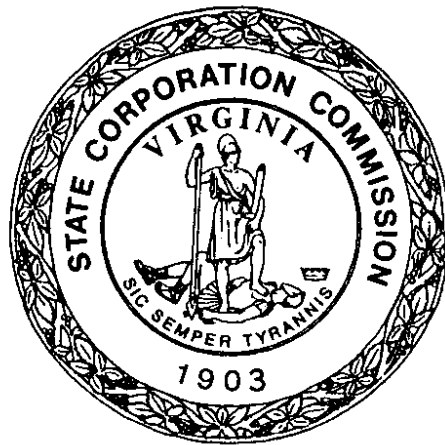


COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION



Report to the General Assembly

Consumer Education Plan

December 1, 1999

Response to § 56-592 of the Code of Virginia

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A Consumer Education Plan for Virginia's Retail Energy Supply Market

Executive Summary

The State Corporation Commission was directed by the Virginia General Assembly to develop a consumer education plan to prepare Virginians for the choices they will be given in a newly competitive energy supply market. As increased competition among energy marketers spurs more aggressive marketing approaches, the role of the Commission as a liaison between consumers and energy marketers becomes increasingly important. Now, more than ever, consumers need reliable information and skills to make educated choices.

The General Assembly charged the Commission with the task of implementing Virginia's competitive energy supply market. With the passage of the Virginia Electric Industry Restructuring Act and legislation allowing retail supply choice for natural gas, the General Assembly directed the Commission to create an environment for competition that is fair and equitable for all market participants. There also must be appropriate safeguards in place to ensure no competitor has an unfair advantage. Simultaneously, the competitive environment that is created must protect consumers and assure service reliability. The legislature is relying on the Commission's knowledge and expertise of the utility industry to shepherd the Commonwealth through this fundamental change in the purchase of energy services.

We hope Virginians will be excited about the prospect of competition that can potentially deliver lower prices and new services to the benefit of individuals as well as the Commonwealth's overall general economy. However, Virginians will be making complex decisions about a commodity for which they have never had to shop and have little knowledge of how to do so. Consumer education on the very basics of how the

market will operate is a must if residential and small business consumers are to become full participants in the market and enjoy the benefits derived from these changes.

The Commission, drawing on its experience overseeing Virginia's utility industry, is well positioned to educate consumers about these important changes. A statewide consumer education program, developed by the Commission with the advice and assistance of a variety of interested parties, will help Virginians make informed, confident choices. The more they know, the more they can potentially benefit.

In preparing a consumer education plan for Virginia, the Commission reviewed and analyzed the plans of more than a dozen states that have already entered or are preparing for a competitive market. The basic elements of a consumer education plan are virtually the same in every state. However, the Commission has made several fundamental assumptions that recognize the unique challenges of bringing effective competition to Virginia's utility industry. These assumptions attempt to balance the specific interests of consumers and suppliers in order for a market to function effectively in Virginia.

The key areas discussed in the report include the following:

Scope of Education

The Act directed the Commission to develop a specific plan for a retail electric market. However, Virginia has chosen to open up both the electric and natural gas markets at virtually the same time, so the eventual plan could be energy neutral and emphasize customer choice and the mechanics of choice for both electric and natural gas supply.

The traditional utilities of electricity and natural gas are converging. Companies are positioning themselves to cross-sell electricity to gas customers and gas to electricity customers. This evolving energy market is the result of restructuring and the associated competitive pressures to retain existing customers and to attract new ones by tailoring energy products more closely to the specific needs of individual customers. This convergence is also driven by the potential convenience and economies related to "one-stop shopping."

The resulting diversity of information will require consumers to position themselves to carefully weigh their options and make decisions about their energy needs and related energy products and services. The education program, if it addresses electricity and gas, could also offer the convenience of "one-stop" educating with little or no added cost. Although the Commission is proposing here only an electricity education program, a gas component could be incorporated.

Goals of Education

While an education program cannot substitute for creating a retail market that will attract competitive suppliers, consumer education can foster a competitive market by providing consumers with accurate, clear, and easy-to-understand materials about how to participate in that market. These materials should (a) enable consumers to make rational and informed choices about their energy provider, (b) reduce the transaction costs incurred by consumers who participate in the market, and (c) foster compliance with consumer protection requirements. If these objectives are achieved, then they will serve the larger goal of promoting competitive, efficient markets.

Responsibility for Education

As with any competitive product, Virginians can expect to receive numerous messages from a variety of sources about their options in a competitive energy supply market. The single most important objective of the statewide education program is to provide information that is clear, accurate and unbiased. Last year, numerous interested parties strongly recommended that the Commission administer such a program. The Commission, which has no economic self-interest at stake, can serve as a known, neutral source capable of providing comprehensive information on changes within Virginia's utility industry.

Under the auspices of the Commission, an education plan will provide Virginians with relevant and easy to understand information. More importantly, the information should not create an actual or perceived advantage of one competitive supplier over another.

At the time consumers are invited to make a choice, they should be able to do so with confidence. An objective and independent education program can increase the chance that a consumer's choice (including the choice to use the default service provider) is a considered decision rather than one that occurs out of ignorance.

Special Grants for Education

Raising the awareness level of all Virginians about a competitive energy market requires mass media marketing and advertising. It is an expensive, but necessary component of the plan comprising nearly 70 percent of the projected cost.

Once Virginians are aware of what's occurring, they will be primed for follow up information through a variety of communications tools and channels. Most Virginians may be receptive to information through the mass media, although some may disregard it or require additional information. Therefore, it is important to develop alternative means of communicating directly with those Virginians. This plan outlines various communications methods to meet the information needs of all consumers.

One channel expected to be extremely effective is through community-based organizations, the member-based groups, associations and organizations that serve a multitude of needs for individuals. These entities can be highly credible third-party information sources that have an established trust with their members.

Many of these groups are volunteer organizations with limited financial resources. The education plan therefore could include grant money that will help encourage and facilitate the dissemination of information by these groups.

Duration of Education

Changing consumer attitudes and behavior regarding any product or program is a difficult task. The complex nature of the electric and gas industry makes the task even more challenging. Educating Virginia's consumers will take time.

The Commission's education program is a five-year plan starting in 2001 and continuing through 2005. It exceeds the plans of most states by one or two years. The General Assembly's timetable for restructuring Virginia's electric industry gives the Commission a chance to start education early. Most states began to educate and inform consumers at roughly the same time they were asked to make a choice. Each state indicated it should have begun its education process earlier.

The Commission's education plan must also be prepared to adjust to acceleration or delay in the implementation of customer choice as allowed by law. And, it must be flexible to be responsive to the Commission's ongoing requirement to monitor and promote the development of effective competition in Virginia beyond 2004.

Projected Cost for Education

The total estimated cost of the five-year "Virginia Energy Choice" education plan for Virginia is \$30.1 million. The average estimated annual cost is \$6 million. Based on Virginia's 1998 estimated population of 6.8 million, the annual cost to each Virginian is 89 cents. In the years of the plan requiring the greatest amount of spending (2002 and 2004), the per capita cost is only slightly more than \$1.00.

The average annual spending per Virginian compares reasonably with consumer education programs being implemented in other states.

Comparison with Other States

Customer Education Programs (duration)	Annual Spending Millions of Dollars	Resident Population Millions of Persons	Spending per Person per Year
California (1st year)	74.0	31.9	\$2.31
(sustaining years)	5.0		\$0.16
Ohio (2 years)	16.0	11.2	\$1.43
Pennsylvania (4 years)	17.0	12.0	\$1.42
Connecticut (2 years)	4.5	3.3	\$1.36
Michigan (4 years)	12.4	9.7	\$1.27
Virginia (5 years)	6.0	6.8	\$0.89
New Hampshire (2 years)	0.9	1.2	\$0.75
Maine (2 years)	0.8	1.2	\$0.67
New Jersey (3 years)	4.5	8.1	\$0.56

Funding Options for Education

There are four options for funding a consumer education program. All of them place the cost on Virginians either through taxes or through the rates paid for utility service.

