

# Section 1

## EXECUTIVE SUMMARY

### 1.1 Overview

The retail sale of electricity is a \$360 billion per year business in the United States, with most of that power sold by incumbent electric utilities on a fully bundled basis. Bundled electricity includes the costs of generation, transmission, and distribution over a networked grid owned and/or operated by regulated utility companies and public power agencies (including municipal utilities, water districts, and rural electric cooperatives). Increasingly, however, changes in the regulatory structure of this 125-year-old industry have allowed for competitive sales of electricity by a new set of restructured retail power sellers and service providers.

As a result, the past decade has seen a steady increase in commercial and industrial (C/I) customers that are able to purchase electricity from sellers other than their incumbent utility. Commercial end users range from small to midsize businesses to nationally positioned retail entities with hundreds or perhaps thousands of locations across the nation. These end users also include major industrial concerns for which the price of power is a substantial component of production costs. Thus, the ability to procure power at competitive rates has become a driving force in the restructuring of the electric power industry.

This report focuses on the U.S. market for electricity procured by commercial (both business and institutional) and industrial customers who are allowed to purchase electricity from non-utility sources. For the most part, this activity is limited to about 20 states and jurisdictions with laws and regulations on the books allowing retail access to competitive electricity. The primary focus of regulatory activity concerns providing consumer protection rules for residential and small business customers – or limiting their access to retail competition entirely. Larger corporate end-users are generally presumed to be more sophisticated buyers and less in need of limiting regulatory protections than individuals. As a result, in most territories that allow competition, participation is much higher among commercial and industrial power users than among households.

The first competitive sales for electricity directly to consumers were allowed in the United States during 1998. Since then, restructured retail markets have grown to over \$35 billion per year in 20 states and the District of Columbia. Well-publicized competitive market failures in California during 2000-2001 significantly hampered the national drive toward restructuring for residential electricity consumers. Despite those failures, competitive power markets continued to thrive in states such as Texas and in regions where wholesale market reforms have created new multi-state jurisdictions defined by independent system operators/regional transmission operators (ISOs/RTOs).

## 1.2 Commercial and Industrial Procurement of Electricity

Approximately 295 million MWh of unbundled electricity was sold to all customer sectors in the United States in 2009, with over 270 million MWh purchased by more than 720,000 C/I companies. Many of these corporate entities have hundreds or thousands of locations throughout the country, some with multiple metered accounts. Thus, several industry sources calculate the total number of business customers purchasing electricity in open markets at over 1.8 million accounts.

**Table 1.1 Electricity Sales to Commercial/Industrial Users, Five-Year Intervals, United States: 1998-2009**

	Units	1998	2003	2009	CAGR (1998-2009)
Total C/I Sales	(Million MWh)	2,030.6	2,220.4	2,224.4	0.8%
Total Energy-Only C/I Sales	(Million MWh)	21.9	167.2	270.5	25.7%

(Sources: U.S. Energy Information Administration, Pike Research)

**Table 1.2 Competitive Electricity Procurement Market Volumes in 17 States: 2009-2020**

Sector	Units	2009	2015	2020	CAGR (2009-2020)
Commercial	(000 MWh)	230,698	283,114	324,310	3.1%
Industrial	(000 MWh)	113,229	127,514	137,370	1.8%
<b>Total</b>	<b>(000 MWh)</b>	<b>343,927</b>	<b>410,658</b>	<b>461,680</b>	<b>2.7%</b>

(Source: Pike Research)

In 2009, the total value of power procured on an unbundled basis by C/I customers approached \$29 billion. These markets are expected to continue growing over the next decade to about \$56 billion. However, they face many (sometimes conflicting) trends that will impact the actual level of growth.

