparisons between choice and monopoly states, and state policy decisions about retail market structure. While these are all important topics, they have little to do with the Paper's thesis that residential customers taking service on fixed-price contracts from competitive retail energy suppliers during the Storm were far more insulated from the Storm's costs than captive customers taking service from utility-monopolies.

In-scope Critiques We Reject

Texas Losses Had the Grid Not Lost Power

PUD implies that we underestimate Texas customer impacts vis-à-vis Oklahoma due to the Storm since Texas losses would have been far worse had there not been blackouts.³ We certainly acknowledge that Texas power costs would have been higher had power stayed on, but even if that happened, Texas customers taking service from competitive suppliers on fixed price contracts would have still been protected. These customers would have continued to pay the fixed rate consistent with their contract terms. Meanwhile, competitive power suppliers would have experienced additional losses, and more might have been pushed into bankruptcy, but these are impacts to those companies' owners and creditors—not their customers. Texas utility-monopoly customers, on the other hand, would have been forced to pay increased costs because, like in Oklahoma, utility regulation provides for the pass-through of these costs to customers with little or no financial responsibility being imposed on utility owners themselves.

ONEOK v Houston Ship Channel Gas Prices

PUD claims that the Report cites high gas prices at ONEOK without acknowledging that Oklahoma regulators have no control over those prices, and the Report also ignores the impact on Houston Ship Channel prices from demand dropping in Texas due to system failures.⁴ The point of presenting the data was to educate the reader on the scale of the price shock in wholesale gas markets that electric generators and utilities were facing during the Storm, and not as a critique of regulatory oversight in any state. Additionally, we note that, had Houston Ship Channel prices surpassed those at ONEOK, no fundamental conclusions presented in the Report would have changed. Finally, utility commissions do regulate the buyers of gas and power, and their regulations and orders provide (or do not provide) incentives or requirements for hedging and forward procurement activities. It is not accurate to depict utility commissions as powerless when they regulate the major buyers of natural gas and power.

Storm Related Residential Bills from Griddy

PUD claims that the Report minimizes documented reports where residential customers received bills as high as \$17,000 from some electric choice providers, and that the Report insinuates that only a very small number of customers received exorbitant bills and might not end up having to pay the total amount.⁵ Actually, the Report did not minimize any of this. Griddy, the company

³ See PUD letter, page 2

⁴ See PUD letter, page 2

⁵ See PUD letter, page 3

that was responsible for the high residential bills, was discussed throughout the Report. Our assessment that very few customers received such bills, and that the ones that did would likely not have to pay them was accurate. Despite this, we included the high invoices from Griddy in our analysis of the Storm's impact on retail choice customers. As such, our analysis was conservative, and as we noted in the Report's first edition, we likely overestimated the Storm's impacts to residential ratepayers in the Texas competitive-retail market.

Indeed, since the publication of the Report, a settlement was reached in which all Griddy customers' charges for usage during the Storm were reversed and customers who had paid their invoices were given a mechanism by which they could demand refunds.⁶ As such, we have updated our assessment of Storm related costs paid by Texas retail choice customers in the latest version of the Report.

Misunderstanding Cost Recovery in Competitive Markets

PUD contends that lower prices in monopoly states over choice states is an "obvious result as another layer of profit for marketers is added in an otherwise limited regulatory environment."⁷ While the Report did not investigate or comment on general pricing between choice and monopoly states, we do note that price differentials between states is caused primarily by variations in generation mix, transmission infrastructure and regulatory requirements, and that studies have shown that energy prices in deregulated states decline over time, while they continue to rise in monopoly states.⁸

It is also incorrect to say, as PUD contends, that the Report ignored "the possibility that competitive suppliers might not seek to immediately recoup losses,"⁹ thereby implying that these costs would be recovered through future price increases. This statement misunderstands the economics that govern pricing in competitive markets. A competitor in a competitive market cannot effectively recover past losses in future intervals, in the presence of rival firms' offers that are based on forward-looking costs. If a firm tried to recover past losses by raising prices higher than going-forward costs, it would be outcompeted by its peers, including new firms that continue to enter the market and had no such exposure. Indeed, it is a peculiarity of utility-monopoly markets that their regulators allow them to engage in deferred accounting and cost-recovery—exceptions to Generally Accepted Accounting Principles that are prohibited from being used by firms in competitive markets. All of that said, in an abundance of caution, we did examine near-term prices to see if forward-looking risk adders or softness in the market from retailer exits would allow pricing discipline to relax somewhat. We did not see any such thing. Today, looking at the Texas retail market we still see no evidence that competitive suppliers have been able to increase their margins to 'make up for past losses.'

Hedging & Insurance

PUD declares that it is "nonsensical" that the Report claims that utilities pay little or no price if hedging strategies fail because OCC oversees utility hedging strategies. PUD then compares utility hedging to home insurance policies. The problem, of course, is that during the Storm utility-

⁶ [Settlement takes Griddy customers off the hook for winter storm bills \(statesman.com\)](https://www.statesman.com/story/news/politics/2021/02/02/settlement-takes-griddy-customers-off-the-hook-for-winter-storm-bills/3311117002/)

⁷ See PUD letter, page 3

⁸ [RESA Restructuring Recharged White-Paper 0.pdf \(resausa.org\)](https://resausa.org/RESA_Restructuring_Recharged_White-Paper_0.pdf)

⁹ See PUD letter, page 3



monopoly hedging strategies failed despite OCC oversight. As a result, utility-monopolies are now passing the costs of their failed hedging to their customers, meaning their customers were never actually insured. Again, this was a central theme in the Report, which illustrated that the Storm exposed that only retail choice customers on fixed-price contracts were truly insured. Utility-monopoly customers were in fact uninsured, as they are being forced to pay for utility-monopoly losses caused by the Storm.

In-scope Critique We Accept

OG&E Flat Bill Customers

PUD points out that the Report incorrectly claims that OG&E requested \$30 million in relief for customers on Guaranteed Flat Billing instead of shareholders paying for the losses. We note that the Report relied on the Direct Testimony of Charles B. Walworth on behalf of Oklahoma Gas and Electric Company (“OG&E”) to make that claim. Specifically, we took note of the following Q&A:¹⁰

- Q. Was the Company financially impacted in any other way from the Event?**
- A.** Yes. OG&E has a Guaranteed Flat Bill program that insulates participating customers from weather-induced usage impacts and any changes during the contract year in OG&E’s underlying costs. This program offers customers price security for a contract year. OG&E recorded an approximately \$30 million loss related to the load associated with the Guaranteed Flat Bill during the Event.

We have reviewed the source cited by PUD and acknowledge that PUD is correct in that OG&E’s shareholders will be on the hook for the \$30 million loss and have noted this in the latest version of the Report.

¹⁰ See Direct Testimony of Charles B. Walworth in PUD 202100072, June 18, 2021, page 4, line 16 – 21