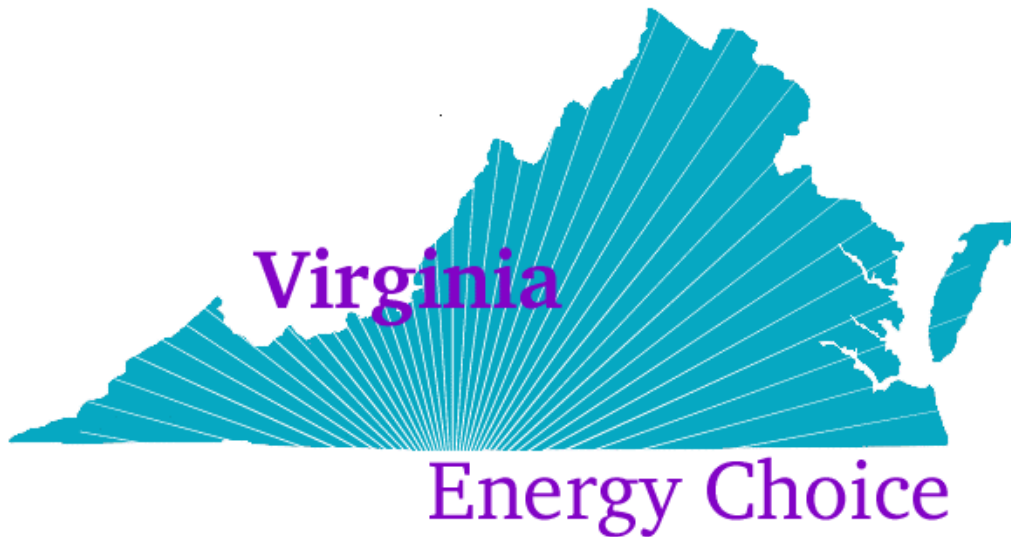
First, the General Assembly could appropriate General Fund dollars to pay for the program using money being collected from all Virginians through state sales and income taxes. Second, the General Assembly could create a special tax (sometimes called a "systems benefit charge") specifically for the consumer education program that would appear as a separate line item on monthly utility bills.

Third, electric utilities could collect the costs of the program through the rates being charged to customers. However this option, given that rates are capped as provided for in the Virginia Electric Utility Restructuring Act, would make it more difficult for utilities to recover any stranded costs.

Fourth, the state could use the Special Revenue Tax that already exists to fund the regulatory responsibilities of the Commission. This funding option seems the most equitable to utilities, and it is the one that the Commission has existing authority to administer.

Funding Recommendation for Education

The Commission recommends collecting consumer education funding through the Special Revenue Tax.



A Consumer Education Plan for Virginia's Retail Energy Supply Market

I. Introduction

A. Background

Nationwide, a competitive marketplace is replacing government regulation as the means by which consumers receive electricity and natural gas service. Soon, all Virginians will have the opportunity to choose their supplier of electricity and natural gas. Full retail competition in the electric market was made possible by the passage of the Virginia Electric Utility Restructuring Act.¹ The General Assembly also passed legislation to allow retail supply choice for natural gas customers.²

Both changes in state law contain provisions to ensure that the electric and natural gas markets develop in a manner that facilitates competition while ensuring service reliability

¹ SB1269, Chapter 411 of the 1999 Acts of Assembly.

² SB1105, Chapter 494 of the 1999 Acts of Assembly.

and customer protection. The State Corporation Commission has been charged with implementing the transition to competition.

Among the Commission's duties prescribed by the Electric Utility Restructuring Act ("Act") is a directive to develop a consumer education program (§56-592). The education program prescribed by the Act must provide information on the following topics to retail customers during the period of transition to retail competition:

- opportunities and options in choosing (i) suppliers and aggregators of electric energy and (ii) any other competitive services;
- marketing and billing information that suppliers and aggregators of electric energy will be required to furnish retail customers;
- retail customers' rights and obligations concerning the purchase of electric energy and related services; and
- such other information as the Commission may deem necessary and appropriate in the public interest.

The Act directed the Commission to complete the development of the consumer education program and report its findings and recommendations to the Legislative Transition Task Force on or before December 1, 1999. The report is to address the following matters:

- the scope of the recommended program;
- the materials and media required to carry out the program;
- the participation of state agency and non-governmental entities;
- the length of the program;
- the estimated cost and a mechanism for funding the program; and
- such other findings and recommendations the Commission deems appropriate in the public interest.

B. The Importance of Consumer Education to Competition

Historically, most residential and small commercial customers have not had a choice of energy suppliers. These customers therefore have not had reason or opportunity to compare products and services in retail energy supply market. Competition is more likely to benefit customers if they are informed shoppers. The premise of a government role is that, in the absence of education, many consumers may fail to actively evaluate choices, thereby diluting the benefits of competitive markets.

Creating market competition requires the participation of consumers who are fully informed about the products and services available to them. Competition, in turn, improves market efficiency. These goals can be fostered in the new energy supply market by a publicly sponsored consumer education program that alerts consumers to their role in the new market and that provides them with impartial information that would otherwise be costly for them to obtain.

The public is not accustomed to shopping in a competitive energy supply market and is now largely unaware of the choices that will soon be available to them. Well-informed consumers will present a more attractive market to new competitors. With a strong consumer education plan in place, new competitors may find it easier and less costly to enter Virginia. Uninformed consumers who do participate may make irrational decisions or respond to misleading advertising, which invites excessive prices and undesirable terms and conditions. Participation by consumers that are well educated about their rights and responsibilities in the new market will spur more vigorous competition as more suppliers compete to meet educated demands.

Education programs focused on small consumers are particularly important because potential savings on utility bills are a modest fraction of total income and will not justify time-consuming efforts to sort through and compare confusing options. Educating consumers about the new market and how to compare products will help them cost-effectively capture available savings and benefits.

Through effective consumer protection and education, the chances are greater that a strong competitive market will develop in Virginia. And, Virginia consumers will experience a transition that is satisfying rather than frustrating.

C. About the Development of this Report

In developing this report, the Commission relied heavily upon comments, suggestions and recommendations from a broad range of interests. Representatives of electric utilities, electric cooperatives, natural gas utilities, competitive service providers, residential customers, small business customers, consumer organizations, community-based organizations, and state agencies have been consulted.

There have been three stages at which the Commission has gathered advice on a proper consumer education effort for Virginia. The first stage occurred during the 1998 working meetings of the Consumer, Environment and Education Task Force of the Joint Subcommittee Studying Restructuring of the Electric Utility Industry. Commission staff

participated in those meetings. Nearly all of the various interested parties involved in the work of the task force strongly recommended that the Commission administer any consumer education program designed to prepare Virginians for retail electric competition.

Virginia Power, for example, recommended to the task force that the Commission be the "principal agency" responsible for implementing such a program. Other stakeholders, including the electric cooperatives, the Virginia Citizens Consumer Council, the Virginia Council Against Poverty and a "consensus group" that included a number of consumer groups together with Virginia Power also identified the Commission as the preferred administrator of any retail competition consumer education program.

The second stage occurred during the development of an education plan for the proposed customer choice electric pilots of Virginia Power and American Electric Power-Virginia, and the anticipated pilot programs of two Virginia electric cooperatives – Rappahannock Electric Cooperative and Mecklenberg Electric Cooperative. During the development of that plan, the Commission hosted a workshop at which more than two dozen interest groups offered ideas and suggestions on how best to communicate with and reach out to consumers.

Recognizing that any education program started at the pilot level would have potential to expand into a statewide plan, the Commission took responsibility for such program elements as creation of an energy choice web site and toll-free telephone number. An energy neutral theme and logo also have been developed to ensure that any name identity started at the pilot level can work equally well for a statewide approach.

The third stage involved the creation of an informal working group to aid the Commission in the preparation of a statewide consumer education program. It was at this stage that the Commission broadened the scope of its education plan to include representation from the natural gas industry and competitive energy service providers. In addition, other state agencies deemed critical to a statewide effort were brought into the process. The Commission also sought advice and marketing expertise from a public relations firm.

Without exception, all agree that consumer education is the underpinning of informed choice. There also is general agreement on the required elements needed to ensure an effective consumer education program. And, it is generally accepted that consumers are willing to pay a reasonable amount for information from which they will benefit. However, opinions vary on how long an education program is necessary, the appropriate amount to spend, and how it should be collected from consumers.