**Table 1.3 Competitive Electricity Procurement Market Sales in 17 States: 2009-2020**

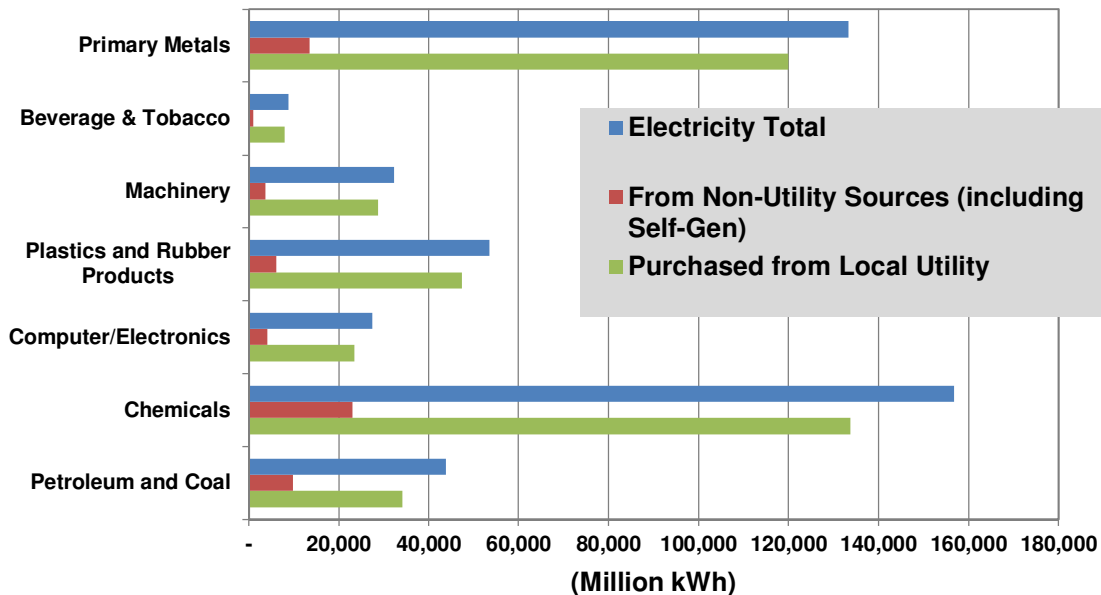
Sector	Units	2009	2015	2020	CAGR (2009-2020)
Commercial	(\$ Millions)	\$20,978.1	\$31,142.5	\$42,160	6.6%
Industrial	(\$ Millions)	\$8,426.1	\$11,246.7	\$13,737	4.5%
<b>Total</b>	<b>(\$ Millions)</b>	<b>\$29,404.2</b>	<b>\$42,389.2</b>	<b>\$55,897</b>	<b>6.0%</b>

(Source: Pike Research)

### 1.2.1 Competitive Procurement Market Issues

The single biggest factor that will impact competitive procurement is the continued belief by customers that they can realize cost savings and improved services from providers other than their local utility. Sellers that obtain their electricity from highly competitive wholesale power markets can generally offer lower prices for electricity than a rate-based utility – especially to larger customers. The volatility of pricing in electricity and natural gas markets, however, has at times put competitive procurement at a disadvantage. Still, commercial firms and industries that are especially reliant on electricity will continue to advocate for improved access to markets and favorable policies that minimize the costs associated with participating in those markets.

**Chart 1.1 Electricity Procurement by Major Industries by Supplier Type: 2006**



(Source: U.S. Energy Information Administration)

Other benefits of competitive procurement include the ability to manage multiple accounts that may be scattered in different regions. The structure of the existing electric industry is characterized by thousands of separate utilities, each with its own rate structures and rules. Competitive procurement from a single or even a few electricity sellers allows buyers to consolidate purchases for greater price leverage and to make the task of bill management less complicated.

Additional critical issues that will determine growth in procurement include:

- The nature and extent of regulatory policies in states where customers are able to find non-utility supplies
- The availability of other energy options, especially energy efficiency and on-site generation of power
- Corporate responsibility programs and public policies to address climate change
- The trajectory of complementary markets for renewable energy being embraced by large businesses and institutions that want to improve the environmental profile of their operations