The Commission has heard and learned from the various parties involved in the process of developing this plan. However, it is not the Commission's intent to suggest that the proposed program has been agreed to or accepted by all parties. The legislature directed the Commission to prepare an education program, and the Commission assumes full responsibility for its content.

II. Program Goals

The comments of consumers already exposed to retail choice in New Jersey and Pennsylvania reveal their expectations of an education effort to help them understand a competitive energy market:

"The state is changing the law. The state should be notifying and helping us cope with it."

"Companies don't educate. They bombard you with information about them. They are bidding for your dollar."

"I want to be able to call for information and feel that I am in control. When I call the company, the company is always in control."

While an education program cannot substitute for creating a retail market that will attract competitive suppliers, consumer education can foster a competitive market by providing consumers with accurate, clear, and easy-to-understand materials about how to participate in that market. These materials should (a) enable consumers to make rational and informed choices about their energy provider, (b) reduce the transaction costs incurred by consumers who participate in the market, and (c) foster compliance with consumer protection requirements. If these objectives are achieved, then they will serve the larger goal of promoting competitive, efficient markets.

A. Developing Informed Consumers

Virginians must be made fully aware of the changing market structure, and that they now have a choice of energy providers. But that is not enough. Consumers need to learn how to become smart shoppers in the new marketplace. New services, terms and pricing options will be offered, and are likely to come with new challenges.

These offers may include competitive metering and/or billing, demand-reduction (energy efficiency) options and new supply options, along with a variety of pricing structures that will require consumers to understand their energy consumption patterns. Only if consumers are educated will they be able to minimize the cost of their electric or natural gas service and maximize associated benefits consistent with their preferences.

Consumers currently have little experience assessing competing energy service offers and weighing their costs, risks and benefits. In the absence of education, many consumers facing seemingly indistinguishable options will fail to actively evaluate the available choices or will make ill-considered choices, retarding the development of an efficient, competitive market. At the time consumers are invited to make a choice, they should be able to do so with confidence. An objective and independent education program can increase the chance that a consumer's choice (including the choice to use the default service provider) is a considered decision rather than one that occurs out of ignorance.

Enlisting the involvement of community-based organizations, with which consumers already have established relationships, will be an important means of educating consumers. These relationships will be especially important when taking the education effort beyond mass media exposure to capture hard-to-reach audiences – primarily the elderly, the hearing impaired, non-English speaking, and low income consumers.

In short, consumer information and education must:

- educate consumers about restructuring generally
- educate consumers about their options and what they will need to do
- educate consumers about how to make comparisons
- educate consumers about how to understand their energy consumption patterns in order to decide how best to meet their needs
- motivate consumers to engage in the decision-making.

B. Lowering Transaction Costs

Accessing the information necessary to become an educated consumer may be a time- and resource-intensive process. Unless reliable and complete information is readily available, individuals will be forced to invest significant efforts investigating and comparing the options available to them. In economic terms, these efforts are known as "transaction costs."

Many, if not most, consumers will not "pay" these transaction costs, given competing demands for their time. The easier it is to obtain information and compare products, the more likely those consumers will become educated about their options and participate effectively in the market. The education program should therefore foster awareness of the options available to consumers and assist them in making comparisons between those options so that they can more easily make a choice that best meets their needs.

C. Fostering Compliance with Consumer Protection Requirements

The Commission is charged with "develop[ing] regulations governing marketing practices by public service companies, licensed suppliers, aggregators or any other providers of services ... including regulations to prevent unauthorized switching of suppliers, unauthorized charges, and improper solicitation activities." (§ 56-592.C.) While the consumer education plan is not itself a consumer protection measure, compliance with the Commission's rules, and effective enforcement of those rules, will be enhanced if consumers are knowledgeable about those rules, their rights, and avenues of recourse in the event of a dispute. Without vigorous consumer participation, enforcement of existing and new standards will be a far more difficult task.

III. Program Administration

A. Proposed Administrator

Consumers want and need assistance in the transition to a competitive energy supply market from an objective, trusted source. Consumers participating in natural gas retail choice pilots in Virginia expressed appreciation for the information provided by the sponsoring utility companies. However, those responding to a Commission survey would welcome additional or improved efforts to facilitate the making of informed decisions. In particular, consumers expected the Commission, in its role as the neutral shepherd of industry change in Virginia, to supply standardized price comparisons, lists of registered suppliers, and consumer education materials.

A report for The National Association of Regulatory Utility Commissioners, authored by the National Regulatory Research Institute, recognized the challenges facing state public utility commissions in this new competitive environment. The report observes that:

“No area of commission change has been more pervasive than the movement toward educating consumers. Though the focus of this effort

has largely been on creating mechanisms for informing consumers about competitive markets, it also has involved the development of information about consumer needs and preferences, the creation of two-way communications with consumers, a heightened awareness of the need to provide user-friendly service to consumers at all levels of the commission, with a particular emphasis on residential customers, and the recognition of the need for commissions to reposition themselves in the minds of the public.”

Since the Commission is already charged by the General Assembly with establishing the rules for structural change in the energy industry, it is also in a good position to assist consumers in shopping for energy service and informing them of their rights and obligations as customers. The program must work hand-in-hand with the Commission’s rules for retail access to ensure that the market develops in a manner that facilitates competition while ensuring service reliability and consumer protection. For example, the Commission might, as a condition of licensing, require competitive service providers to provide accurate, understandable customer solicitation and marketing materials; clear pricing terms and conditions; and explicit dispute resolution procedures. Though these rules will be separate and distinct from the education program, there is an important interrelationship between the two that should be reflected in the education program.

The Commission believes the program being proposed, in which the Commission serves as the program administrator as advised by interested stakeholders, will most efficiently and effectively achieve the legislative directive of the Act and could eventually provide the same opportunity for educating natural gas consumers.

B. "Virginia Energy Choice" Education Advisory Committee

The Commission does not propose to manage or implement its information/education program in a vacuum. The Commission will create a "Virginia Energy Choice" education advisory committee to receive input and suggestions from those with a direct interest in the education effort. The committee will be comprised of dedicated members willing to contribute their expertise to the Commission's effort. These consumer education experts will include representatives from electric utilities, natural gas utilities, energy service providers, the Attorney General’s Division of Consumer Counsel, consumer organizations, and community-based organizations.

These entities, especially the utility companies, have already established networks to "reach out" to the communities they currently service. The Commission can draw valuable advice from their knowledge and experience. The advisory relationship also enhances the opportunity to use these same networks to carry the statewide "Virginia Energy Choice" message.

The committee will meet as needed throughout the life of the education program. The purpose of the committee is to review Commission activities (and those of the professional firms hired by the Commission in connection with the program), recommend changes or improvements, and monitor the success of achieving program goals. Commission staff will support the work of the committee.

C. Relationship of Education Plan to Other Informational Activities

The Commission's proposed education plan is distinct from, but related to, other complementary categories of information.

1. Commission-ordered information

Incumbent utilities and new competitive energy service providers have a Commission-directed responsibility to provide certain information to consumers. This obligation will be defined by the Commission-ordered rules that govern their activities in a competitive market. Rules being developed for Virginia's electric and natural gas retail choice pilot programs require a local distribution company (the part of an incumbent utility that remains regulated and is responsible for delivering electricity and natural gas) to:

- provide specific information on pilot programs
- explain and facilitate enrollment
- disclose that an affiliated competitive service provider is not the same provider as the local distribution company.

The rules require licensed competitive energy service providers (including affiliates of incumbent utilities) to provide:

- accurate, understandable customer solicitation and marketing materials
- clear pricing terms and conditions
- explicit dispute resolution procedures.

These obligations, prescribed by the rules, are part of each company's cost of providing service to customers.

2. Company marketing, branding and public relations

Competitive energy service providers, including the unregulated divisions of Virginia's historic providers of electric and natural gas service, will be heavily involved in their own awareness and marketing campaigns. The primary purpose of these campaigns will be to enhance name recognition and brand identity in a competitive market.

The ultimate objective of branding is to develop a sustainable competitive advantage over the long term. Branding is an important corporate strategy that has nothing to do with educating and everything to do with positioning in the market and packaging a product for selling. Companies also are very interested maintaining good relations with their customers. They are ready, willing and able to help consumers understand what energy choice can do for them. In doing so, each company hopes to be the one with which people become comfortable doing business.

These company-initiated advertising and public relations components are a part of each company's cost of doing business in a competitive environment.

IV. Involvement of Other Entities in Program Implementation

Traditional mass media methods will be an essential means of raising the awareness level of Virginians and preparing them to make informed decisions about their energy supply options. An important complement to these methods will be the involvement of a diverse variety of consumer groups, community-based organizations, and state agencies to achieve direct contact with target audiences. Therefore, the proposed consumer education plan envisions building effective communications channels through these established organizations in which consumers have an embedded trust or an established familiarity through various means of communication.

The range of communication mechanisms by which these entities can improve the effectiveness of the education program will be as diverse as the groups they are trying to reach. The statewide plan includes the following components to make it easy for these entities to deliver the content of the education program:

- sponsoring meetings with groups
- providing materials for organization newsletters
- making presentations to organization meetings using a speakers bureau
- providing brochures for organization distribution
- providing training and education to group leaders who can share information with their constituencies (train the trainer)
- providing funding to qualifying, special needs organizations to pay for custom materials, mailings, and meetings (e.g. language translation).

State Agencies

The following state agencies will play an important role in any successful education program. The list is not all-inclusive and will need to continually expand throughout the life of the plan.

Consumer Protection

Virginia Office of Attorney General
 Division of Consumer Counsel
 Virginia Department of Agriculture and Consumer Services
 Consumer Protection Division
 Virginia Cooperative Extension

Business Development/Assistance

Virginia Economic Development Partnership
 Business Development Division
 Virginia Department of Business Assistance
 Small Business Division

Energy Assistance

Virginia Department of Social Services
 Division of Temporary Assistance Programs

Energy Efficiency

Virginia Department of Mines, Minerals, and Energy
 Division of Energy

Target groups

Virginia Department for the Aging
 Area Agencies on Aging
 Virginia Department for the Deaf and Hard of Hearing
 Virginia Department of Housing and Community Development
 Housing Program (Weatherization Assistance)
 Virginia Department for the Visually Handicapped
 Virginia Department of Social Services
 Division of Community Programs & Services

Other areas of Commission responsibility (e.g. the Clerk's Office) are also potential channels for delivering quick and simple information through already established distribution methods. And, other state agencies could also be helpful in disseminating information to Virginians. For example, a coordinated effort with the Virginia Department of Motor Vehicles could provide a simple insert along with the mailing of vehicle registration renewal forms.

Consumer and community-based organizations

The following consumer and community-based organizations will also play an important role in any successful education program. Again, the list is not all-inclusive and will need to continually expand throughout the life of the plan.

Consumer education & assistance programs

Better Business Bureau
Consumer Credit Counseling Services of Virginia
Legal Services Corporation of Virginia
Virginia Poverty Law Center
Virginia Center for Coal and Energy Research
Virginia Council on Economic Education

Consumer organizations

American Association of Retired Persons (AARP)
Virginia Citizens Consumer Council

Community-based organizations/programs

Business Groups/Organizations
Civic Groups/Organizations
Community Associations/Centers/Organizations
Educational Associations/Organizations
Ethnic Groups/Organizations (targeting non-English speaking cultures)
Libraries
Neighborhood Associations/Organizations
Professional Associations/Organizations
Religious Groups/Organizations
Special Needs Organizations (hearing or visually impaired)
Trade Associations/Organizations

Many of the consumer and community-based groups are volunteer organizations with limited financial resources. A monetary incentive, using small-scale grants, will help encourage and facilitate the dissemination of information by these groups.

V. Implementation Schedule and Activities

A. Overview

The "Virginia Energy Choice" consumer education plan covers five years from 2001 through 2005. The timing of plan elements are keyed to dates connected with the development of retail access throughout Virginia. The plan builds upon the limited education efforts of pilot retail programs planned or already in place.

It is critical that the components of this plan remain flexible. It should be viewed as a living document, rather than one set in stone, because its success will be continuously monitored, based on consumer input and feedback. Adjustments to the plan will occur as necessary to ensure that funds are being utilized in the most cost-effective manner. Legislation requiring re-enactment by the 2000 session of the General Assembly could allow retail choice for natural gas to become available statewide as early as July 1, 2000. This is approximately the time Virginia's two largest electric companies will be implementing their respective electric choice pilot programs.

The Commission will begin a limited statewide education effort as part of the Commission's commitment to aid the awareness of and participation in the early stages of retail access development. This includes fundamental elements critical to the larger promotional and educational efforts required for the statewide plan that must begin by January 1, 2001.

The key dates of Virginia's Electric Industry Restructuring Act are January 1, 2002, when the statewide phase-in of retail choice is scheduled to begin, and January 1, 2004, when full retail competition is available throughout the Commonwealth. Under the Act, full implementation could be extended for one year. The education plan must be prepared to adjust to the Act's flexible implementation schedule allowing retail choice to occur earlier or later than these dates.

The plan lays the groundwork for customer education during the first half of 2001. By the latter half of 2001, more expansive promotional efforts will begin to prepare Virginians to participate in the initial phase-in schedule. The program maintains a steady pace throughout 2002 and 2003, ramping up for another peak promotional effort in the last quarter of 2003. Information and education continues to flow throughout 2004 and 2005.

The education plan will be continually evaluated during its five-year run. During this period, the SCC also will be assessing whether effective competition is developing in Virginia. Both reviews will guide decisions about the level of education that may be required beyond the plan to sustain customer understanding and knowledge of rights and obligations in a competitive energy supply market.

B. Coordination with Educational Efforts of Local Distribution Companies and Competitive Energy Service Providers

The Commission will work closely with electric distribution companies and competitive energy service providers to ensure that consumers receive consistent educational information from all sources as appropriate. This will involve coordinating the education program with the Commission's rules governing marketing practices of public service companies, licensed suppliers, and other providers pursuant to subsections 56-592.C, D and E of the Act.

The Commission may request or order the participation of distribution companies and competitive suppliers in disseminating to consumers information developed as part of the program. The Commission may also require those companies to disseminate their own company-specific information in a form consistent with the Commission's rules governing marketing practices.

The distribution companies are likely to play an important role during the transition to the new competitive market because of their unique historical and physical relationship to all customers. For example, the Commission may wish to work with the distribution utilities to:

- place education program information inside the distribution companies' billing envelopes which will be received by all consumers prior to, and perhaps after, the onset of competition
- develop a communications protocol for responding to consumers who contact the distribution company with questions about competition
- ensure that consumers know whom to contact in the event of physical distribution problems, such as power outages.

Competitive suppliers may also be tasked with providing information to consumers where it complements the Commission's educational efforts and promotes consumer protection and informed decision making. For example, the Commission may encourage or require suppliers to:

- carry certain educational information about consumers' rights and responsibilities on the backs of their billing statements
- present pricing terms and conditions in a standard format in certain promotional or billing materials
- place education program information within billing envelopes that may be received by consumers after the onset of competition.

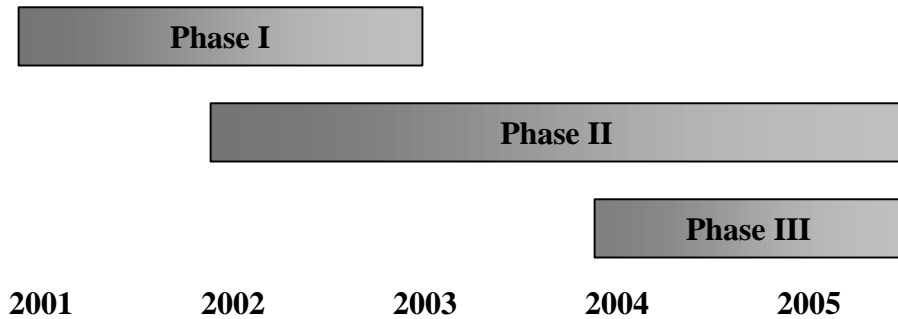
The Commission may also allow and encourage distribution companies and competitive suppliers to use materials and messages developed through the education program in their own communications efforts. It will be important, however, for consumers to be able to distinguish between educational and promotional materials.

The particular messages and materials that distribution companies and competitive suppliers may be encouraged or required to disseminate must await the development and design of the education program as well as the establishment of consumer protection rules governing marketing practices.

C. A Phased Approach

A statewide education plan on an issue as complicated as energy competition requires that information be presented to consumers and businesses in a manageable and understandable way. Building knowledge over time is the most effective way to ultimately ensure that Virginia consumers are informed and prepared to participate in a competitive market. However, before knowledge and understanding can occur, consumer awareness and interest must first be engaged. Consumers need to move along a continuum -- first they must become aware and engaged, then become knowledgeable so that ultimately they take action by making a choice.

What makes the education effort challenging is that Virginians will be at different points along that continuum during the transition. As such, the plan has three phases of implementation that meld together as to be indistinguishable over time.



1. PHASE I - Understanding and Preparing for Energy Choice (2001-2002)

Phase I will be a period of preparation while choice participation is limited -- building a grassroots program, producing collateral communications materials, developing media advertising materials, establishing a responsive infrastructure, and conducting customer research from which to craft messages, define education criteria and objectives, and establish baseline measures from which to track progress toward attainment of the awareness objective. This phase of the education effort will begin the process and continue until energy choice is available to all Virginia customers. Information will be delivered so as to answer the six fundamental questions relevant to any interesting story - who, what, where, when, why and how. In other words, What is "Virginia Energy Choice?" Why is choice taking place? When will it begin? Who will it affect? Where can I get more information? And, how will it impact my daily life?

The Commission will contract for consulting services, research, public relations and marketing expertise to assist in all aspects of the education plan. Requests for proposals from qualified bidders will be received during 2000. In addition, the "Virginia Energy Choice" education advisory committee will provide initial and ongoing input for the education plan. The following educational tools will be developed in this phase:

- frequently-asked questions and a glossary of terms on energy choice that will be distributed to individuals, organizations or other interested parties
- newsletter articles and brochures on energy choice that can be used by interested associations and groups in their own publications and distributed to newspapers and cable, radio and television stations and business and residential organizations
- outreach materials targeted specifically to low-income, elderly, physically-challenged and other population segments with special needs
- a "how to shop" information guide, e.g., a directory of companies, suppliers, aggregators, etc. (as available).

These materials will be included in kits prepared for distribution.

a. Informational Materials

"Virginia Energy Choice" information kits will be mailed to those requesting information and proactively distributed among media contacts as appropriate. These kits may include:

- "primer" brochure
- glossary of "Energy Choice" terms
- frequently-asked questions about "Energy Choice"
- news releases
- competitive energy service provider lists
- reprints of relevant articles
- video

b. Grassroots Materials

"Virginia Energy Choice" education kits will be developed for distribution primarily to community-based organizations. The kits will contain information and educational tools for use by these organizations and may include the following:

- slide/overhead presentations
- script and meeting leader guide
- primer brochures (to give to any audience) that include:
 - glossary of "Energy Choice" terms
 - frequently-asked questions on "Energy Choice"
 - competitive energy service provider lists
 - posters
 - rate comparison worksheets (to help consumer's compare costs)
 - attendees' response card (to measure attendance and helpfulness)

c. Toll-Free Number/Call Center

A toll-free number 1-877-YES2004 (1-877-937-2004) will be established for residential and business customers to call with questions or requests for materials. During the early months of this phase, the toll-free number will be directed to the SCC offices until a call center is established for start-up prior to January 1, 2002. Call volume is expected to be

minimal until implementation of the advertising campaign scheduled in Phase II. The toll-free number will be prominently displayed on all materials developed (brochures, news media materials, etc.) and the call center will serve as a distribution point for information requests.

d. Delivery Capability

During Phase I, SCC staff will fulfill requests from media, individual citizens and organizations for printed and video materials. It is anticipated that existing clerical staffing levels will be sufficient to answer requests through the first three-quarters of 2001. By the fourth quarter, and continuing through 2004, outside vendors will be contracted by the Commission to aid in the dissemination of materials, particularly those supporting grassroots events. However, Commission staff will always be available to respond to consumer questions that go beyond the need for basic, general information.

e. "Virginia Energy Choice" Web Site

A stand-alone, consumer-oriented Web site (www.vaenergychoice.com) will be designed for sharing information and assuring widespread availability of energy choice consumer information. This Web site will have links to the Commission, electric and gas distribution utilities, competitive energy service providers, and other energy choice related Web pages. The site also will feature recent news coverage and related state government information. Consumers will be able to request additional information to be fulfilled by the call center and will be able to lodge concerns and complaints. The news media will be able to sign up to receive future news releases and media advisories through the site.

f. Baseline Research

Early in this phase, exploratory research will be conducted. Survey and focus group findings will help establish an effective message strategy, establish baseline measures from which to gauge success, and launch an ongoing tracking study to measure progress toward the program's objectives.

**2. PHASE II - Learning to Make
(2002-2004) an Informed Choice**

Phase II will be a period of proactive outreach, advertising, and grassroots communications activities designed to achieve 70 percent unaided awareness³ among the adult population in 2002 and 90 percent in 2004. Aided awareness⁴ is established through quantitative research that determines the current level of total awareness⁵.

The concentration of mass media advertising will peak in connection with the key dates for choice that occur during this phase – January 1, 2002, through January 1, 2004.

Call center and delivery vendors will be contracted for this phase to fulfill inquiries from customers seeking information about the selection of a competitive energy service provider and other general "Energy Choice" questions occurring during this phase. The call center will be staffed by knowledgeable representatives capable of responding to general inquiries about "Energy Choice." However, SCC staff will always be available to address questions, concerns or complaints that originate with the call center. The toll-free number may also serve as a tool to assess the education program's effectiveness.

By January 1, 2002, the outreach campaign will be near full strength and will include some or all of the following: television, radio, newspapers, community and minority publications, business publications, outdoor advertising, public relations (proactive campaign to launch initiative), and enhancement of the response infrastructure (call center, Web site, and materials delivery). In addition, the grassroots outreach effort to involve community-based organizations will be fully implemented.

This outreach strategy will continue through the entire phase, with efforts concentrated around the competition phase-in dates established by the Commission.

a. Advertising Strategy

Advertising will utilize a combination of media that will begin at moderate levels and build throughout 2001 by focusing on radio and print and then adding television around key competition phase-in dates. Media levels will be concentrated to reach individuals

³ Unaided awareness is the percentage of people who are aware of the subject without being prompted. They can indicate they know about "Virginia Energy Choice" off the top of their head.

⁴ Aided awareness is the percentage of the people aware of the subject when prompted. They positively respond after being asked if they've heard of "Virginia Energy Choice."

⁵ Total awareness is the combined percentage of people aware of "Virginia Energy Choice" either unaided or aided.

three times or more. Typically, consumers have to be exposed to a message three or more times before they are able to recall any specific information about the advertisement. Distribution of television media concentration will be spread over all day parts (early morning, mid-day, late afternoon, etc.) with special emphasis on the highly viewed prime time and news programming. Radio concentration will be focused primarily during morning and afternoon drive programming and highly rated weekend programming. Print will concentrate on newspapers, business publications and special interest publications.

b. Media Selection

Television advertising may offer the largest and most immediate reach and may therefore be an important vehicle for raising audience awareness throughout most of Virginia. (In Northern Virginia, television advertising may be limited to cable television to avoid the unneeded reach into Maryland and the District of Columbia that occurs with broadcast stations in that region.) The visual nature of television allows for communication of a more memorable message. To be effective, television spots must convey a simple, concise message (generally constructed for 30 seconds). Because of the high cost of television advertising, however, its effectiveness will be closely monitored before additional advertising is purchased.

Radio offers higher frequency of message play and the spots are less expensive to produce and broadcast than television. Radio, therefore, serves as a perfect complement to television. The message typically can be 60 seconds; so more educational information can be relayed in a radio advertisement.

Newspapers have space for news-related stories and may do education-focused articles if a reporter takes an interest in a given subject and believes that the subject will be of interest to readers. The outreach to print media will be more educational because resulting articles can provide more detailed information. Newspaper advertising rounds out the advertising mix. It is a very strong medium that allows the advertiser to communicate more detailed information and can be retained by the customer for future reference. And, through a separate public relations effort, newspapers may be encouraged to develop their own special energy choice “advertorial” sections devoted to the subject, perhaps with no funding required since paid advertising may offset the newspapers' development and production costs.

Outdoor billboards are planned for 2002 and 2004 when competitive supplier advertising efforts are peaking. The outdoor medium lends itself well to reminder messages -- providing a toll-free number to call with questions.

c. "Virginia Energy Choice" Web Site

The Web site, developed in Phase I, will be updated constantly during the July 2000 to December 2005 time period to accommodate new information (power providers, new information, news releases, utility company information, consumer warnings, consumer tips, etc.) Information may include the following, as available:

- tips on how to compare price and service terms from various suppliers
- a rate shopping guide
- advice on comparing the mix of resources that comprise various energy supplies
- information on the environmental characteristics of various energy resources
- summaries of energy-related consumer complaint statistics including the types handled and resolved by the Commission.

d. Tracking Research

Continual studies will reveal progress toward the awareness and education goals established for the program, and the success of each outreach medium employed. The analysis will be used to modify the strategy as necessary to emphasize the most cost-effective outreach methods. This research will also indicate where corrective action is required or a strategic change is needed. The research also will define what additional communications initiatives are required for 2004 and beyond.

e. Grassroots

Creative avenues beyond newspapers, news releases, etc. will be used to ensure that hard-to-reach and particular target audiences are aware of the availability of "Virginia Energy Choice" information. These consumers may also require specific assistance to take full advantage of the information developed especially for their needs. Community groups, organizations and associations to which these customers belong, whom they trust and from whom they already receive information or services, will be the best groups to provide information they will notice, understand and believe.

Special needs organizations will be provided funds to use in disseminating pre-packaged education kits among their members, reinforcing the "Virginia Energy Choice" education program message. The primary purpose of these small-scale grants will be to support

mailings, meetings and other methods of distribution to hard-to-reach groups. Assistance will be provided to those needing customized materials, e.g. language translation. Also, training will be provided to assure understanding and consistency of program messages.

Proposals will be invited from appropriate member organizations. Prerequisite to earning a grant is agreement to use pre-printed education program materials and submission of progress reports to the Commission, as required. The report will serve as a quality control mechanism for releasing additional grant money.

An example of an approach for grant making could be to make five to 10 grants ranging in value from \$500 to \$10,000 annually during 2001 and 2002. The larger grants of up to \$10,000 can be given to associations and organizations that demonstrate a large network, constituency or reach; and smaller grants in the range of \$500 to \$2,500 can be provided to smaller community groups to educate their clients about energy choice. The number of grants could increase to 20 to 30 per year or more in 2003, 2004 and 2005, depending upon the effectiveness of this strategy.

Information about how to apply for grants will be distributed to community-based organizations, media contacts, and other interested parties. Organizations will be encouraged to publish information about grant opportunities in their newsletters and publications, and on their Web sites. The organizations receiving grants will be supplied with training materials and products developed for the overall campaign, such as videos, brochures, terms/definitions and frequently-asked questions and answers. A general guide or outline to follow will be provided along with training sessions for organizations to learn about the key messages and objectives of the overall campaign.

f. Speakers Bureau

A list of speakers from SCC staff and other interested parties on the topic of energy choice will be available to community and business groups. A videotape and brochures also will be available for use in presentations to educate the public on issues related to energy choice. Several presentations will be developed to keep the message fresh and to address specific interests of various groups. These materials will also be available for use by the well-established speaker bureaus of local distribution companies. These knowledgeable representatives will be important to a coordinated educational effort. The speaking engagements will occur through the entire campaign and be structured to address both awareness and information.

g. General Information/Education Materials

The Commission, in the interest of providing informative, accurate and objective information, will oversee the development and distribution of all awareness and education materials designed for the statewide plan by contracted firms. The statewide logo and theme will be used exclusively on all materials (e.g., brochures, frequently-asked questions and answers, etc.) developed for the plan. As such, consumers will identify the material as objective information provided by the Commission for their benefit through the use of public funds.

h. Specific Consumer Protection Materials

The Commission will develop materials specifically designed to explain the consumer protection measures defined by Virginia law and Commission rules and regulations. These materials will help consumers understand new bill formats, explain consumer rights and protections, provide advice on resolving disputes, suggest sources of information for energy assistance programs, and any other information necessary to explain matters affecting service reliability and fair marketing practices.

i. Specific Consumer Information/Education Materials

The Commission will develop materials specifically designed to explain other aspects of a competitive energy supply market when appropriate. These include such directly related topics as metering and billing, aggregation, and distributed generation. Other materials will focus on programs designed to provide low-income assistance, energy efficiency, and conservation.

**3. PHASE III – Staying Informed and Maintaining
(2004 - Ongoing) Fair Marketing Practices**

Phase III could continue grassroots activities but at a modest, sustaining level. Likewise, the infrastructure commitment will be reduced and likely brought in-house to be handled by existing Commission resources. The final phase of the program will provide strategies for ensuring that customers understand and take full advantage of the restructured energy industry. The goal will be to respond to the evaluation results on the effectiveness of educational materials, provide customers with information on known deceptive marketing practices, and continue to distribute pre-printed educational materials.

The Appendix includes illustrations of informational materials used in other states. The Commission has on file a collection of fliers, brochures, shopping guides, and advertisements from other state consumer education programs, should any reader wish to review them.

VI. Measuring Success

To assure attainment of awareness and education objectives, the plan includes a comprehensive measurement component to continually monitor the success of the plan. Qualitative research, using focus groups, will be conducted in addition to a quantitative tracking study.

A. Exploratory Research

The first priority will be to assess the nature and extent of existing consumer knowledge regarding energy choice. To draft an effective creative strategy, a better understanding is needed of the depth of current knowledge as it relates to electricity and natural gas and the utility companies that deliver energy services. Groups of residential and small business customers will meet together in focus group sessions conducted by a professional moderator and designed to elicit candid responses to a series of choice issues. These sessions are needed prior to any advertising message development. Research findings will help determine how much information customers need to know regarding energy choice.

B. Creative Development Research

Once a baseline standard of the existing knowledge base of Virginians has been determined, a creative strategy can be developed. Advertising copy can then be written to communicate the availability of energy choice in Virginia and to educate consumers on how to take full advantage of their opportunity to actively participate in a competitive energy supply market.

Message testing of these creative concepts among a sample of residential and business customers is the next step in the creative process. This research will determine which approach best communicates choice to customers and provides them with the best understanding of how choice will work in Virginia.

C. Quantitative Research

Customer "knowledge" of program detail is equally important. Being aware of choice is only a first step. Knowing how to choose is critical. Consumer awareness and knowledge must be closely monitored to be sure the program is effective. This research is structured to track "awareness" as well as the much slower-growing "knowledge" over the course of the plan. The effectiveness of each outreach method will be monitored, and the program will be adjusted accordingly so that the most cost-effective methods are being utilized.

The goals of the proposed tracking study are to:

- assess unaided, aided and total awareness of the choice issue
- measure recall of specific choice-related messages and communications
- evaluate the depth of understanding on the choice issue, including how to participate in the program
- assess the effectiveness of each outreach method
- identify unmet informational needs regarding the choice issue
- explore topical issues that may arise throughout each phase of the campaign.

VII. Discussion of Illustrative Budget Items

A. Importance of Budget Flexibility

The Commission has made every effort to determine, through review of similar efforts in other states, the most cost-effective means of educating the public about the coming competitive energy supply market and has developed this plan accordingly. However, the Commission believes that it will be important to continuously monitor the effectiveness of each outreach method utilized to ensure its success in Virginia. If methods are found not to be cost-effective, the program and budget will be modified in favor of more cost-effective methods.

While proposed budget items are discussed in this section, and related budget figures are shown in the following section, they should be considered tentative so that the Commission has the flexibility to respond to actual program results. Assigning cost figures to individual line items is a useful way to arrive at a total estimate; but the individual line items should remain flexible, at least until Virginia is closer in time to actual implementation.

B. Benchmark and Tracking Research

Starting with the initial pilot programs in July 2000, the Commission will begin a quarterly quantitative tracking study in each retail pilot program area. The research plan assumes a sample size of 300 per pilot region (a statistically valid sample size with approximately a seven-percent margin of error) for a total of three pilot programs between July 2000 through December 2001 (six quarters). Starting January 1, 2002, a firm contracted by the Commission will conduct quarterly quantitative tracking research (total of 16 quarters through December 31, 2005) of 1,500 Virginians across the state (300 respondents in each of five separate regions – Tidewater, Northern Virginia, Southwest, Central Virginia and Southside Virginia). Using this approach, a statistically valid sample can be gathered for the state and each region throughout the plan period.

C. Informational Materials

Initially, a limited number of general information and frequently asked questions pamphlets will be produced for use prior to January 1, 2001. This material will be modified per feedback from consumer focus groups prior to the large run of brochures, posters and frequently asked questions pamphlets destined for statewide distribution, including direct mail of four pieces of collateral material to each household in Virginia.

D. Grassroots Efforts

Grassroots efforts will begin, in a limited manner, with the commencement of the pilot programs. Activity will increase during the third and fourth quarters of 2001 in preparation for rollout of energy choice in January 2002. In addition to general information collateral materials indicated above, additional collateral materials will be developed that are customized to the special needs of grassroots groups, which may be eligible for small-scale grants. These materials will include a custom flyer for each organization and a general-purpose training kit that will be used with all grassroots organizations. A general information/training video will be produced for inclusion in the kit. Special assistance for grassroots organizations will include a grassroots coordinator and a special page on the Virginia Energy Choice web site where organizations can access and/or request information and assistance.

E. Media/Public Relations

This category includes the cost for the creation and distribution of media kits, the creation of the kit contents (maps, timelines, background information, how-to-participate

information, consumer tips and helpful hints) and event costs (major statewide fairs, festivals and events will be targeted for participation and information dissemination). There will be two press kits created. The first will handle needs during the early stages of Energy Choice (prior to fourth quarter of 2001). The second will handle the needs of the statewide rollout of energy choice. (The rollout kits will be available for use with the media no later than the fourth quarter of 2001). Included in these costs is the creation of the media relations content portion and design specific to the energy choice Web site. The agency time budget portion includes fees for media relations outreach efforts, promoting news and feature stories, the creation and issuance of news releases, event-staffing, etc.

F. Grants

While approximately five to 10 grants for community-based organizations ranging in size from \$500 to \$10,000 could be issued over the initial two-year period (2001 & 2002), a total of 20 to 30 grants will be issued each year for 2003, 2004 and 2005. The majority of the grants will occur during the period from the third quarter of 2002 to the third quarter of 2005. Funds also have been allocated for a direct-mail piece to solicit funding requests, as well as funds for creating a database of community organizations. Special follow-up will be needed to solicit funding requests from community organizations most likely to meet the special communication needs identified. A review process also will be established for funding requests.

G. Phone Center

The phone center is a difficult area to estimate given the number of variables which impact cost (how many inbound calls, call duration, long-distance versus local, etc.). Inbound call centers typically quote pricing based upon the total call center “minutes” consumed. For instance, assume the following:

- a rate of between \$ 1.00 and \$1.20 per minute (all inclusive – hardware and staffing)
- an average call duration of three minutes and an average of 500,000 calls per year (that equals two million calls over the four years of the call center’s life or about 75 percent of all households assuming one call per household).

Given these assumptions, the cost of the call center would amount to \$1.5 million to \$1.8 million per year, plus delivery-of-information costs. This also includes an entity to house and mail materials requested by consumers through the Commission-manned phone center prior to the external phone center launch in the fourth quarter of 2001.

Obviously, if call duration averages closer to five minutes, call center costs could increase to \$2.5 million per year. However, if we were to assume about 25 percent of the population using the call center over the entire period (about 300,000 calls per year) at three minutes per call, the annual cost would decline to approximately \$900,000 to \$1.08 million a year. Delivery costs assume about \$.30 per piece plus postage which has been budgeted at 39 cents per piece.

H. Web Site

As can be seen from the call center pricing, it would be best to push as many consumer inquiries to the Virginia Energy Choice web site as possible rather than fielding them through the call center. Therefore, the budget includes promotion of the web site (banner advertising, etc.). Another possible communications tool is the use of kiosks connected to the web site in strategic locations (not included in budget) that may also minimize call center call duration by immediately suggesting the web site.

I. Advertising

Advertising constitutes the largest portion of the total budget (nearly 70 percent) with a total of \$19.8 million being expended on media space and time over a five-year period. This expense meets the targeted goal of reaching the Virginia media audience three or more times at key times during the five-year education plan.

Approximately \$1.8 million has been allocated for creation and production. This assumes six to eight television commercials at \$150,000 to \$200,000 per commercial (total of \$900,000 to \$1,600,000), six radio commercials at \$25,000 per commercial (total of \$150,000), four newspaper advertisements totaling \$100,000 and two business publication advertisements totaling \$40,000.

Approximately \$18 million has been allocated for commercial time and advertising space. This assumes average audience ratings⁶ designed to reach up to 95 percent of the media audience three or more times during a particular calendar period.

⁶ The average audience rating is a measurement of the percentage of a population viewing a television program, hearing a radio program, reading a publication, or seeing a billboard. Television and radio is based on an average minute. Newspapers and business publications are based on an average month.

VIII. Illustrative Budget (2001-2005)

The Commission used a public relations and marketing firm to help prepare the illustrative budget. The Richmond-based company⁷ has extensive experience in conducting consumer education, outreach and awareness campaigns for government and corporate clients.

In addition, Commission staff reviewed and analyzed the education plans of more than a dozen states at various stages of energy industry restructuring to gain knowledge and advice on the required components of any statewide effort. Through this process, the Commission made every effort to become an expert in each of the main components of consumer education spending that has or is expected to be incurred by other states involved in the introduction of retail choice for electricity.

Based on that analysis and in consultation with the public relations firm, the Commission has attempted to give relative weight to these required components as they may be applied in a statewide consumer education program for Virginia. The purpose was to develop a disciplined method by which to establish some sense of the unit cost of each component.

There are characteristics unique to Virginia worth mentioning. For example, Virginia is one of the first relatively "low cost" states to implement retail choice. Thus, there is no comparable state education/information strategy upon which to rely.

Also, Virginia has a single media market with national advertising rates, but with an audience that is divided among three states and the District of Columbia. The extent to which media outlets in the Washington, D.C. market are used effectively to reach Northern Virginia will have a significant impact on the current projection for that aspect of the plan.

In simplest terms, the illustrative budget is the Commission's best estimate of how much the program may cost. In total, the figures are reasonable for illustrative purposes only. They are subject to change as the effectiveness of each component is determined through continuous program monitoring.

⁷ Carter Ryley Thomas, Inc.

A. Budget Components

All states incorporate each of the following elements in their plans for achieving a successful level of consumer understanding and assistance. Each component listed below recognizes the unique characteristics of Virginia's diverse population and the effort that will be required to reach all areas of the Commonwealth.

• <u>Research</u>		
▪ Six quarters of 900 sample size @ \$21,941		\$ 131,650
▪ 16 quarters of 1,500 sample size @ \$30,000		<u>480,000</u>
	Subtotal	\$ 611,650
• <u>Informational Materials</u>		
▪ Creative/copy/project coordination		\$ 85,000
▪ Focus groups (10)		70,000
▪ Initial production run		
◆ 500,000 copies of one pamphlet		20,000
▪ Production		
◆ 8.0 million copies of one general info. brochure and one FAQ pamphlet		400,000
◆ 100,000 brochure/pamphlet dispensers		9,000
◆ 100,000 posters		26,000
▪ Direct mail costs		
◆ Fulfillment & postage on 2.6 million pieces (4Xs)		<u>1,530,000</u>
	Subtotal	\$2,140,000
• <u>Grassroots</u>		
▪ Creative/copy/project coordination		\$ 100,000
▪ Production		
◆ 15 runs of 2,500 “customizable” brochures, flyers & pamphlets		200,000
◆ 25,000 posters		12,500
◆ 1,500 training kits (includes video dubs)		40,000
◆ Training/general information video		60,000
▪ Hotline/special assistance for community groups		<u>60,000</u>
	Subtotal	\$ 472,500

• <u>Media/Public Relations</u>	
▪ Media kit & contents	
♦ Creative/copy	\$ 20,000
♦ Production (kit #1, qty: 200 kits)	8,000
♦ Production (kit #2, qty: 500 kits)	15,000
♦ Media kit updates	10,000
▪ Media relations	700,000
▪ Media relations portion of Web site	30,000 to 50,000
▪ Event coordination/staffing	<u>250,000 to 500,000</u>
Subtotal	\$ 1,033,000 to \$1,303,000
• <u>Grants</u>	
▪ Database development	\$ 15,000
▪ Grant solicitation direct mail	30,000
▪ Grant solicitation and review	40,000
▪ Grant disbursement (five to 10, 2001-2002)	75,000
▪ Grants disbursement (20 to 30 per year for 2003, 2004 & 2005 at \$500 to \$10,000 per grant)	<u>370,000</u>
Subtotal	\$ 530,000
• <u>Phone Center</u>	
▪ Review and selection	\$ 10,000
▪ Third party contract for Call Center	2,025,000 to 5,625,000
▪ Fulfillment (1.2 million pieces)	360,000
▪ Postage (1.2 million pieces)	<u>468,000</u>
Subtotal	\$2,863,000 to \$6,463,000
• <u>Web Site</u>	
▪ Content/design/Web site creation	\$ 150,000
▪ Maintenance/updating	150,000
▪ Web site promotion	250,000
▪ Host fee/miscellaneous	<u>40,000</u>
Subtotal	\$ 590,000
• <u>Advertising</u>	
▪ Creation and production	\$1,260,000 to \$1,860,000
▪ Media placement (air time, ad space, etc.)	<u>18,000,000</u>
Subtotal	\$19,260,000 to \$19,860,000
<hr/>	
TOTAL	\$27,504,650 to \$31,864,650

B. Estimated Annual Expenditures

The total estimated cost of the five-year "Virginia Energy Choice" education plan for Virginia is \$30.1 million. The average estimated annual cost is \$6 million.

Based on Virginia's 1998 estimated population of 6.8 million, the annual cost to each Virginian is 89 cents. In the years of the plan requiring the greatest amount of spending (2002 and 2004), the per capita cost is only slightly more than \$1.00.

In Virginia, there are approximately 2.6 million electric customers. On a per customer basis, the cost averages slightly more than \$2.30 per year. The Commission believes this amount is reasonable considering that every person in the Commonwealth has a vested interest in the development of a competitive energy supply market.

Budget Detail -- Consumer Education (Proposed Spending in Thousands of Dollars)

Budget Detail	2001	2002	2003	2004	2005	Total
Research	120	120	125	125	120	610
Info. Materials	400	600	400	600	100	2,100
Grassroots	200	100	75	50	50	475
Media Relations	300	200	250	150	100	1,000
Grants	75	65	130	130	130	530
Phone Center	500	1,250	1,000	1,250	1,000	5,000
Web Site	200	100	100	100	100	600
Advertising	4,150	4,600	4,350	4,800	1,900	19,800
Total	5,945	7,035	6,430	7,205	3,500	30,115

C. Comparison with Other States

The average annual spending per Virginian compares reasonably with education programs being implemented in other states.

Comparison with Other States

Customer Education Programs (duration)	Annual Spending Millions of Dollars	Resident Population Millions of Persons	Spending per Person per Year
California (1st year)	74.0	31.9	\$2.31
(sustaining years)	5.0		\$0.16
Ohio (2 years)	16.0	11.2	\$1.43
Pennsylvania (4 years)	17.0	12.0	\$1.42
Connecticut (2 years)	4.5	3.3	\$1.36
Michigan (4 years)	12.4	9.7	\$1.27
Virginia (5 years)	6.0	6.8	\$0.89
New Hampshire (2 years)	0.9	1.2	\$0.75
Maine (2 years)	0.8	1.2	\$0.67
New Jersey (3 years)	4.5	8.1	\$0.56

IX. Consumer Education Funding Mechanisms

Virginia Code §56-592 instructs the Commission to address the funding requirements and mechanisms of a consumer education program. The estimated annual total program costs for consumer education expenditures based on the previous illustrative budget are listed below.

Calendar Year	Amount
2001	\$ 5.95 million
2002	\$ 7.04 million
2003	\$ 6.43 million
2004	\$ 7.21 million
2005	\$ 3.50 million

There are four options for funding the program. All of them place the cost on Virginians either through taxes or through the rates paid for utility service.

1. Allocate General Fund Dollars

The General Assembly could appropriate General Fund dollars to pay for the program using money being collected from all Virginians through state sales and income taxes. Massachusetts, Illinois and Oklahoma have chosen to fund their consumer education programs through legislative appropriations.

2. Develop New Special Fund Tax

The General Assembly could establish a special tax to fund the program. This tax could appear as a separate line item on monthly utility bills. In New Hampshire, Montana, Connecticut and New Jersey, a universal, non-bypassable, "systems benefit charge" was created by legislation. New Jersey supplements its "systems benefit" fund with a surcharge on competitive energy supplier license fees.

3. Collect From Current Rates

Currently, electric utility rates do not provide for recovery of statewide consumer education costs. Electric utilities represented at consumer education meetings expressed concern about their ability to recover education costs without experiencing erosion of earnings. Utilities have the following options for recovering consumer education costs: (1) by including the costs in a rate application to change the capped rates; or (2) through transition costs.

Virginia Code §56-582 of the Restructuring Act capped incumbent electric utility rates on July 1, 1999. The Restructuring Act allows each incumbent electric utility, except Virginia Power, to file a rate application to establish a new rate cap with the Commission prior to January 1, 2001, as well as to make a one-time change in the non-generation components of such rates after January 1, 2004. Utilities could defer consumer education costs until such time as they may be included as a component of rate applications before the Commission. Again, this option is not available to Virginia Power, which does not have the opportunity to adjust rates through July 1, 2007. Therefore, Virginia Power's earnings would be reduced.

The second option is for utilities to recover the education costs as transition costs. California and Pennsylvania are funding their consumer education programs through a fee collected by the incumbent utilities' competitive transition charges.

Virginia Code §56-583 allows utilities to recover just and reasonable transition costs as well as a wires charge for stranded costs. However, under the statute, the sum of the wires charge, transition costs and the projected market price for generation may not exceed capped rates. Therefore, including consumer education costs as transition costs would reduce the potential size of the wires charge available to recover stranded costs.

4. Use Existing Special Revenue Tax

The final option is to use the Special Revenue Tax that exists to fund the regulatory responsibilities of the Commission. This funding option does not adversely affect the utilities; moreover, the Commission presently has authority to administer it.

The Commission receives its funding for utilities-related services through the Special Revenue Tax assessed on public service companies. Virginia Code §58.1-2665 allows the Commission to collect the Special Revenue Tax "...for the supervision and administration of all laws relative to such public service companies, whenever the same shall be deemed necessary by the Commission." Since Virginia Code §56-592 of the Restructuring Act instructs the Commission to develop a consumer education program, the Commission believes that the Special Revenue Tax may be used to recover funding for consumer education. The public utility commissions in Maine and Nevada are using existing agency funding mechanisms to pay for their respective consumer education programs.

Funding Recommendation

The Commission believes that the Special Revenue Tax is the funding option that is most equitable to utilities; it is also one that the Commission has existing authority to administer. Funding through the Special Revenue Tax will allow the Commission to direct the consumer education program and monitor consumer education cost recovery versus actual expenditures.

For these reasons, the Commission recommends collecting consumer education funding through the Special Revenue Tax.

**§ 56-592. Consumer education and protection;
Commission report to Legislative Task Force.**

A. The Commission shall develop a consumer education program designed to provide the following information to retail customers during the period of transition to retail competition and thereafter:

1. Opportunities and options in choosing (i) suppliers and aggregators of electric energy and (ii) any other service made competitive pursuant to this chapter;
2. Marketing and billing information suppliers and aggregators of electric energy will be required to furnish retail customers;
3. Retail customers' rights and obligations concerning the purchase of electric energy and related services; and
4. Such other information as the Commission may deem necessary and appropriate in the public interest.

B. The Commission shall complete the development of the consumer education program described in subsection A, and report its findings and recommendations to the Legislative Transition Task Force on or before December 1, 1999, and as frequently thereafter as may be required by the Task Force concerning:

1. The scope of such recommended program consistent with the requirements of subsection A;
2. Materials and media required to effectuate any such program;
3. State agency and nongovernmental entity participation;
4. Program duration;
5. Funding requirements and mechanisms for any such program; and
6. Such other findings and recommendations the Commission deems appropriate in the public interest.

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